

## Transmission Workstream Minutes

Thursday 06 November 2008

Ellexon, 350 Euston Road, London NW1 3AW

### Attendees

John Bradley (Chair)	JB	Joint Office of Gas Transporters
Lorna Dupont	LD	Joint Office of Gas Transporters
Adam Sims	AS	National Grid NTS
Alex Barnes	AB	BG Group
Amrik Bal	AB1	Shell
Andrew Pearce	AP	BP Gas
Bogdan Kowalewicz	BK	Ofgem
Chris Wright	CW	Centrica
Claire Dykta	CD	National Grid NTS
Claire Thorneywork	CT	National Grid NTS
Clare Temperley	CT1	The Gas Forum
Craig Purdie	CP	Centrica Storage Ltd
Dave Adlam	DA	National Grid LNG Storage
Fergus Healy	FH	National Grid NTS
Jeff Chandler	JC	Scottish and Southern Energy
John Baldwin	JB1	CNG Services
Kirsten Elliott-Smith	KES	ConocoPhillips
Mark Cockayne	MC	xoserve
Martin Watson	MW	National Grid NTS
Matt Golding	MG	National Grid LNG Storage
Paul O'Donovan	POD	Ofgem
Peter Talbot	PT	Northern Gas Networks
Phil Broom	PB	Gaz de France
Rahaina Brahma	RB	Ofgem
Rekha Patel	RP	Waters Wye Associates
Richard Fairholme	RF	E.ON UK
Richard Sarsfield-Hall	RSH	Poyry Energy Consulting
Richard Street	RS	Corona Energy
Ritchard Hewitt	RH	National Grid NTS
Roddy Monroe	RM	Centrica Storage Ltd
Shelley Rouse	SR	Statoil (UK)
Simon Trivella	ST	Wales and West Utilities
Stefan Leedham	SL	EDF Energy
Steve Rose	SR	RWE Npower
Steven Sherwood	SS	Scotia Gas Networks
Stuart Cook	SC	Ofgem
Yasmin Sufi	YS	Eni UK

## 1. Introduction

JB welcomed the attendees to the meeting.

### 1.1 Minutes from the previous Workstream Meeting (02 October 2008)

The following amendment was agreed: Page 6, under “4.4 Review of Discretionary Release Auctions”, paragraph 1:

"MW reported that two Discretionary Release auctions had been held based on Easington; ~~every bid was allocated~~. All bids have been allocated for November but not for the remaining months."

The minutes of the previous Workstream meeting (02 October 2008) were then approved.

## 1.2 Review of Outstanding Actions

### 1.2.1 Actions from the Workstream

**Action TR1085:** Ofgem to provide updates to the Workstream on progress with The Gas (Calculation of Thermal Energy) Regulations.

**Update:** No further progress to report. **Action carried forward.**

**Action TR1097:** Ofgem to consider and report back whether they would wish to encourage the establishment of a group involving all stakeholders, both Government and industry, to look holistically at gas emergency arrangements.

**Update:** POD reported that discussions were taking place with National Grid NTS as to how this should be taken forward; a draft proposal may be produced in January/February 2009. **Action carried forward.**

**Action TR1101:** Modification Proposal 0219: National Grid NTS to provide costs in respect of the Modification Proposal as it currently stands, and in respect of the additional data items.

**Update:** RH reported that a cost assessment was almost completed and figures would be provided shortly. **Action carried forward.**

**Action TR1102:** Rationalisation of Maintenance Planning Dates and Timescales - National Grid NTS to produce a revised draft Proposal for discussion at the next Workstream meeting.

**Update:** RH reported that this had been deferred; National Grid NTS was in discussion with the other DNs and would report to the next Workstream. **Action carried forward.**

**Action TR1103:** Review of UNC Section K: Operating Margins – The Joint Office of Gas Transporters to arrange a series of sub group meetings to review and agree business rules to facilitate competition in the provision of Operating Margins.

**Update:** Three meetings had been arranged. **Action closed.**

**Action TR1104:** Transmission Planning Code – National Grid NTS to report on the progress of the review of the design margin.

**Update:** MW reported that discussions had taken place with HSE, and the aim was for any change to be in place for next April 2009 (next planning cycle). **Action closed.**

### 1.2.2 Actions from Substitution Workshop 4

**Action SUB001:** Ofgem to consider producing a document, prior to the first substitution auction, setting out its rationale for approving substitution applications.

