

Transmission Workstream Minutes
Thursday 09 May 2007
One Whitehall Place, Whitehall, London

Attendees

John Bradley (Chairman)	JB1	Joint Office
Alan Raper	AR	National Grid Distribution
Alex Barnes	AB1	BG Group
Amrik Bal	AB2	Shell
Andrew Fox	AF	National Grid NTS
Andrew Pearce	AP1	BP Gas
Angus Paxton	AP2	Poyry Energy Consulting
Bogdan Kowalewice	BK	Ofgem
Charles Ruffell	CR	RWE Npower
Chris Bennett	CB	National Grid NTS
Chris Wright	CW	BGT
Christiane Sykes	CS	Statoil
Colin Dickens	CD	ExxonMobil
David Hutchison	DH	ENI UK
Elaine Calvert	EC	National Grid NTS
Fergus Healey	FH	National Grid NTS
Gareth Roberts	GR	Macquarie Bank
Jane Butterfield	JB3	EON UK
Jeff Chandler (by phone)	JC1	SSE
John Baldwin	JB2	CNG Services
Keith Stanton	KS	Sempra
Mark Ruffles	MR	Vitol Services Ltd
Martin Watson	MW	National Grid NTS
Nick George	NG	EON UK
Patrick Gillett	PG	Merrill Lynch
Peter Dickinson	PD	Ofgem
Phil Broom	PB	Gaz de France
Rekha Patel	RP	Waters Wye
Richard Fairholme	RF	EON UK
Richard Street	RS	Statoil
Roddy Monroe	RM	Centrica Storage
Sofia Fernandez Avendano	SFA	Total
Stefan Leedham	SL	EDF Energy
Steve Parle	SP	J Aron & Co
Stuart Waudby	SW	Centrica Storage
Tim Davis	TD1	Joint Office
Tim Dewhurst	TD2	Ofgem
Tom Faiers	TF	Cargill
Tom Jesshop	TJ	ConocoPhillips
Yasmin Sufi	YS	ENI UK

1. Introduction

JB1 welcomed all to the meeting and outlined the venue arrangements. Presentations from the meeting are available on the Joint Office website¹:

2. Topic 008TR: Entry Capacity – Transfers and Trades

2.1. Introduction – Robert Hull (Ofgem)

In his absence, NH gave Robert Hull's presentation for Ofgem. She emphasised that it was important for all to have an opportunity to hear about a range of proposals ahead of Friday's auctions and for potential bidders to understand that NGG will not be relieved of its obligations with respect to entry capacity trades and transfers this year.

2.2. Ofgem Perspective - Nienke Hendriks (Ofgem)

NH then gave her own presentation, covering revised baselines, the proposed capacity trading and transfer licence obligation, and reasons for Ofgem's decision to reject Modification Proposal 0138.

NH encouraged Modification Proposals to be raised if Shippers were concerned that capacity hoarding might occur as a result of the trading and transfer proposals. CS argued this problem arose from the Licence obligation such that the UNC modification route was inappropriate and would be ineffective. NH emphasised that the Licence obligation was not being consulted on, only the drafting to implement it, and Ofgem did not believe that hoarding would result from this obligation.

With reference to the decision on Modification proposal 0138, SFA asked that if a once a year process is not enough, does it have to be held ahead of every auction? NH said a spectrum was available. Ideally, a trade and transfer process before every auction would be the way to go, but she recognised that practical issues may make this difficult for daily auctions. But Ofgem were clear that once a year was certainly not sufficiently frequent.

RF asked if some of the ideal characteristics sought by Ofgem could be relaxed, bearing in mind that 0138 was looking for a temporary solution which he expected to be in place for the forthcoming winter but refined thereafter. NH emphasised that the Authority was very keen to have mechanisms ahead of the winter but could not fetter their discretion with respect to particular options.

2.3. National Grid NTS Presentation – Martin Watson (National Grid NTS)

MW presented on behalf of National Grid NTS, with differences to his 3 May presentation highlighted in green.

MW said that National Grid NTS was not clear that their draft proposals would be fully compliant with the draft licence obligation, but were the only options on the table. RM asked if Ofgem were content with this or thought that the proposals were unacceptable. NH said she was unable to elaborate on Ofgem's position beyond what she had already said, i.e. that a once a year process, as proposed by National Grid NTS, was certainly not sufficiently frequent.

AB1 raised the timing of the proposed AMTSEC auction and whether it would be dependent on the licence having been modified. MW confirmed this was the case and that National Grid NTS would need a formal methodology statement and obligation in place before running the process. Practicalities also impact the timing, for example not

¹ <http://www.gasgovernance.com/Code/Workstreams/TransmissionWorkstream/2007Meetings/>

running the QSEC and AMTSEC auctions in parallel, which meant early July was the AMTSEC target.

