

Transmission Workstream Minutes
Thursday 1st June 2006
held at 350 Euston Road, London

Attendees

John Bradley (Chair)	(JB)	Joint Office
Dennis Rachwal (Secretary)	(DR)	Joint Office
Alan Raper	(AR)	National Grid UKD
Alex Barnes	(AIB)	BG Group
Angela Love	(AL)	ILEX
Bali Dohel	(BD)	Scotia Gas Networks
Charles Ruffell	(CR)	RWE npower
Dan Jerwood	(DJ)	Gaz de France
Dipen Gadhia	(DG)	Ofgem
Gillian Frazer	(GF)	National Grid NTS
Jeff Chandler	(JeC)	SSE
John Costa	(JCo)	Electricity de France
Joy Chadwick	(JoC)	Exxonmobil
Nick Wye	(NW)	Waterswye Associates
Peter Bolitho	(PBo)	EON UK
Phil Broom	(PB)	Gaz de France
Rachel Turner	(RT)	Centrica
Ritchard Hewitt	(RH)	National Grid NTS
Roddy Monroe	(RM)	Centrica Storage Ltd
Sharif Islam	(SI)	Total
Simon Bradbury	(SB)	Ofgem
Tim Bradley	(TB)	National Grid NTS
Tim Davis	(TD)	Joint Office

1. Status Review**1.1. Minutes from May Workstream Meeting**

The Joint Office took account of feedback on the minutes from May 06 as follows;

- a) The observation by Mike Young of BGT on entry capacity transfer was that the proposal contained two distinct products for additional capacity, one of physically available capacity following "transfer" from another ASEP, and an overselling/buy back product.
- b) On NG NTS initial thoughts on allocation of capacity for the next Transmission Price Control period, "IT stated a desire for stability and certainty about the amount of capacity at a particular ASEP that could not be used elsewhere."
- c) On Transmission Charging Methodology, rather than making statements about disadvantages and cost reflectivity it was more appropriate to record that NG NTS explained that the transportation model probably identifies the true cost of capacity, whereas Transcost identifies the cost of the flows through a given route in the network. Also, the transportation model does not consider spare capacity whereas Transcost currently does.

Two other points were that Amrik Bal company association is Shell rather than Shell Gas Direct and Yasmin Sufi was another one of the attendees for the Transmission

Charging item. Revised minutes would be made available via GTIS (Gas Transporters Information Services) <https://gtis.gasgovernance.com>.

1.2. Review of Outstanding Actions

Both open actions were carried forward. National Grid NTS technical blending studies at Bacton were proceeding and there was continued internal consideration of potential development for optimisation of allocation of entry capacity.

1.3. Review of Workstream's Modification Proposals and Topics

The Modification Status Report was updated

Mod 086 was raised and granted urgent status on 24 May 06. Consultation commences 5th June (see item 3.2.2)

The Topic Status Report was updated

- 003TR NTS Exit Capacity – see item 3.1 below.
- 004TR Emergency Arrangements – There was no change for items a) and b) and for items c) and d) see 3.2. Item e) related to a query raised by EON in respect of implementation of the ECQ methodology associated with Mod 044. AR and BD confirmed that a systematised solution for all DNs had been implemented such that for the majority of LDZ System Exit Points the ECQ would be calculated using historical allocation data (starting with D-7) as described in the ECQ Uniform Calculation Methodology statement.
- 008TR Entry Capacity – NG NTS (RH) reported that consideration and development was proceeding internally.

One topic was retained on hold:-

- 014TR Operating Margins Procurement – remained on hold following the extended close out (24 May) for the request for proposals.

One topic was closed.

- 005TR Constrained Top Up – NG NTS (RH) reported there had been sufficient bookings for the coming winter so following the rejection of Mod 011 (736) by Ofgem on 31 Aug 05, NG NTS was now content to close the topic.

1.4 Update from Transmission Operational Forum

JB reported that the Forum on 10 May identified that shippers tended to deliver long and thus there was net income to neutrality; that APX intended to carry out IT development, and information about Gemini unplanned outages was provided and shippers were requested to follow API Usage Guidelines.

1.5 Update on Winter Outlook Seminar

JB drew the workstream's attention to the slides available on Ofgem's web site for the winter outlook seminar of 24 May and that parties were urged to respond to the consultation. The close out date had been set at 9 June.

2. Modifications for Workstream Development

None.

3. Discussion of Topics

3.1. Topic 003TR Review of NTS Exit Capacity Arrangements – update on EOWG

JB reported that at Ofgem's EOWG on 17 May NG NTS presentation (available on Ofgem's web site) included a flexibility matrix for three different TBE scenarios (Transit UK, Global LNG and Auctions+). There was also a presentation on DN interruption

reform. The meeting scheduled for 31 May had been cancelled. The plan for EOWG meetings on 14 and 28 June remained unchanged.

