

Transmission Workstream Minutes
Thursday 4th May 2006
held at 350 Euston Road, London

Attendees

| | | |
|----------------------------|-------|----------------------------|
| John Bradley (Chair) | (JB) | Joint Office |
| Dennis Rachwal (Secretary) | (DR) | Joint Office |
| Adam Cooper | (AC) | MLCE |
| Alan Raper | (AR) | National Grid UKD |
| Alex Barnes | (AIB) | BG Group |
| Amrik Bal | (AmB) | Shell |
| Angela Love | (AL) | ILEX |
| Bali Dohel | (BD) | Scotia Gas Networks |
| Barbara Vest | (BV) | Gaz de France |
| Bev Grubb | (BG) | Scotia Gas Networks |
| Chandima Dutton | (CDu) | National Grid NTS |
| Charles Ruffell | (CR) | RWE npower |
| Chris Logue | (CL) | National Grid NTS |
| Christiane Sykes | (CS) | EON UK |
| Colin Dickens (pm only) | (CDi) | ExxonMobil |
| Dave Adlam | (DA) | National Grid NTS |
| David Howden | (DH) | Ofgem |
| Ed Carter | (EC) | Ofgem |
| Erik Sleutjas | (ES) | Ofgem |
| Helen Bray | (HB) | CIA |
| Ian Trickle | (IT) | Exxonmobil |
| Jeff Chandler | (JeC) | SSE |
| John Costa | (JCo) | Electricity de France |
| Joy Chadwick | (JoC) | Exxonmobil |
| Matteo Guarnerio | (MG) | Ofgem |
| Mike Young | (MY) | BGT Centrica |
| Mark Bailey | (MB) | Gaz de France |
| Ndidi Njoku | (NN) | Ofgem |
| Nigel Cornwall | (NC) | Cornwall Energy Associates |
| Paul Roberts | (PR) | National Grid NTS |
| Rachel Turner | (RT) | Centrica |
| Roddy Monroe | (RM) | Centrica Storage Ltd |
| Sharif Islam | (SI) | Total |
| Shelley Rouse | (SR) | Statoil |
| Simon Bradbury | (SB) | Ofgem |
| Steve Mackay | (SM) | Ofgem |
| Stuart Waudby | (SW) | Centrica Storage Ltd |
| Tim Davis (pm only) | (TD) | Joint Office |
| Yasmin Sufi | (YS) | ENI UK |

1. Status Review

1.1. Minutes from March Workstream Meeting

The minutes from April 06 were accepted with correction of name – Hannah Cook (rather than Helen Connolly) of Ofgem, and correction of initials – GE, Gareth Evans raising the discussion point 3.3.2 v) on shipper impact of potential change to QSEC auction timetable.

1.2. Review of Outstanding Actions

Further to the Action Log circulated on 10-Apr-06 as part of the minutes, an update is attached, incorporating the action[s] raised at this meeting. Action TR1044 was closed since NG NTS had not had any request from BP regarding Gemini capacity trading and no BP representative was present. CL provided an update on action TR1045 stating that NG NTS had initiated technical feasibility studies for Bacton and St Fergus terminals to assess the possibility of blending in the context of security of supply concerns. CL stated that commercial work was out of scope of these studies.

1.3. Review of Workstream's Modification Proposals and Topics

The Modification Status Report was updated

Mod 006 would be implemented with effect from 3-Oct-06. Ofgem were minded to reject Mod 073 and all the other Mods were out for consultation with representation close out on 18th May for Mods 076 and 077, and on 22nd May for Mod 82.

The Topic Status Report was updated

- 003TR NTS Exit Capacity – see item 3.2
- 004TR Emergency Arrangements – see item 3.3
- 008TR Entry Capacity – see item 3.1

Two topics were closed:-

- 009TR Provision of Information to Market – closed following Ofgem direction to implement Mod 006.
- 013TR Capacity trading on Gemini – closed since no further information had been received from BP.

