

Transmission Workstream Minutes
Thursday 2nd November 2006
held at Elexon, 350 Euston Road, London

Attendees

| | | |
|-----------------------------|------|----------------------------|
| John Bradley (Chair). | JB | Joint Office |
| Dennis Rachwal (Secretary). | DR | Joint Office |
| Abid Sheikh. | AS | energywatch |
| Alex Barnes. | AIB | BG |
| Amrik Bal. | AmB | Shell |
| Andrew Pearce. | AP | BP |
| Andrew Pester | AP | Ofgem |
| Angela Love. | AL | Pöyry |
| Bethan Winter. | BW | National Grid DNCC |
| Chris Logue. | CL | National Grid NTS |
| Chris Wright. | CW | BGT |
| Dipen Gadhia. | DG | Ofgem |
| Fergus Healy | FH | National Grid NTS |
| Gareth Evans | GE | Total Gas and Power |
| Ian Trickle | IT | Exxonmobil |
| Jeff Chandler. | JeCh | Scottish & Southern Energy |
| Lisa Waters. | LW | Waters Wye Associates |
| Liz Spierling. | LS | Wales&West Utilities |
| Mark Feather | MFe | Ofgem |
| Mark Freeman. | MFr | National Grid Distribution |
| Mike Young. | MY | BGT |
| Paul Roberts. | PR | National Grid NTS |
| Peter Bolitho | PB | EON UK |
| Rachel Turner. | RT | Centrica |
| Richard Fairholme. | RF | EON UK |
| Roddy Monroe. | RM | Centrica Storage Ltd |
| Shelley Rouse | ShR | Statoil |
| Stefan Leedham. | SL | EDF Energy |
| Stephen Sherwood | SS | Scotia Gas Networks |
| Steve Rose. | StR | RWE npower |
| Tim Davis. | TD | Joint Office |
| Will Bedborough. | WB | National Grid Distribution |

1 Status Review**1.1. Minutes from October Workstream Meetings**

The minutes for the meetings held 5th and 25th October were accepted with simple clarification of one action from 5th October (see item 1.2 Action TR1054 below) and subsequent to this meeting the following adjustments were suggested for 25 October minutes.

B3.3.2 (a) May need clarifying regarding capacity registration "~~for~~from" the first day of the Gas Year.

B5.7.2 (d) and B5.7.3 (a) StR asked for clarity in the text to show how Users can trade Daily for periods other than for a full year.

1.2. Review of Outstanding Actions

Appendix A provides a tabular summary.

Action TR1046 was carried forward and is related to item 3.3 below.

Action TR1053 was closed on broadening of the market information debate – see Topic 018TR item 3.1 below.

Action TR1055 was closed PR stated that NG NTS had included adequate initialisation provisions in Proposal 0116 for the enduring NTS exit regime.

Action TR1056 was closed. Proposal 0104 was revised.

Action TR1057 was closed. Panel accepted Workstream Report 0104.

Action TR1058 was clarified and closed. NG NTS indicated it would report on the basis of OCM collateralisation costs to its Operational Forum.

1.3. Review of Workstream's Modification Proposals and Topics

Modification Status Report (Modification Proposals Register¹)

JB ran through the status of Live Transmission Modifications Proposals noting that Ofgem had directed implementation of Proposal 0100 "Amendment to OPN/SFN submission times" and Proposal 0101 "Amendment to demand forecasting timings in relation to the Gas Balancing Alert". There was no view available from Ofgem at this meeting regarding its decisions on Proposals 0102, 0103, and 0110.

Post meeting note: The Implementation Date for Proposal 0100 is subject to Ofgem consultation and Urgent Proposal 0123 has been raised to address DN aspects.

Topic Status Report

JB ran through the Topic Report.

003TR "Review of NTS Exit Capacity Arrangements". See item 3.3 below

008TR "Entry Capacity" See item 3.2

015TR "Constraint Management" Proposal 0119 on Entry Overrun calculation has been sent to consultation.