3.2. Topic 004TR Emergency Arrangements

3.2.1 Ofgem update on Gas Safety Reserve

Further to the action placed on NG NTS at the 26 Apr meeting, and subsequent circulation of its paper on gas reserve volumes and costs, RH summarised the range of scenarios and assumptions for the data and again invited questions. RH observed that “Model 2 – storage available” may better address a whole winter period whereas “Model 1 – no storage available” may be more realistic for considering peak day or the top 7 days of the load duration curve. RH highlighted that the 3 prices used were an average of the forward price for next winter, the peak price for last winter and a linear extrapolation of the peak price that might trigger the maximum demand side response required. In the absence of better estimates an option percentage of 4% was selected (typical for electricity reserve) and a premium of 10% for SO monopoly purchaser was selected. PBo observed that this premium also reflected that shippers might wish to hold flexibility to manage balancing risk as part of their own portfolios. PBo enquired about potential interactions with shipper imbalance exposure. SB commented that it might depend how any procurement requirement on the SO might be established and asked if shipper holdings might be made more visible. PBo replied this might raise commercial confidentiality issues.

Ofgem (SB) then reported on other aspects, indicating that Ofgem felt the forum had been useful but potential development now lay with UNC parties to raise proposals as they saw fit. There would be no further meetings regarding winter 06/07 but there might in due course be a forum to consider this area for winter 07/08. In terms of UNC proposals, item 3.2.2 below covers discussion of Mod 086 on Gas Demand Management Reserve. In relation to “below the line” (i.e. a scenario following declaration of an NGSE), EON (PBo) had given a presentation on storage curtailment compensation that concluded there would be little to be gained by seeking to refine present arrangements. NG NTS had identified one scenario where there was some potential for refinement of storage curtailment compensation but this was still being considered internally.

3.2.2 Modification Proposal 0086 “Introduction of Gas Demand Management Reserve Arrangements”

Gaz de France ESS (PBr and DJ) gave a presentation, inviting views from the Workstream, setting out its view on the objectives of the proposal, triggers for the scheme, interaction with commercial interruption, payment and cost arrangements, indicative costs, bid volume calculations and trigger level, governance and reporting, tender scheme structure, bid stacking and despatch procedure.

In discussion GdF (PBr and DJ) provided comment aiming to clarify its intent and rationale for the proposal. Other parties identified issues and raised concerns.

The GdF comments may be summarised as follows:-

- i) The proposed scheme might help prevent onset of a Gas Deficit Emergency (GDE) – there was recognition that these alone would not prevent a GDE.
- ii) The proposal intended to address aspirations expressed by the Energy Intensive User Group (EIUG) in its recent paper for compensation and incentives for demand side response, drawing parallels with prevailing electricity standing reserve arrangements. Incentives in the form of contracted gas availability payment might help facilitate I&C consumer arrangements for back up fuel and might reduce delays for demand side response.

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- iii) Multiday trading was advocated as this might address the consumer perceived barrier of fuel switching back and forth.
 - iv) GdF was not advocating UNC defined “difficult days” but invited views as to whether other parties felt a trigger other than price was appropriate. There was some feedback that predetermined triggers might accelerate the onset of a GDE.
 - v) GdF recognised that shippers choosing to participate or compete with the scheme would need appropriate supply contractual arrangements with consumers.
 - vi) The scheme intended to provide incentives for demand side response further to that attained in winter 05/06.
 - vii) The scheme was for a title trade between a participating shipper and the System Operator (SO) and the volume would be tied back to specific DM supply points through prevailing nominations and on subsequent days through use of the ECQ process. The shipper’s imbalance position would remain unaltered.
 - viii) Shipper participants might make bids for distinct or aggregated DM supply points.
 - ix) Whilst version 1.0 of the proposal advocated that the total cost of availability payments would add to the differential SMPsell/SMPbuy, PBr noted that several parties indicated recovery through neutrality might be more appropriate. Further clarification about the SMPbuy price for accepted actions may be needed. Another party enquired whether the availability fee might be more appropriately targeted to just the winter period.
 - x) The scheme was proposed as a permanent arrangement that enabled the SO to take account of the prevailing supply / demand forecast and uncertainty for each year.
 - xi) An objective of the scheme was to provide further options for SO Eligible Balancing actions and not specifically to conserve storage stocks. The scheme might be viewed as bringing demand side response forward commercially from a Stage 1 or Stage 2 NGSE.
 - xii) Governance was envisaged to be similar in nature to that in place for electricity standing reserve but PBr noted feedback that parties sought inclusion within UNC governance as soon as possible.
 - xiii) Expanding on the potential similarity to electricity standing reserve, DJ outlined this as usually annual invitations in April/May, with the SO making an assessment against their economic and efficiency obligations in the prevailing industry condition. The SO was not constrained to take all offers or all of a predetermined volume. To illustrate this further, DJ cited one example where the SO accepted only 10-15% of the services tendered.
 - xiv) Expanding on the despatch procedure, DJ explained that GdF envisaged the SO would not be obliged to take any more demand side reserve than was needed and despatch would take account of and potentially be in conjunction with acceptance of OCM bids.
 - xv) PBr noted the request from parties for information to assist their assessment of potential costs. These would be strongly dependent on the yet to be developed methodology, which might help quantify likely contracted volumes and number of demand days.
 - xvi) PBr envisaged that the SO would publish information about the annual tender process.
 - xvii) PBr indicated that GdF envisaged the scope for this proposal would be confined to demand side reserve and observed that other parties could bring forward other proposals for other balancing tools.