Two topics were retained on hold:-

- 005TR Constrained Top Up – remained on hold at the request of CL of NG NTS.
- 014TR Operating Margins Procurement – remained on hold and the Request for Proposals deadline had been extended by 2 weeks to 24th May.

2. Modifications for Workstream Development

None.

3. Discussion of Topics

3.1. Topic 008TR Entry Capacity

3.1.1 Optimisation of capacity availability between ASEPs - Strawman

Further to the presentations in March and April, National Grid NTS (DA) gave a presentation on the "Optimisation of Entry Capacity" strawman that had been circulated on 3 May. Implementation could potentially be achieved within the present price control period with capacity transfers effective from April 07. One option might bring the next AMSEC auctions forward by two months and a second option might be based on the

results of the Feb 06 AMSEC auction. PR explained that the timetable scheduled calculation of exchange rates as close as possible to the effective date of capacity transfers to assist accuracy. AIB of BG Group enquired what the cost drivers were for exchange rates and PR/DA explained that these were capacity buy back risks. The strawman model might in any event be captured within an Entry Capacity Release Methodology Statement for the next price control period.

PR enquired if parties were interested in development of proposals for the present price control period and CS of EON UK said she was. CR of RWE expressed concern that the development might have limited value because of the potentially high costs for more distant ASEPs. MY observed that the proposal contained two products for additional capacity one of capacity physically available following transfer from another ASEP and an overselling/buy back product. These would be priced and valued differently and PR acknowledged the validity but explained more time would be needed for such development. BG of SGN suggested that analysis from previous auctions might provide some indication about how much capacity might be transferred however PR expressed caution about the unknown effect of subsequent changes in the auction environment.

Action TR1046 National Grid NTS (PR) to give consideration to previous auction results as a potential indicator of capacity transfer that might be facilitated by a mechanism based on the strawman.

PR explained that the next steps would be development of business rules from the strawman and invited views from interested parties.

3.1.2 NG NTS initial thoughts on allocation of capacity for next Transmission Price Control period.

National Grid NTS (PR) gave a presentation that acknowledged the risks of fixed baselines that Ofgem identified in its TPCR March consultation, and, further to Ofgem's proposals, PR outlined initial thoughts for an Entry Capacity Release Methodology Statement (ECRMS). The objectives of the ECRMS would be to set the obligated capacity levels taking account of dynamic supply demand scenarios, and the interpretation of long-term auction results in terms of whether or not to allocate incremental capacity. DH indicated that the development timetable was in keeping with Ofgem's TPCR, and potentially its June document might include draft licence conditions. The presentation included a set of key questions that are set out below together with discussion points:-

- i) How should obligated levels be calculated? AIB enquired about options and PR identified 3 illustrative options – revenue purpose determination, codified process with annual capping, capacity profiled through the year.
- ii) Should any capacity be held back? CS, SI and others argued that some should be in order to facilitate new entrants.
- iii) How often should obligated levels be recalculated during next price control? It was recognised that stability/certainty had to be balanced with the dynamics of supply and demand. PR identified illustrative frequencies of every supply demand match, or only change when outside [30%] tolerance.
- iv) What are the impacts of movements in obligated levels, both between price controls and during next price control? AIB (and PR) raised the issue of what happens if obligated levels decreased. There would be a need to recognise legacy bookings and also leave some capacity for new entrants (as per ii) above).
- v) Should there be different processes for unconstrained and constrained release periods? PR enquired whether parties would like simplification to bid to a single price.
- vi) Should the [ECRMS] statement be applied to entry and exit? PR observed that a similar mechanism might be used for both entry and exit.
- vii) What information should be published or forums held to aid transparency?

- Would the release of the Network Model be of use? PR cautioned that a suitable model e.g. Graphical Falcon may be difficult to use and might consume considerable resource in terms of support. Also TD pointed out that Graphical Falcon was already commercially available as were other modelling tools. PR suggested an alternative might be a Forum whereby modelling results or modelling studies might be discussed to help transparency.