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**Action SUB005:** Ofgem to consider and report back whether it is able to model the effect on gas prices of various substitution scenarios.

**Update on SUB001 and 005:** No further updates. **Actions carried forward.**

### **1.3 Review of Workstream's Modification Proposals and Topics**

#### **1.3.1 Modification Status Report (Modification Proposals Register<sup>1</sup>)**

JB gave an update on the current status of the Live Modification Proposals.

0116/0195 and related Modification Proposals: A decision was expected this month.

0217: Meetings continue.

0219: See item 2, below.

0221: Meetings continue.

0222: Endorsed by the UNC Modification Panel; awaiting Authority's decision.

0223: For determination at the next UNC Modification Panel meeting.

0233, 0234, and 0235: See item 3, below.

0236: See item 3, below.

#### **1.3.2 Topic Status Report**

The Topic Status Report for the Transmission Workstream is located on the Joint Office website at: <http://www.gasgovernance.com/Code/Modifications/>.

Other than agenda items, there were no further changes to report.

### **1.4 Related Meetings and Review Groups**

#### **1.4.1 Ops Forum**

There were no matters requiring the Workstream's attention.

#### **1.4.2 Review Groups**

The Review Groups were continuing to meet regularly and there were no matters for the Workstream's attention.

### **2.0 Modification Proposals**

#### **2.1 Modification Proposal 0219: Publication of UK Wholesale Gas Market Liquidity Data – E.ON UK**

##### **2.1.1 Update and Workstream Report**

RF summarised the changes made to E.ON's Modification Proposal (now at version 5.0) which reflected the comments and suggestions put forward at the previous month's Workstream. He added that he had since received feedback from the Demand Side Working Group (DSWG) and this stated that customers do want this data and want it provided in a graphical format.

JB asked the meeting if the changes were understood, and there were no further comments. The Workstream then agreed that the Proposal was sufficiently developed in order to produce its Report. It was agreed that Modification Proposal was ready to go

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

out to consultation; the provision of legal text was not required as suggested text had been included with the Proposal.

It was agreed that the Workstream Report compiled at the October Workstream will be amended to reflect the latest version of the Proposal and will be presented to the November UNC Modification Panel.

### **3. Topics**

#### **3.1 024TR Energy Balancing Credit**

MC gave a presentation explaining that three Modification Proposals had been raised in response to the outcome of recent unprecedented events involving the termination of one party from the UNC, and in light of continuing adverse economic circumstances that were affecting the financial ratings of various security providers.

During the management of these events the Energy Balancing Credit Committee (EBCC) had become aware of previously unidentified risks of potentially avoidable financial exposure inherent in the existing Energy Balancing Credit regime, and had put forward the following Proposals in an effort to mitigate the issues identified and reduce the industry's financial exposure for the future.

It was the intention that the following three Modification Proposals would be presented to the November UNC Modification Panel, with a recommendation to go out to consultation.

##### **3.1.1 Modification Proposal 0233: Changes to Outstanding Energy Balancing Indebtedness Calculation**

MC explained why the accrual methodology in UNC TPD Section X was now deemed to be too restrictive, and pointed out the current potential to expose the community to avoidable financial loss, and also the potential to trigger the inappropriate Termination of a UNC User. He then described the Proposal and a brief discussion ensued.

RH pointed out that this would give greater discretion in how information available to xoserve may be interpreted and would also broaden the currently restricted ability for a User to appeal the Cash Call under certain circumstances. AB observed that ordinarily the broadening of discretionary powers/elements may be of concern, but these concerns were alleviated by the role of the EBCC. RS added that CVA data had been validated and used in similar fashion.

JB then asked the meeting if the reasons for and the intent of the Proposal was understood, and there were no dissenting comments.

##### **3.1.2 Modification Proposal 0234: To Correct Drafting Inconsistencies between Sections X and V of the UNC in Respect of User Default and Termination**

MC explained the effects of the drafting inconsistencies that had been identified between UNC TPD Sections V and X. He then described the Proposal and a brief discussion ensued.

Assurance was given that the EBCC would take appropriate decisions to protect the community from financial exposure.

CT pointed out that the redrafting would need to be carried out with great care. As Proposer, RWE npower responded that it would be happy to receive any comments or suggestions that would contribute to clarity within the redrafting.