Issues, concerns raised and observations made by other parties may be summarised as follows:-

- a) Demand side response needs to take full account of the diversity of I&C consumers. Prevailing arrangements permit demand side contracting by shippers.
- b) NW expressed the concern that a scheme might accelerate a GDE in some circumstances.
- c) The proposed scheme might impose unquantified smeared availability fees to all shippers rather than targeted costs to out of balance shippers. It might also pass consumer risk and cost of security on to shippers.
- d) Prevailing arrangements provide a large monetary value to consumers for switching off, and whilst there may have been a lag in market understanding for winter 05/06, energy buying policy now had a much higher profile with I&C directors ahead of winter 06/07.
- e) PBo felt there might be difficulty in verifying physical delivery under the proposed scheme.
- f) RH expressed concern about contractual arrangements for Shared Supply Meter Points.
- g) RH sought clarity on proposed rules on cost recovery for the SO and highlighted that, apart from any SO incentive element, costs would be those of all shippers.
- h) Shippers highlighted the criticality of knowing potential costs to them that might arise from the proposal and needed to know about the volume and price of reserve contracts. Would costs be constrained by budget and if so what might this be? A volume cap could lead to the SO paying very high prices to reach the cap and a price cap might distort the market. Parties needed this information for the consultation period. The process for determining potential reserve volume was unclear and there was concern how shipper impacted parties might be appropriately involved.
- i) It was unclear what if any change to the SO incentive scheme was envisaged and again this was needed for the consultation period. Were the Mod 086 proposed arrangements within the existing SO remit? If so no change was needed to incentives, and also no UNC change was needed (unless the SO identified the need in pursuit of its obligation to be economic and efficient).
- j) There was concern about drawing a parallel to the electricity standing reserve – the gas market has additional dimensions of e.g. substantial storage and also linepack. Electricity needs real time balancing. Some analogy might be drawn between electricity standing reserve and gas Operating Margins especially as both may be considered to be interim steps whilst commercial balancing actions may take place.
- k) Further to GdF's assertion that Mod 086 would help avert a GDE, RH enquired what scenario this might be. This would be needed for the consultation period to facilitate impact assessment when formulating representations.
- l) There was concern about impact on market transparency and how the arrangements might feed into SMP and that the SO might become a market maker.
- m) In seeking to assess the scale of impact there was one observation that reserve might be called more frequently than declaration of GBAs, and a floor level for volume might be 2005/6 demand response of 34 mcm/day but this does not give a number of days. Shippers expressed the need to know the change in baseline and how this might change in future.

- n) RH queried why there would potentially be publication of SO contracted demand reserve whereas shipper contracted demand response would not be published. The latter would continually change as supply contract renewal proceeds and PBo felt it would be inappropriate to publish commercially sensitive information.
- o) There was concern that lack of initial UNC governance would leave shippers exposed to subsequent changes in contracted reserve volume and cost.
- p) There was concern about the scenario where a shipper has contracted with the SO and subsequently consumer(s) within its relevant portfolio switched to another shipper.
- q) PBr observed that the proposed arrangements might lead to large forward holdings by the SO which should have appropriate financial governance.
- r) NG NTS observed that the Nature and Purpose of the Proposal lacked detail and this may lead to issues regarding interpretation and subsequent drafting of any UNC legal text.

To conclude, PBr indicated GdF would consider refining its proposal in line with its presentation and the Workstream discussion and the Joint Office would launch consultation on Monday 5 June with any such revised proposal it received. Attendees asserted that there should be sufficient information for assessment within any revised proposal and that whilst they formulate their consultation responses, they might be able to consider some clarificatory information if issued sufficiently early.

4. Other Business

NG NTS (RH) alerted workstream members to the publication of Preliminary Safety and Firm Monitor Requirements 2006/07.

5. Diary Planning

Date: Thursday 6th July 2006

Start Time: 10:00 am

Venue: Elexon, 350 Euston Road, London

Appendix A Action Log – UNC Transmission 1 June 2006

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner*	Status Update
TR 1045	6/4/06	3.2.2 Topic 004TR	Further to Ofgem Winter to Date seminar 22-Mar-06, provide an update on the potential for blending services at Bacton.	National Grid NTS (RH)	Carried forward. Technical feasibility studies were ongoing.
TR 1046	4/5/06	3.2.1 Topic 008TR	give consideration to previous auction results as a potential indicator of capacity transfer that might be facilitated by a mechanism based on the optimisation strawman.	National Grid NTS (PR)	Carried forward. NG NTS internal consideration.

* key to initials of action owners

PR – Paul Roberts, RH – Ritchard Hewitt