

Transmission Workstream Minutes
Thursday 03 May 2007
Elxon, 350 Euston Road, London NW1 3AW

Attendees

John Bradley (Chairman)	JB1	Joint Office
Amrik Bal	AB	Shell
Adam Cooper	AC1	Merrill Lynch
Alexandra Campbell	AC2	E.ON UK
Angela Love	AL	Poyry Energy Consulting
Andrew Pearce	AP	BP Gas
Alan Raper	AR	National Grid Distribution
Anna Shrigley	AS	ENI UK
Alex Thomason	AT	National Grid Transmission
Bali Dohel	BD	Scotia Gas Networks
Beverley Grubb	BG	Scotia Gas Networks
Ben Woodside	BW	Ofgem
Christiane Sykes	CS	Statoil
Chris Wright	CW	BGT
Ed Kent	EK	National Grid Transmission
Erik Sleutjes	ES	Ofgem
Fergus Healey	FH	National Grid Transmission
Gareth Roberts	GR	Macquarie Bank
Ian Moss	IM	APX Group
John Baldwin	JB2	CNG Services
Jeff Chandler	JC1	SSE
Joy Chadwick	JC2	ExxonMobil
John Williams	JW	Poyry Energy Consulting
Kirsten Elliott-Smith	KES	ConocoPhillips
Leigh Bolton	LB	Cornwall Energy Associates
Mark Cockayne	MC	xoserve
Mike Piggini	MP	TPA Solutions
Mark Ruffles	MR	Vitol Services Ltd
Martin Watson	MW	National Grid Transmission
Mike Young	MY	Centrica
Nicola Rigby	NR	National Grid Transmission
Oliver Wolgast	OW	DONG
Phil Broom	PB	Gaz de France
Richard Fairholme	RF	EON UK
Ritchard Hewitt	RH	National Grid Transmission
Rekha Patel	RP	Waters Wye
Sofia Fernandez Avendano	SFA	Total
Stefan Leedham	SL	EDF Energy
Steve Rose	SR	RWE npower
Stuart Waudby	SW	Centrica Storage
Tim Davis	TD	Joint Office
Yasmin Sufi	YS	ENI UK

1 Status Review**1.1 Minutes from April Workstream Meeting**

The minutes for the meeting held on 05 April 2007 were accepted. It was agreed that minutes from the Gas Quality Workshops should be reviewed separately.

1.2 Review of Outstanding Actions

Appendix A provides a tabular summary.

1.3 Review of Workstream's Modification Proposals and Topics

1.3.1 Modification Status Report (Modification Proposals Register¹)

The following Proposals had been approved by Ofgem:

- 0116V "Reform of NTS Exit Arrangements." JB pointed out that E.ON's appeal documents had been placed on the Joint Office website.
- 0121 "The Provision of Ex-Post Demand Information for all NTS Offtakes"

The following Proposals had been rejected by Ofgem:

- 0116A,BV,CV,VD "Reform of NTS Exit Arrangements"
- 0130 "The Provision of Ex-Post Demand Information for all NTS Offtakes"

Ofgem's decision was awaited on the following Proposals:

- 0104 "3rd Party Proposal: Storage Information at LNG Importation Facilities", awaiting decision following close out of Ofgem Impact Assessment consultation period.
- 0138 "Transitional arrangements for Entry Capacity Transfers to Sold Out ASEPs"

The following Proposals had been issued for consultation:

- 0139/0139A "Amendments to UNC TPD OCS Process and Long Term Allocation of Capacity in the Transitional Period", Consultation closes on 4 May 2007. SR explained the differences proposed in RWE's Alternative, which requires publication of the information involved rather than this being solely available to the Transporters.
- 0134 "Publication of Nodal NTS Demand Forecast" Consultation closes on 11 May 2007.
- 0142 "Extension of the Current Sunset Clauses for Registration of Capacity at NTS Exit Points "(urgent) Consultation closes on 03 May 2007.

The following Review Group had been formed:

- 0140 "Review of Information Provision on National Grids Information Exchange." aAn inaugural meeting was planned for 21 May 2007. Nominations for membership had been sought by the Joint Office.

The following new Proposal had been raised by Corona Energy:

- 0143 "Reduction of lapse periods in respect of Failure Notices issued in respect of Energy Balancing Credit". MC presented this Proposal on behalf of EBCC. Subject to the required format being adopted, the Workstream agreed to recommend that the Panel should send this Proposal to consultation.

The following Proposal had been withdrawn:

- "Allocated Entry Capacity & Baseline Summary Report" National Grid NTS confirmed that the information suggested for publication within this Proposal had been made available

1.3.2 Topic Status Report

¹ <http://www.gasgovernance.com/Code/Modifications/>

003TR Review of Exit Capacity Arrangements

GCM01 – Ofgem have decided not to veto National Grid NTS's proposed change to its Charging Methodology

008TR Entry Capacity

See below.

015TR Constraint Management.

The Workstream agreed to leave this topic on hold.

018TR Information Transparency.