JB then asked the meeting if the reasons for and the intent of the Proposal was understood, and there were no dissenting comments.

### **3.1.3 Modification Proposal 0235: Recovery of Debt and Smearing of Revenues via Energy Balancing Neutrality**

MC explained the effects of the current process for the smearing of revenue and debt and illustrated how this had the potential to be inequitable for Users. He then described the Proposal and a brief discussion ensued.

MC said that he would be writing to all parties next week with information that would allow each party to calculate/estimate its position.

JB then asked the meeting if the reasons for and the intent of the Proposal was understood, and there were no dissenting comments.

It was then agreed that the three Modification Proposals were sufficiently developed to proceed to consultation, and with a reduced period of ten Business Days in order for a recommendation to be made at the December 2008 Panel.

## **3.2 023TR Maintenance Planning**

### **3.2.1 Draft Modification Proposal: Rationalisation of Maintenance Planning Dates and Timescales**

This item was withdrawn from the agenda in advance of the meeting, pending further development.

## **3.3 008TR Entry Capacity**

### **3.3.1 Reinstatement of NTS Interruption**

AS gave a presentation, setting out the background and reasons for the requirement to reinstate NTS Interruption, and a brief discussion followed.

SS suggested that given a decision was expected shortly on 0116/0195 etc, this should be taken into account when drafting the proposed Modification. In response to various concerns, RH confirmed that the interim arrangements would remain until such time as any changes were made regarding the Safety Case. MW said that National Grid NTS was in discussion with the HSE and this would be taken forward once more details were known.

CD explained that during this interim period there would be no exercise fee payable from National Grid NTS. There were no further comments.

### **3.3.2 Substitution**

SC introduced himself to the meeting and went on to state that Ofgem was fully committed to bringing in Substitution, because the gas system was capable of adapting to changing patterns of demand and because capacity should be available to those who needed it. He acknowledged that a balance needed to be struck between risk and the securing of benefits, and also that the proposed regime carried a number of profound implications and did not attract universal support; Ofgem would take account of this.

BK then gave a presentation outlining the background, the policy objectives and the aims and went on to review progress to date, the outcome of the informal National Grid Gas consultation, Ofgem's view, and the reasons to further develop the methodology.

RM asked whether any further thought had been given to the Economic Test. BK, acknowledging that this required further consideration and development, had no firm views that could be shared with the meeting at present. RM then asked if the extension of the timetable was dependent on the slippage of the next QSEC to 2010. AB

commented that the deadline for Substitution was April 2009 and asked whether this was changing, ie in line with the next QSEC. SC responded that Ofgem was mindful that if there were opportunities in the future to use the methodology in the short term to obtain savings to customers, then it would push this forward. However, this was not obvious at the present and so it was being approached more cautiously to allow National Grid NTS to develop a further methodology. The preference is to firstly address how to achieve a set of working arrangements fit for purpose.

AB had concerns about what to bid for in the QSEC auctions as timings and rules were changing, and referred to the September letter; there were lots of auctions in a short time period and National Grid NTS has to calculate the results, etc. Shippers need to be able to work out what to bid for. BK responded that the QSEC was scheduled for 2009 but this was not definite as there was a Modification Proposal to change this which may or may not be approved. A Modification Proposal could be raised for another QSEC if necessary.

RS had concerns relating to the risks of short term auctions; the launching of Substitution destroys the availability of short term capacity and he went on to explain the perceived impact. POD observed that this could be considered to be preferential treatment for short term capacity holdings. RS countered that Ofgem needed to take into account the impacts on this area of the market and it should be borne in mind that the current view on User Commitment, ie long term, is against the interests of short term Users. BK noted the points made for consideration in the development of the methodology.

RM asked if changes to the wording of the Licence would be needed. SC said that this was an issue that Ofgem was looking at. AB observed that this was an issue that had caused difficulties before, and was likely to be encountered again unless seriously addressed and resolved. POD commented that Ofgem's higher objectives take precedence and the Licence may need clarifications to address this. SC added that Licence changes were not made lightly, and Ofgem was thinking through the issues.

MW commented that National Grid NTS now feel sufficiently unconstrained to look at other Substitution options to try and find a consensus, and then see what other changes may be required.

RF asked if Ofgem was in a position to identify the good points in the methodology.