016TR "Storage Commodity Charge" Representations have been invited on Proposal 0120 and Pricing consultation NTS GCM 03 with a close out date of 20th November.

Post meeting note: A clarification note was circulated 6 November.

017TR "OCM Collateralisation" NG NTS (CL) indicated its intention to pursue raising a Modification Proposal.

Topic 014TR "Operating Margins Procurement" remains on hold – NG NTS were awaiting the outcome of its Price Control Review.

018TR "Information Transparency" See item 3.1 below.

One new Topic was opened:

019TR "Lessons from Farningham Metering Error" – requested by NG NTS.

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

1.4 Update from Transmission Operational Forum of 24 October²

There were no matters arising from this forum to report to this Workstream meeting. AL alerted the Workstream to the IGE publication "Guidance for large gas consumers in dealing with Natural Gas supply emergencies"³ that complemented the Operational Forum coverage of emergency arrangements.

2 Modifications

2.1 Proposal 0121 "The Provision of Ex-Post Demand Information for all NTS Offtakes"

2.1.1 Presentation and discussion of draft revision of Proposal

EDF Energy have provided a draft revised Proposal and a presentation⁴. SL ran through the presentation, summarising the information currently available and the information that the Proposal would release. The presentation also outlined the categories and number of NTS Exit Points that would be impacted, and provided more detail on the proposed publication timing. Interaction with information release proposed in Modification 0116 on exit reform was also referred to. Finally the presentation set out the rationale for ownership and availability of information to NG NTS, and contended that after the day publication should allay potential commercial confidentiality concerns. SL reported that EDF Energy had been proactive in liaising with consumer representative groups and none had expressed opposition to the Proposal.

ShR enquired whether there was overlap between this Proposal and Proposal 0097 in respect of publication of Interconnector export flows. PB stated that Proposal 0097 intended to place a requirement for providing this information on UK Link as well as on National Grid's web site. It was not the intent of Proposal 0097 to seek release of information other than at interconnector exit points.

In discussion SL reiterated the invitation for views from impacted consumers and indicated a willingness to explore whether there was a need/rationale for any aggregation. AS suggested that silence should not be taken as consent.

LW and PB observed that the implementation of the Proposal would publish information for NTS direct connects but not for large LDZ connected loads, and there could be sensitivities regarding publication of NTS direct connect flows.

2.1.2 Draft Workstream Report

SL agreed not to press for a Workstream Report for November Panel so that impacted parties would have further opportunity to express views on the Proposal.

It was agreed that the Joint Office would publish a draft Workstream Report, seek and incorporate written comment, and bring a revised draft Workstream Report for finalisation at December Workstream meeting. The Workstream Report would incorporate updated materials from the Proposer – i.e. amended Modification Proposal and an update of the NTS Exit Point list.

Action TR1059 Joint Office to publish 0121 Workstream Report draft v0.1 "The Provision of Ex-Post Demand Information for all NTS Offtakes", invite written comment by 28 November and revise for December Workstream discussion.

Post meeting note: EDF Energy formally revised its Proposal on 7 November, sought comments from interested parties, and offered to discuss the Proposal at the Gas Customer Forum on 27 November 2006⁵.

² <http://www.nationalgrid.com/uk/Gas/OperationalInfo/operationsforum/>

³ <http://www.igem.org.uk/ff/IGE-GL-9.pdf>

⁴ <http://www.gasgovernance.com/Code/Workstreams/TransmissionWorkstream/2006Meetings/>

⁵ <http://www.gasgovernance.com/Diary>

2.2 Draft Proposal “Publication of Nodal NTS Demand Forecasts”

National Grid NTS have provided a draft Proposal⁴ and FH ran through a presentation that gave the background (including the consultation “NTS GCM 01:Alternative Methodologies for Determination of NTS Entry and Exit Capacity Prices”⁶), with the aim of providing improved transparency of capacity charge setting process. Transparency would require publication of the nodal data as used in this process. The UNC does not currently give rights or oblige NG NTS to publish disaggregated data (ref UNC O4.1.3), thus the Proposal seeks to address this.