The Workstream noted the formation of Review Group 0140

019TR Emergency Market Arrangements

AT provided an update on National Grid NTS's revised draft Modification Proposal, which had been circulated ahead of the meeting, and invited comments. AT confirmed that the cashout price element was unchanged from the previous draft, and that supporting legal text had been provided.

SR asked about APX concerns regarding credit. AT confirmed this is a broader and ongoing issue which this Proposal did not seek to address. IM confirmed this is a wider issue, beyond the OCM, about how credit would be obtained with high prices in an emergency. CS agreed this remains a key concern and may mean the Proposal would not achieve what it was seeking to do, and queried whether reliance on Shipper trades was appropriate and not open to abuse. She felt that a wider review may help rather than seeing specific Proposals being raised in isolation. RF suggested this may be within the remit of the E3C Committee, although RH believed this was focused on physical rather than commercial issues. RH will endeavour to coordinate whether any Safety Case changes are considered which might be best supported by a parallel UNC Modification Proposal.

RH drew attention to the provision in the Proposal for suspension of SPA activities and specifically invited comments on this aspect before the Proposal is raised.

AB asked if any distinction would be drawn in the Proposal between sources of supply, UKCS or otherwise. RH confirmed there was no provision for distinction.

020TR Gas Quality

A Workshop took place on 23 April, with a second planned for 21 May. All associated papers are available on the Joint Office website, under Transmission Workstream meetings.

1.4 Update from Transmission Operational Forum

JB1 gave a brief update from the last Transmission Operational Forum, with no specific issues to draw to attention. Minutes are available on the National Grid website.

2 Modifications**2.1 Proposal 0133**

MW presented National Grid NTS's draft revised Modification Proposals, as previously circulated, covering both capacity transfers and trades. MW emphasised that National Grid NTS does not believe these draft proposals fully meet Ofgem's draft licence obligation because an annual process is envisaged in the Modification Proposals whereas the draft licence obligation refers to all auctions and so needs a daily process. ES confirmed Ofgem's intention was to cover all auctions, but they would welcome

views during their consultation process. BG asked what the market required – did players want a daily product? JB2 suggested a daily mechanism which released capacity would be useful, but not necessarily through the transfer and trading mechanism – for example, releasing a northern Triangle aggregate volume of capacity rather than terminal specific limits. MY, SW and JC1 supported JB2's views regarding using system flexibility where physical capability exists.

MW confirmed that National Grid NTS proposes transfers being undertaken before trades. With trades on a first come first served basis it would be impractical to reverse the order - timescales and process dictated the order. RF suggested a limit on trades could be imposed, such as a one day window, with trades conducted on the same basis as proposed for transfers, enabling sold capacity to be dealt with before unsold. MW explained that the unsold process is not interactive whereas the sold is – each trade has to be completed before the next is started, with the terms potentially dependent on the previous trade. This lengthens the process and precludes a quick, automated process.

JC1 questioned why a first come first served approach was proposed for trades rather than pay as you bid. MW explained that the transfer process would be based on fixed exchange rates with an outcome that could be optimised using an algorithm. A different process was envisaged for transfers and this would be interactive – each trade impacts the exchange rate for the next one. JB1 asked how it was proposed to deal with a rush of applicants on day one – who came first? RP said the electricity queue had shown the problems of practical reality when trying to book a place in a queue and hoped that National Grid NTS had learned some lessons. On practical issues, RP suggested a number of issues needed to be clarified - when will you know your position in the queue, what are the timelines for information release, what is its coverage, who gets what when? MW said National Grid NTS would welcome feedback on what is appropriate.

JW queried whether somebody could offer to pay more to get a better place in the queue? RF asked if ranking by volume had been considered as capacity could otherwise be sterilised by a small trade? SR suggested considering willingness to pay a larger application fee. MW indicated that options such as volume had been ruled out on the grounds of potentially being unduly discriminatory against smaller players.

FH then presented some of the detail behind National Grid NTS's revised AMTSEC proposal. SW questioned whether a high bid for a small quantity could effectively sterilise capacity e.g. one Grain unit being equivalent to 40 from St Fergus. MW agreed this was possible, but there was a requirement for capacity to be sold out first and this limited the scope for sterilisation. Of the options, including volume in the algorithm may discriminate unduly against smaller players. Allowing for the exchange rate would be difficult because the exchange rate may change, making understanding difficult for bidders. MW emphasised, however, that National Grid NTS was open to suggestions for a better way of doing the allocation.

JB1 asked for views on the proposed National Grid NTS timetable, which assumed Urgent Modification proposals would be raised on 4 May. JB2 asked about the criteria for Ofgem undertaking an IA and whether one would be undertaken in this case. BW suggested there is a balance between timing and significance and hence Ofgem could not say whether they would or would not undertake an IA. CS argued that for such a major regime change, the case for an IA was strong and urgency was unfortunate. BG suggested that the potential physical interactions with flex and flat exit capacity emphasised the need for a full IA. FH suggested that any such interaction would be minimal for flat capacity. If flex had been sold, that would be taken into account in the exchange rate modelling. MW agreed to see what National Grid NTS could do on the interaction between the Proposal and the enduring exit regime.