NG asked whether the consultation on the trades and transfer methodology would be extended if changes were proposed in light of responses received? MW indicated that, as with other similar consultations, National Grid NTS would expect to reflect views but not to re-consult unless major change was envisaged. NH suggested this was not a black and white issue from Ofgem's perspective and that further consultation may be justified.

JB2 asked if Ofgem would undertake an IA with respect to the National Grid NTS Proposals. NH said Ofgem would need to see the Proposals before deciding this.

RM suggested that Shippers were looking for more confidence and certainty about exchange rates and asked Ofgem if they were open to suggestions which gave a pragmatic solution. NH said Ofgem would welcome this. RM explained he was concerned that rigid licence obligations may mean that no mechanism is put in place because Ofgem reject all UNC Modification Proposals which are put to them on the grounds that the Licence obligations are not fully met.

RF asked if AMTSEC was held ahead of trades this year, as proposed by National Grid NTS, did this necessarily have to be the case in future? MW responded that he saw no option at present, but did not want to rule anything out.

NG argued that the order is driven by the proposed first come first served approach, and that deriving specific exchange rates implied a level of sophistication that may be unnecessary. Some simplification could help, especially in light of the baselines which meant exchange rates may not change significantly. This was attractive even if the approach increased buy-back risk. NH said Ofgem regard the baselines as conservative, albeit realistic. NG suggested that this supported a faster process with ex-ante exchange rates. MW emphasised that the risk could increase significantly because the National Grid NTS proposal was not limited to within zone trades. The volume of capacity involved could be significant and may involve the movement of "space" as opposed to anticipated flows being reduced at the donor ASEP. This is a fundamental regime change and untested, with significant buy-back risk which the whole community would be exposed to.

JB2 said this was fundamental since it seemed to be saying that trades would only occur if you could effectively demonstrate that there would be a reduction in flow to offset any increase. For example, if St Fergus capacity was to be transferred to Teesside, and there was gas at Teesside but not at St Fergus, there could only be increased flow which could only increase buy-back risk. MW suggested it would be best to come back to this after the presentation had covered the methodology, but recognised and shared the concern.

MW asked if any attendees felt the order of trades and transfers should be reversed. Nobody raised concerns regarding National Grid NTS's proposed order.

FH presented the detail behind National Grid NTS's Modification Proposals. CS asked if the 150 day notice period for charges would apply. FH said his understanding was that it did not apply. MW said that a charge for every allocated bid would be important to reflect the costs incurred and to encourage efficient and economic behaviour, and National Grid NTS would be consulting separately on this aspect.

RF queried whether the number of bids was limited to five, such that you could not bid for capacity in six separate months? MW said the intent was to permit five bids per month and he would ensure the proposal was clear in this respect.

NG queried why the exchange rate was not built into the allocation process as opposed to just price. MW accepted that he proposed approach potentially created an element of inefficiency but was concerned that practicalities would preclude allowing for exchange rates since the rates were to some extent volume dependent and interactive between

entry points. The proposal reflected what National Grid NTS felt was deliverable for this winter and required an element of simplification. MW emphasised that a key issue National Grid NTS was consulting, in the methodology statement, was whether to limit the range of exchange rates, and so simplify the process by narrowing the range and reducing risk.

JB2 asked if, as part of their decision on urgency, Ofgem would clarify whether an IA would be undertaken. This would enable Shippers to take an informed decision as to whether they should raise any proposals which sought to modify the present arrangements for releasing interruptible capacity. NH said only the Authority could decide if an IA was to be undertaken.

AB1 asked if it was correct that if the National Grid NTS proposals were rejected, there would be no time to do transfers or trades before the QSEC auction? MW thought this was likely to be true, but the position would need to be reviewed in light of any decision. NH emphasised that other parties could raise Modification Proposals, not just National Grid NTS.

RS asked why a single window was proposed for requests to undertake trades. FH said this was limited in the interests of practicality, avoiding a continual stream of requests being received.

JB2 asked if you can transfer capacity from sold out to sold out entry points and hence whether, theoretically, 100% of the sold capacity could be transferred to a different entry point? MW confirmed this was the case.

MW presented National Grid NTS's proposed methodology for assessing exchange rates, which would be expected to broadly maintain the level of buy-back risk if trades or transfers occurred. RM asked, if compared to the previous price control period, there had been a significant reduction in buy-back risk as a result of the 13% reduction in baselines. MW was unable to offer a view and NH said she was unwilling to share her thoughts at this time. JB2 said that the published Ofgem documents stated that the baselines assumed minimal buy-back risk; a change from the previous maximum physical assumption. RM emphasised that the industry view was generally that the transfer mechanism was intended to return the level of risk to where it had previously been and asked if Ofgem accepted the National Grid NTS assumption that there should be no risk increase. NH said that the position remained as in the Ofgem proposals documents, and their view would be made clear once any Modification Proposal was put to them. RF asked if risk could be reduced as a result of trades or transfers. MW said that was not the intention but National Grid NTS had not looked at more favourable exchange rates than 1:1.