In response to queries FH clarified that the intention was for annual publication of peak demand forecasts by node and this would be aligned to publication of the charging model and the Ten Year Statement. If the conclusion of the Charging Methodology consultation was to use the Transportation Model, then forecasts for 3 Gas Years ahead would be published, or for 10 years ahead if the Transcost Model was used.

In response to a query PR explained that the data might differ from the information release under Proposal 0116 “Reform of the NTS Offtake Arrangements” since the latter would only provide capacity information and demand forecasts may diverge from this.

PB observed differences between the electricity and gas demand forecasting and LW expressed a wish for alignment of the respective long term planning statements.

There was a consensus that a proposal substantially of the form discussed was sufficiently developed to recommend to Panel that it should proceed to consultation.

3 Discussion of Topics

3.1 Topic 018TR Information Transparency

Further to the paper “Information Transparency Proposal”⁴, AS and AL ran through a presentation that sought to consolidate discussion to date on information and market transparency. There were good reasons to balance the desire for transparency with commercial confidentiality and cost considerations, but key to moving forwards was an understanding of what information might reasonably be needed for rational purchasing decisions and assessment of the security of supply, and what might affect price sensitivity.

There was some sympathy for a more holistic approach to developing information transparency. LW enquired if there were any specific initiatives in mind, observing there was asymmetry between shippers and consumers. CL stated that NG NTS would welcome feedback on its web site and a debate on what new information might be needed, how it might be delivered, and whether little used web pages could be discontinued. PB supported rationalisation. JB drew the Workstream’s attention to “Network Code Operations Reporting Manual”⁷ and its UNC governance. CL suggested it may also be cost effective to have one or two web site releases per year. AS indicated this should be balanced against the need for flexibility in an ever-changing market. RM suggested that due consideration should be given to European questionnaire on transparency of information and to be wary of publishing more information in the UK than in Europe.

The Proposer representatives of Modifications 0097, 0104 or 0121 all indicated their intention to pursue with their respective Proposals. A Review Proposal (in accordance with UNC Modification Rule 11) seemed to be an option for seeking consolidation in due course.

⁶ <http://www.nationalgrid.com/uk/Gas/Charges/consultations/CurrentPapers/>

⁷ <http://www.gasgovernance.com/Code/UNCREl/>

Action TR1060 Interested parties to consider raising a UNC Review Proposal on provision of Market Information.

3.2 Topic 008TR Entry Capacity – Optimising entry capacity allocation

Proposal 0118A “Entry Capacity Transfers in the Constrained Period”¹

Proposal 0118 had been sent to consultation on 19 October and subsequently Centrica Storage had raised an Alternative Proposal. RM explained the intention was to relieve the restriction of Entry Zone transfer. The Alternative would allow transfer, where entry points that had a physical interaction, of unsold capacity to “sold out” points. RM felt this would more fully satisfy Ofgem’s Pricing Consultation statement that NG NTS should facilitate transfers between “a pair of entry points”. RM acknowledged that the Alternative Proposal was more complex (requiring capacity exchange rates to be determined) but felt it was justified for the additional flexibility it aimed to provide.

PR commented that NG NTS were still working on a mechanism that was less restrictive than Proposal 0118 and expressed concern that Proposal 0118A may not be practical. NG NTS had given Workstream presentations that suggested exchange rate calculation should dynamic – it should change after each transfer and Proposal 0118A did not seem to recognise this. Thus in order to cover the risk of all scenarios the exchange rate may turn out to be zero. NG NTS needed to know how much capacity Users wished to transfer. RM responded that the Alternative Proposal did not intend to increase risk and was not convinced that the zonal approach of Proposal 0118 was consistent with Ofgem’s view of buy back risk.