RF asked about the timing of a decision on EON's related Proposal 0138 – which ES said he could not answer. RF suggested it would be appropriate to seek urgency only after the 0138 decision has been issued. YS supported this delay and also delay until

the MSEC results were available. JB2 agreed the AMSEC results would show whether the Proposal could be significant in the forthcoming Winter and so was urgent.

MW agreed to review the timeline in light of the points raised.

SR suggested the trades Modification Proposal could be delayed if these were to occur after transfers. MW suggested this could create uncertainty ahead of the AMTSEC about the regime in which people were bidding and they would be better informed if all decisions are made simultaneously. JB2 emphasised that the whole regime was complex and interrelated and more certainty would help to get an efficient outcome. MY emphasised it was already too late for this as the AMSEC auctions would in any event have been held and delaying the proposal could be regarded as a second order issue.

MP asked whether, in order to address efficiency issues, consideration had been given to establishing a means of selling capacity back to National Grid? MW said this had not been considered and would not be part of the National Grid proposals at this stage.

FH gave a presentation on the trades proposal. JW asked whether people would know where they are in the queue, if there would be an option to withdraw from the queue, and if the application fee would be refunded on withdrawal. FH answered yes to all of these. JW suggested it may therefore be possible to remain in the queue just to block others.

RP asked if flexibility could be built in to the approach. For example, if you are 15th in the queue, your requirements may have been met through other routes by the time your turn is reached. Can the approach be more user-friendly and accommodating of changed circumstances? MW said that National Grid would welcome any suggestions in this respect. He also offered to consider whether flexibility could be incorporated during the evaluation process, at least in a downward direction and stated that the option of withdrawing the bid when a User's turn came up was already included in the Proposal.

BG asked who would be liable for capacity charges following a trade. MW said liability would not change as the capacity was already sold.

MW outlined National Grid NTS's recently published draft Methodology Statement. SR asked about how buy-back capacity prices in the model would be estimated and whether this would be transparent. MW said these prices would be exogenous and, as such, would not affect the exchange rate outcome.

RF asked if Ofgem would be looking at National Grid NTS's modelled buy-back costs to assess their conclusions on the level of capacity to release. ES said they had consulted on avoidance of undue increases in cost, not zero as suggested by NTS. MW suggested it was hard to understand what was meant by undue in this context.

MP asked if the model would use the worst case day in each month when determining the exchange rate. MW said that each day in the month would be modelled individually and the exchange rate optimised to manage buy-back costs across the period.

Illustrative data was presented on capacity potentially transferred from St Fergus and Theddlethorpe (donors) to Easington and Teesside (recipients). National Grid NTS suggested it is appropriate for the modelling to assume the network remains balanced by a flow adjustment focussed on the donor ASEP. JB2 asked if Bacton to Easington had also been modelled, and MW said this had been started but wasn't considered to be a likely option that shippers would select.

MW indicated that a draft Methodology Statement on capacity substitution would also be released soon, looking at incremental capacity which might be substituted from another entry point. CS questioned how this fitted with Ofgem's decision on GCM01 which suggested spare capacity should be reflected in the Transportation Model underpinning charges and reserve prices. MW suggested it was consistent because forecast flows would not change significantly. He emphasised that this would be a significant regime change which may give greater benefits to acquiring capacity in advance – buying on the day could be a more risky strategy than now once the

suggested capacity developments are in place. MW emphasised that National Grid NTS expected to develop the initial approach they had proposed for future winters in order to increase efficiency even further.

JB2 expressed concern that the licence incentives were now for the NTS to see no flow. Shippers wanted capacity to be released and it created difficulties when incentives were not aligned and National Grid NTS was seeking to avoid any change in risk – or at least to avoid an undue cost increase. MW suggested that the illustrative data suggested that, notwithstanding this, more capacity would potentially be made available were the National Grid NTS proposals to be implemented.

3 Topics

No other topics were discussed.

4. Other Business

4.1 Force Majeure

SR raised Force Majeure being served by National Grid in relation to Milford Haven and asked what the consequences were and whether, and how, the notice had been issued in accordance with the UNC. It was confirmed that directly affected parties had received notice as required.

5. Diary Planning

The next Gas Quality Workshop has been arranged for 10:00hrs on 21 May 2007 at Elexon, 350 Euston Road, London NW1 3AW.

The next Transmission Workstream meeting has been arranged for 10:00hrs on Thursday 07 June 2007 at Elexon, 350 Euston Road, London NW1 3AW.

Appendix A: Action Log – UNC Transmission 03 May 2007

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
TR 1060	2/11/06	3.1	Consider raising a UNC Review Proposal on provision of Market Information	Interested parties.	Closed 0140 raised.
TR 1063	1/02/07	3.1.2	Consider providing indicative timelines and dependencies for development of capacity transfer mechanisms	National Grid NTS (Andrew Fox)	Closed Covered during meeting.
TR 1065	05/04/07	2.1	0137 – NGT to consider circulating information previously provided to RWE to community.	National Grid NTS (Martin Watson)	Closed
TR 1066	05/04/07	3.2.1	NGT to consider producing nodal maxima for Teesside, Easington and Hornsea.	National Grid NTS (Martin Watson)	Carried forward for Hornsea