SC said that he preferred to engage with the business to move things forward. There had been a great amount of progress; issues have been highlighted as well as what will work well or not. Ofgem needed to further develop the methodology and National Grid NTS needed to clarify some of the risks of Substitution.

In recognition that the implementation of Substitution was now likely to be delayed, MW confirmed that National Grid NTS would be issuing a derogation letter shortly and SC indicated that he would respond to this as soon as possible. Workshops will be organised to take the work forward, and an Economic Test will be developed as part of the methodology. All suggestions would be welcome.

### **3.3.3 Modification Proposal 0230: Amendment to the QSEC and AMSEC Auction Timetables**

#### **3.3.3.1 Update and Workstream Report**

CD gave an update on the progress of the Modification Proposal which had been revised to address previous concerns and comments, and explained the changes made. A brief discussion ensued.

AB suggested Substitution should not be applied until the next QSEC after the Substitution methodology has been agreed.

Next steps were outlined and AB voiced concerns regarding the proposed shortened timescales for the consultation period, arguing that the community would need longer to consider the implications. CW asked if the Proposal accommodated the views that Ofgem had shared at this meeting and MW responded that this Proposal was considered to be independent, irrespective of Substitution. CW had concerns regarding the 18 month gap between QSECs and having another QSEC before Substitution came in. MW said that there were opportunities to acquire capacity in the periods the community was seeking and this was trying to achieve what was needed. Incremental capacity was of concern to AB; MW said that various suggestions could be made to accommodate the requirements and establish the best approach. AB pointed out that the timing of Substitution *will* determine the bidding strategy.

JB asked the meeting if the changes were understood, and there were no further comments. The Workstream then agreed that the Proposal was sufficiently developed in order to produce its Report. It was agreed that Modification Proposal was ready to go out to consultation, but not with shortened timescales. It was pointed out that it may be possible for the UNC Modification Panel to address this Modification Proposal at an interim meeting convened for that purpose.

The Workstream Report would be based on the Proposal and will be presented to the November UNC Modification Panel.

### **3.3.4 DRSEC Process and Review**

In response to various questions received by National Grid NTS following the holding of two DRSEC auctions, FH gave a presentation describing the order of events and setting out the circumstances and reasons that had informed the decisions made by National Grid NTS. A brief discussion followed.

Shippers commented that behaviours were likely to have been different, had there been prior awareness of the intention to hold a second auction. RM suggested and described alternative approaches that could have been taken. FH noted these views.

It was questioned why Hatfield Moor was included in some auctions and not others. FH answered that it was included at the request of a party following discussions at previous Workstreams.

FH then outlined the proposed DRSEC Request Process. MW added that National Grid NTS saw this as being infrequently used, but that it needed to be available for use as necessary.

RF asked if consideration had been given as to how to improve the auction. FH responded that he would welcome comments on the DRSEC. MW reiterated that the key thing was to make sure that parties get the capacity rather than to produce prescriptive guidelines, but best practice would be reviewed.

### **3.3.5 Transfers and Trades Results**

CD gave an update on the activity in this area to date. There were indications that not all parties were demonstrating a full understanding of how this works.

CD reported that there were issues with timelines at present and National Grid NTS was downloading and running allocations offline and reloading to Gemini, which involved datafixes etc, but as soon as all functions were available in Gemini, it was intended to move the auctions as close to the end of the month as possible. MW added that he was also waiting to see the extent of the activity; until the system was operational the level of activity would be kept under review and timescale movements would be assessed accordingly.

### **3.3.6 Novation Discussion: Assignment of NTS Entry Capacity**

FH gave a presentation putting forward the concept of the transfer of financial liability in addition to the capacity entitlement in respect of Entry capacity. There were many issues and complex changes potentially impacting on invoicing, trading, Transfer and Trade (surrender), Credit, and in relation to partial assignment.

Following discussion, it was established that some parties would be interested in this, and that both full and partial assignment would be preferred. It was recognised that invoicing implications were very complex and that it may eventually fall under the 'User Pays' process.

RM thought that Storage Users could assist National Grid NTS in determining what the demand may be and any associated impacts. AB thought it would be useful to understand where each party would be positioned on a spectrum of need/use, without having to build a massive system to check everything, and also to understand what the key difficulties might be. MW indicated that this might be invoicing, needing to track bid IDs so that the capacity involved could be associated with a bid price. JB1 thought it could be limited to QSEC but discussion may sit more comfortably under Review Group 0221, although the outcome would be a separate Modification Proposal from that developed by the Review Group. AB referred to the North Sea supply decline, not a trading type model, but longer term, as being relevant to some parties' arrangements.