IT stated a desire for stability and certainty about the amount of capacity at a particular ASEP that could be used elsewhere.

3.1.3 NG NTS consultation on extended investment leadtimes for September 2006 QSEC auctions.

National Grid NTS (DA) gave a presentation that set out key elements from its consultation on extended investment lead-times (circulated 28 Apr). Representations were invited prior to close of business on 12 May.

CR enquired why St Fergus was affected for just 6% above baseline (compared to 20-32% for other affected ASEPs) and PR explained that the increment happens to just trigger the need for a greenfield compressor and highlighted that 6% of St Fergus capacity corresponded to an absolute quantity of about 100GWh.

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

Further to the meetings of the Enduring Offtake Working Group (EOWG) on 19 April and, 3 May Ofgem (MG) reported that the first meeting had presentations and discussions of:- User Commitments and Construction Timelines; Treatment of Interruption; and launch of an Ofgem cost survey for a June Impact Assessment. The 3 May meeting had presentations and discussions of:- the Flexibility Product and Zonal Availability of Linepack; Exit Capacity Baselines; and Maintenance Management at Exit. The EOWG attendees had agreed that the present arrangements for Maintenance Management buy back could be continued. Regarding the Ofgem cost survey, responses should be received by 15th May and a note was circulated indicating that Ofgem would include costs to the extent that they would be incurred on an efficient basis and would be necessary. The next meeting was scheduled for 10am 17 May and would cover a further update from NG NTS on the Expanding Flexibility product and a DN presentation on DN interruptions reform.

BG of SGN expressed a need to properly understand the merits and quantified features of the proposed Expanding Flexibility Product. PR emphasised the complexity but NG NTS were nevertheless seeking to complete analysis and presentations this month (May).

PR indicated that Workstream development of business rules from the Exit Capacity strawman was targeted to commence in June and JB suggested that additional Workstream meetings might be needed to achieve timely progress, perhaps utilising “the Wednesday slot” that EOWG meetings had used (e.g. 14 June and 19 July).

3.3. Topic 004TR Emergency Arrangements

3.3.1 Ofgem update on Gas Safety Reserve and Demand Side Working Groups

Ofgem (SBra) gave a brief update on Gas Safety Reserve stating that options for “above the line” (prevent emergency) were considered by Ofgem to be in the hands of industry participants to raise UNC Modification Proposals such as the draft circulated for Gaz de France (see 3.3.2). “Below the line” (access to gas safety reserve) would be discussed at the next meeting commencing at 3pm on 17-May. With respect to the Demand Side Working Group the Workstream was alerted to the surveys from Ofgem

on NG NTS demand forecasting and on NG NTS provision of information that sought response by 5 May. These and other materials from the 20-Apr meeting were on Ofgem's web site.

3.3.2 Gaz de France draft UNC Modification Proposal "Introduction of Gas Reserve Arrangements"

Gaz de France (MB) gave a presentation, (further to the draft UNC Modification Proposal circulated 2-May) that set out GdF views on winter 05/06 demand side response, (emphasising that it was mainly for power generation with associated impacts in the electricity market); views on future needs for gas DSR; outlined a history and experience of electricity demand side participation, and went on to outline the draft proposal in terms of product structure, cost recovery route, and the case for timely development and implementation. Development suggestions from industry were invited.