MY expressed a desire for a regime that would help realise full system capability.

3.3 Topic 003TR Review of NTS Exit Capacity Arrangements

Proposals 0116/0116A/0116B/0116C “Reform of the NTS Offtake Arrangements”¹

Proposal 0116 and three Alternatives were currently open for representations. Proposal 0116 had been discussed in detail previously, and Alternative Proposal 0116A (in draft) was introduced by PB at the 5 October Workstream meeting as removal of sunset clauses from the UNC to make the current transitional arrangements permanent.

Alternative Proposal 0116B, proposed by RWE Trading GmbH

RWE (StR) ran through a presentation⁴ explaining that this Alternative sought to take out some of the complexity of Proposal 0116 and transfer some of the risks back to NG NTS if a regime change of this nature was to go forward. StR also pointed out that expression of support for Alternative 0116B would not preclude Users from supporting Proposal 0116 and/or the other Alternatives. The presentation then illustrated how Alternative Proposal 0116B revised the intent put forward in Sections 1,2,3,4,7,9 and 10 of Proposal 0116, and RWE’s view of the advantages.

Section 1 NTS Exit Capacity Products.

RWE proposed a revised tolerance for OPNs. SS enquired about historical performance comparison of flow against OPN. PR responded that this had been monitored some years ago, but for not specifically looking at flex overruns, and in his view the market would likely respond to a new regime and thus historical comparison would not be relevant. PR also reported that NG NTS had provided data on request to 8 or 9 parties, following earlier Ofgem hosted Enduring Offtake Working Group meetings. PR

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

⁴ <http://www.gasgovernance.com/Code/Workstreams/TransmissionWorkstream/2006Meetings/>

explained that the rationale for flex tolerance in Proposal 0116 was a 50% increase on the end of day metering uncertainty / tolerance. PR also suggested that a wider tolerance would reduce the national constraint of 22 MCM of available flexibility.

Section 2 Flat Capacity Release

RWE had been concerned about what it saw as rigidity of the July capacity booking window in Proposal 0116 and had consequently suggested more flexibility. MFr enquired whether RWE had considered implications on investment lead-time and buy-back incentives. StR responded that RWE envisaged reasonable endeavours obligations. MFa indicated that Ofgem envisaged incentives on NG NTS on investment lead-times.

Section 3 Flexibility Capacity Release

RWE proposed a mechanism to reduce flexibility holding by submission of an OPN. PR observed this may be equivalent to an automated zero priced buy back of flex capacity whereas he considered Proposal 0116 would give Users more choice.

Section 4 Transfers and Assignments

RWE proposed adjustments to Proposal 0116.

Section 7 Charges and Credit Arrangements

RWE proposed simplification of Proposal 0116 by removal of the Flexibility Commodity Charge type and also steps to reduce User exposure to flexibility overruns. Another proposed area of revision was splitting of the NTS Exit Capacity neutrality pot into flat and flex, with flex split into areas.

Section 9 Information Publication and Section 10 Transition Timetable.

RWE proposed that NG NTS should publish additional information on flexibility utilisation, overruns and charges to better inform bidding strategy and, in the transition period, to better inform decisions about initial acquisition of flexibility capacity.

Alternative Proposal 0116C, proposed by British Gas Trading

MY introduced this Alternative as similar to 0116B but proposed the removal of User requirement for flexibility capacity other than as presently in the UNC – i.e. for DNs only. MY argued that flexibility has been most contentious and parties were not convinced about the limits of flexibility; thus just the monitoring provisions of Alternative 0116B should be put in place. Monitoring would help demonstrate whether there was a real need for the complexity of the change for flexibility capacity.

PR observed that this Alternative Proposal might be read as removing DN opportunity to acquire flexibility. MY clarified that the intent was to continue to the present bundled flat/flex exit capacity for direct connects and leave DN provisions unaltered.