It was agreed that the aspects of this concept might usefully be discussed after a future Review Group 0221 meeting.

### **3.3.7 Modification Proposal 0236: Amendment to px (TGPP) Limited Network Entry Agreement**

JB1 gave a short presentation, setting out the background and reasons for the requirement to align the px (TGPP) Network Entry Provisions with the GS(M)R Limits, and a brief discussion followed.

It was confirmed that National Grid NTS supported the proposed changes, and it was agreed that the Modification Proposal should proceed to consultation, with a normal consultation period; legal text was not required.

## **4. Any Other Business**

### **4.1 Customer Survey**

Following the success of the previous Customer Survey (TCMF) MW advised that National Grid NTS will be carrying out a similar exercise in respect of the Gas Access Team, and encouraged the community to participate.

### **4.2 Draft Modification Proposal: Disposal of Dynevor Arms LNG Storage Facility**

MG referred to the Press Release issued on 04 November 2008 regarding National Grid's completed review of its UK Liquefied Natural Gas Storage business, which indicated that the Dynevor Arms site was to be offered for sale. MG explained the background to this decision and briefly outlined the expected sale process. He pointed out that it needed the consent of GEMA to sell the facility and that a prospective purchaser would need an Operational Safety Case as it was a COMA site. The Proposal was then briefly discussed. MG will formalise the Modification Proposal and submit it to the Joint Office; it will then proceed through the usual process.



#### **4.3 Transmission Workstream – Meeting Frequency**

In light of the extreme length of today's agenda JB encouraged the group to reconsider the frequency of Transmission Workstream meetings and whether it would be more effective to hold two each month, with an option to cancel the second meeting if appropriate. Views to the Chair would be welcomed.

#### **5. Diary Planning**

The next Workstream will be held at 10:00 on 04 December 2008 at Elexon, 350 Euston Road, London NW1 3AW. Details of future meetings may be found on the Joint Office website at: [www.gasgovernance.com/Diary](http://www.gasgovernance.com/Diary)).

**Action Log – UNC Transmission Workstream: 06 November 2008**

<b>Action Ref</b>	<b>Meeting Date(s)</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
TR 1085	03/04/08	1.2	Provide updates to the Workstream on progress with The Gas (Calculation of Thermal Energy) Regulations.	Ofgem (POD)	<b>Carried Forward</b>
TR 1097	03/07/08	2.2.3	Ofgem to consider and report back whether they would wish to encourage the establishment of a group involving all stakeholders, both Government and industry, to look holistically at gas emergency arrangements.	Ofgem (DS)	<b>Carried Forward</b>
TR 1101	02/10/08	2.1.1	Modification Proposal 0219: National Grid NTS to provide costs in respect of the Modification Proposal as it currently stands, and in respect of the additional data items.	National Grid NTS (RH)	<b>Carried Forward</b>
TR 1102	02/10/08	3.1.1	Rationalisation of Maintenance Planning Dates and Timescales - National Grid NTS to produce a revised draft Proposal for discussion at the next Workstream meeting.	National Grid NTS (RH)	<b>Carried Forward</b>
TR 1103	02/10/08	3.2.1	Review of UNC Section K: Operating Margins – The Joint Office of Gas Transporters to arrange a series of sub group meetings to review and agree business rules to facilitate competition in the provision of Operating Margins.	Joint Office (JB/LD)	<b>Closed</b>
TR 1104	02/10/08	4.5	Transmission Planning Code – National Grid NTS to report on the progress of the review of the design margin.	National Grid NTS (MW)	<b>Closed</b>

**Action Log – Substitution Workshop 4 (09 July 2008) – Outstanding Actions**

<b>Action Ref</b>	<b>Meeting Date(s)</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
SUB 001	08/04/08	3.0	Ofgem to consider producing a document, prior to the first substitution auction, setting out its rationale for approving substitution applications.	Ofgem (POD)	See agenda item 1.2. <b>Carried Forward</b>
SUB 005	07/05/08	4.0	Consider and report back whether it is able to model the effect on gas prices of various substitution scenarios.	Ofgem (POD)	Ofgem to consider including this in any Impact Assessment. See agenda item 1.2. <b>Carried Forward</b>