In discussion, AC enquired if the market would be notified about System Operator use of such DSR actions and MB responded that similar mechanisms to those of Mod 061 might be employed but the proposed new mechanism would not be restricted to periods when a GBA prevailed. NC drew attention to other options discussed in Ofgem industry meetings that might be developed such as "Amber alerts" and publication of 5-day demand forecasts. AL enquired about customer availability of alternative fuel – systems, stock, environmental constraints, and SI enquired whether the proposal would actually lead to increased DSR. MB acknowledged the uncertainties but argued the case for clear appropriate incentives for I&C consumers (including NTS loads) such that increased DSR might confidently be available. CS argued that the status quo provided strong incentives on shippers and also customers were exposed to incentives of high prices. There was more awareness and less time constraint for these factors to take beneficial effect in the run up to winter 06/07. CS and CR drew attention to the risk of DSR being offered at high prices to the System Operator. HB welcomed the proposal, and sought more action from the System Operator prior to a GBA or gas deficit emergency. CL stated he had not studied the proposal in detail but could see no industry benefits for the System Operator (SO) to be involved, and also highlighted issues such as the SO quantity and SO price and the potential for the SO to crowd out shipper DSR. CS and SR sought clarity on the communication process of DSR balancing actions, taking account of Gas Act restrictions on Transporters contracting with consumers and also the present arrangements with shippers for interruption. SW and CS advocated that rules should be codified rather than covered by the SMPS. Some aspects of the proposal were identified as more ambitious for initial introduction and MB/BV indicated they might consider simplification. They also indicated they would consider the discussion points that had been raised. The following development questions were identified (*and circulated to the industry 5 May*) with an invitation to respond ideally by the end of 8 May.

1. What is the justification for National Grid to be involved in procurement of gas demand side response when shippers might do this?
2. How would it be clear that incentives on shippers to balance were retained whilst introducing such arrangements?
3. How should the procurement quantity for National Grid be determined?
4. How should the price that National Grid accepts from tenders for demand side response be determined in conjunction with other sources of balancing actions?
5. Should there be a trigger for National Grid use of demand side gas reserve other than price?
6. Should National Grid contract durations be less than a year, one year or many years?
7. How might the costs be clearly set out as those recovered through neutrality and those recovered through cash out?
8. How might the industry be assured that National Grid was appropriately incentivised for these arrangements?

9. How would National Grid verify that contracted demand side response was delivered?
10. What should the governance arrangements be?

4. Other Business – Transmission Charging Methodology: “Estimation of Long Run Capacity Costs”.

Many Workstream attendees departed before this agenda item but attendees for this item included AIB, AL, CDu, CDi, ES, IT, JeC, PR, TD, YS, JB and DR.

Further to the series of meetings of the Gas Transmission Charging Methodology Forum CDu gave this presentation that aimed to explain and compare LRMC (marginal cost) and LRIC (incremental cost) approaches in the context of capacity release mechanisms. The presentation set out the current use of these approaches and proposed alternatives including decoupling UCAs and LRMC based incremental capacity prices such that prices would be forecast post investment. This was advocated for simplicity and transparency since a simple model could be made available to the industry in a spreadsheet form and JeC and others said they would use such a model. CDu 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.

The date of the next Gas Transmission Charging Methodology Forum was confirmed as 25 May, commencing at 10am.

5. Diary Planning

Date: Thursday 1st June 2006

Start Time: 10:00 am

Venue: Elexon, 350 Euston Road, London

Appendix A Action Log – UNC Transmission 5th May 2006

| Action Ref | Meeting Date(s) | Minute Ref | Action | Owner* | Status Update |
|------------|-----------------|-------------------|--|-----------------------------|--|
| TR 1044 | 2/2/06 | 3.4 Topic 013TR | draft a modification proposal for Class 3 UK Link Modification Proposal for a capacity trading interface to Gemini as defined in UK Link Change Request 13658. | National Grid NTS (PR) / BP | Closed. BP had not engaged with NG NTS or at the Workstream meetings. |
| 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 (CL) | NG NTS has started Technical feasibility studies for Bacton and St Fergus. |
| 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 | National Grid NTS (PR) | |

| Action Ref | Meeting Date(s) | Minute Ref | Action | Owner* | Status Update |
|------------|-----------------|------------|------------------------|--------|---------------|
| | | | optimisation strawman. | | |

* key to initials of action owners

PR – Paul Roberts, CL – Chris Logue