AB1 questioned the basis of buy back calculations given the baseline reductions and the link between physical flows and network capability. With realistic baselines, AB1 would expect a transfer of capacity to be accommodated by a change in network configuration with no additional risk incurred. MW suggested that this would be clearer when the examples were presented.

NG asked where revenue was reflected in the proposed methodology? MW explained that no additional revenue would be realised through the process with maximum allowed revenue under the price control remaining unchanged.

RS asked what happens in the 34 days which National Grid NTS believed were needed to run the AMTSEC process, and about the scope for technology investment to reduce this. MW went through the steps, emphasising the uncertainty regarding likely levels of interest and the difficulty of speeding up the process.

NH asked why National Grid NTS would be looking at off-peak flows in assessing buy-back risk. MW said the proposed methodology was based on the reality of projections for the month in question. AB suggested that if we were moving to assessing capacity availability on a SND basis, this moved away from the principle of a flat baseline

approach, and NH agreed that Ofgem would want to consider this aspect of the methodology.

JB2 asked if the baseline assumed success or failure of the Milford Haven project. MW responded that the assumed scenario would be considered in light of the circumstances at the time when the process is run, but would be the same with or without an assumed trade or transfer.

RM asked if the cost of capital set by Ofgem reflected expected flows or the baseline. MW said the model is based on the capability of the system and primarily the projected flows, and was not directly linked to the baselines although they provided one of several inputs. National Grid NTS believes it is appropriate to consider the actual conditions expected on the network rather than looking solely at peak flows. NH said the whole price control package had to be considered, as described in Ofgem's price control documents. Buy-back allowances had been set consistent with the baselines, and Ofgem expects the network to be able to accommodate flow at the baseline levels.

RP asked if capacity is bought in the AMSEC auction with a view to transferring it from Theddlethorpe to Easington, is it correct that a Shipper's ability to do this is subject to the effects of the AMTSEC auction and also their position in the queue for trades? MW confirmed this would be the case, but that additional risks were involved as the licence was not yet finalised and no Modification Proposals had been approved.

RS asked if, for example, capacity was transferred from Theddlethorpe to Easington, but all the sold capacity was not used on a given day, was it correct that there would then be no option to land gas at Theddlethorpe even under the daily processes? MW agreed this was possible and that there was a case for revisiting the interruptible rules ahead of the winter to ensure this did not happen. RS said he took from this that there would be reduced daily capacity and consequently reduced liquidity, which could be expected to lead to higher prices.

RM asked if the incentive was to buy capacity to cover your expected flows such that very limited use of the new mechanisms might be anticipated. MW accepted this was a credible outcome and highlighted the importance of the question as to whether trades or transfers should proceed first.

JB2 argued the whole process has been highly unsatisfactory. Ofgem's consultation on the reduced baselines at Teesside was very limited, allowing no proper opportunity for comment. The raising of urgent modification proposals increased uncertainty and did not allow for sensible development of considered mechanisms. The net effect was that there is now a real prospect of capacity shortages, the industry being brought into disrepute, and court action. He suggested there was an urgent need for Ofgem to complete an IA to assess the whole picture and identify the risks being created, with the hope of identifying a sensible way forward. NH noted these concerns on behalf of Ofgem.

RM reiterated that there continues to be no transparency around the proposed process and mechanisms, especially the way in which risk was assessed in the price control. The concern is that the proposals fail to do what Ofgem want and believe will happen.

3. The Way Forward

JB1 said the objective of the meeting had been to increase clarity, and asked if this had been delivered. AB1 said that as much clarity as possible had been delivered, but that this did not remove any of the uncertainties all of which remained in play – only uncertainty was certain. NH said the key issue was the three scenarios suggested at the end of the National Grid NTS presentation, and that the AMSEC auction on Friday may be the last opportunity for some to buy capacity at some entry points – a key message which Ofgem wanted to emphasise to all Shippers. AB1 said a potential reaction was that the uncertainty may encourage buyers to buy as much capacity as they possibly could – a rush for capacity. NH said this would not be a rush so much as an incentive to

buy somewhat earlier the capacity Shippers wanted to use rather than waiting for the daily processes. RP and RS supported AB's view that there was a danger of creating an impression of a shortage of capacity and that this could prove to be a self-fulfilling prophecy.

RP asked what the timetable for the various proposals being taken forward would look like if the Authority decided an IA was needed. NH said a 28 day consultation was normal practice. TD1 said that, to be ahead of the suggested Ofgem decision date on the urgent Modification Proposals, an IA would therefore need to be issued for consultation next week.

JB2 expressed concern that some Shippers had not attended the Workstream meetings and may be surprised to find that capacity is no longer available through the daily auctions. MW ran through the steps taken by National Grid NTS in order to try and ensure maximum coverage and awareness and the meeting accepted that all reasonable steps had been taken.

No other business was raised and hence JB1 closed the meeting.