Variation of Proposal 0116 and application of charging methodology options

NG NTS (PR) gave a short presentation that set out NG NTS intent to request variations to Proposal 0116 at November Panel meeting. One specific variation put forward was to allow Users to signal capacity increase requirements for Gas Year Y+5 and Y+6, rather than the presently proposed limit of Y+4. The presentation then illustrated how the two ExCR User commitment charging options (currently out for consultation) would apply. JeCh sought clarity as to whether NG NTS might offer a choice of User commitment arrangement within the ExCR. PR explained that this was not the case; it was one or the other option only.

4. Other Business

4.1 Proposed DN Pensions Deficit Charge.

NG NTS (PR) provided a short presentation⁴ that explained that, arising from Ofgem's Transmission Price Control proposals, there would be a need for NG NTS to recover pension deficit cost relating to DN former employees. The mechanism envisaged was a transportation charge on DNs and this would require UNC Modification to define a new charge type. The timescale was such that a UNC Modification Proposal may need to be submitted to November Panel and a Pricing Consultation Paper would be raised in parallel.

MY enquired why this would be a new charge. PR explained that this would be an inter-transporter charge. DN cost recovery mechanism was not decided at this time but it might be incorporated as part of general transportation charges.

4.2 NTS Indicative Charges from 1st April 2007

MY alerted the Workstream to the letter circulated on 1 November "NTS Indicative Charges from 1st April 2007" and enquired why there was indication of 12% increase in NTS Exit Capacity Charges whereas Ofgem's Pricing Control proposals might indicate 6%. PR considered this was may be due to the difference between National Grid's view on the Pricing Control outcome and Ofgem's prevailing view.

5. Diary Planning

Workstream meeting

Date: Thursday 7th December 2006

Start Time: 10:00 am

Venue: Elexon, 350 Euston Road, London

⁴ <http://www.gasgovernance.com/Code/Workstreams/TransmissionWorkstream/2006Meetings/>

Appendix A Action Log – UNC Transmission 3 November 2006

| Action Ref | Meeting Date(s) | Minute Ref | Action | Owner* | Status Update |
|-------------------|------------------------|-------------------|--|-----------------------------------|---|
| 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 in the context of TPCR discussions. |
| TR 1053 | 7/9/06 | 2.2 Topic 018TR | raise a topic and introduce a suggested way forward on market information | Poyry (AL) | Closed. Discussed 2/11/06 |
| TR 1055 | 5/10/06 | 2.1.1d) 0116 | ensure there were adequate provisions for initialisation and non-October capacity increase requirements for credible scenarios of new connections and capacity increases. | National Grid NTS (PR) | Closed Proposer has highlighted features of proposal and legal text. |
| TR 1056 | 5/10/06 | 2.2 0104 | revise the Proposal wording to clarify more precisely what published information was sought and that this would be information that is already provided to NG NTS under an existing agreement. | energywatch (AS) | Closed Proposal amended and sent for consultation by October Panel. |
| TR 1057 | 5/10/06 | 2.2 0104 | revise the Workstream Report and finalise on 11 October. | Joint Office (JB) | Closed Workstream Report finalised and published 11 October |
| TR 1058 | 5/10/06 | 3.2 Topic 017TR | make information available for the basis of OCM collateralisation cost estimation for NG NTS. | National Grid NTS (RH) | Closed NG NTS to include in reporting to Ops Forum. |
| TR 1059 | 2/11/06 | 2.1.2 0121 | Publish 0121 Workstream Report draft v0.1 invite written comment by 28 November and revise for December Workstream discussion. | Joint Office / Interested parties | In progress. Draft report published with these minutes and comments invited by 28 November. |
| TR 1060 | 2/11/06 | 3.1 Topic 018TR | Consider raising a UNC Review Proposal on provision of Market Information | Interested parties. | |

* Key to initials of action owners

PR – Paul Roberts, AL – Angela Love, AS – Abid Sheikh, JB – John Bradley, RH – Ritchard Hewitt