

**Transmission Workstream Minutes**  
**Thursday 4<sup>th</sup> January 2007**  
**held at Elexon, 350 Euston Road, London**

**Attendees**

John Bradley (Chairman)	JB	Joint Office of Gas Transporters
Dennis Rachwal (Secretary)	DR	Joint Office of Gas Transporters
Alan Raper	AR	National Grid UKD
Amrik Bal	AB	Shell
Angela Love	AL	Poyry
Bali Dohel	BD	Scotia Gas Networks
Chris Logue	CL	National Grid NTS
Chris Wright	CW	BGT
Dipen Gadhia	DG	Ofgem
Fiona Lewis	FL	BP
Helen Stack	HS	Centrica
Jeff Chandler	JeCh	SSE
John Baldwin	JBa	CNG Services
Joy Chadwick	JCh	ExxonMobil
Julie Cox	JCox	AEP
Neil Dewar	ND	APX Group
Paul Grele	PG	Centrica
Phil Broom	PB	Gaz de France
Richard Fairholme	RF	EON UK
Robert Cameron-Higgs	RCH	Northern Gas Networks
Roddy Monroe	RM	Centrica Storage Ltd
Shelley Rouse	SRo	Statoil UK
Steve Gordon	SG	Scottish Power
Steve Rose	SR	RWE Npower
Tim Davis	TD	Joint Office of Gas Transporters
Tim Dewhirst	TDe	Ofgem

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

The minutes for the meeting held on 7<sup>th</sup> December 2006 were accepted.

**1.2. Review of Outstanding Actions**

Appendix A provides a tabular summary.

**Action TR1046 was carried forward** and is related to Topic 008TR on Entry Capacity transfers.

**Action TR1060 was carried forward** as no party had raised a Review Proposal on provision of Market Information.

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

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

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

Ofgem (DG) indicated its intention to conduct an Impact Assessment on Proposal 0104 “3<sup>rd</sup> Party Proposal: Storage Information at LNG Importation Facilities”. Final Modification Reports were in preparation for Proposals 0125 “Introduction of new balancing neutrality charge for cost of residual balancer collateral on the OCM” and 0116CVV “Reform of NTS Offtake Arrangements”, the latter due for Panel consideration on 8 January. The Final Modification Report for Proposal 0128 “Amendment to Entry Capacity Baselines” was ready for Panel consideration on 8 January. Proposal 0121 “The Provision of Ex-Post Demand Information for all NTS Offtakes” was awaiting legal text prior to consultation. All other transmission Proposals had been sent to Ofgem for decisions.

#### *Topic Status Report*

None of the registered Topics were discussed this month.

### **1.4 Update from Ofgem Emergency Arrangements Workshop (14 December 06)**

This was the second workshop that followed on from publication of Ofgem’s open letter and presentation on Emergency Arrangements<sup>2</sup> and it focussed on cashout/trading in the context of gas import dependence. Of the four options considered by the workshop, Options 3 and 4 (Referenced Cash Out Price, Committee Cash Out Price) were discounted. A small group from APX, National Grid, EON and Statoil were examining a hybrid of Options 1 and 2 (Keeping the OCM open, and Buyer of last resort). ND reported there was debate as to whether prices should feed into neutrality or not. APX also had serious concern about underwriting of liabilities in such trading circumstances and was urgently seeking a meeting with Ofgem and DTI. CL stated that the nature of the development was such that implementation before winter 07/08 was unlikely.

**Action TR1061** APX (ND) to update the Workstream on development of emergency cashout/trading in the context of gas import dependence.

## **2 Modifications**

### **2.1 Draft Proposal “Introduction of a New Shipper Obligation in Relation to the Procurement of Gas Below the Gas Safety Monitors”<sup>5</sup>**

Further to the discussion at December’s Workstream meeting NG NTS (CL) gave a presentation which reiterated the background and proposed new approach and went on to provide some more detail on the proposed annual process. AL enquired about potential interaction with the timing of annual AQ review.

PB observed that whilst the total churn in the protected by monitor (PBM) market had only been 2% last winter, this might represent a large change for an individual shipper – say winning or losing a contract for a large supermarket chain. In response, CL stated that NG NTS had contemplated a mechanism for ad hoc shipper requests for reviewing the allocation of Safety Monitor gas. These should not, however, be frequent and there should be an administrative cost charged to the requesting shipper. Such a mechanism had not been included in the draft proposal.

Some shippers expressed concern that the annual process could create distressed purchasers of storage and create vulnerability in the event of shipper termination or a major unplanned outage. CL argued there would be market incentives for sellers. There was also concern about whether there was effective competition for storage service provision in the context of this draft proposal and also whether it was consistent with European policy development.

<sup>2</sup> <http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/wholesalemarketmonitoring>

<sup>5</sup> <http://www.gasgovernance.com/Code/Workstreams/TransmissionWorkstream/2007Meetings/>

Some shippers considered a UNC Modification Proposal would cut across the DTI consultation<sup>6</sup> on security of supply, including fundamental issues such as what should be collective responsibilities and what allocated. A review of the Safety Monitor may be more appropriate at some stage. SR observed the commercial anomaly arising from inclusion of all Irish Firm load as GB PBM load. RF enquired whether Ofgem envisaged resuming e.g. Gas Reserve Working Group meetings and TDe responded that it did not at this stage since development and debate of a UNC proposal could proceed in parallel to other work.

Regarding the advantages and disadvantages of the draft proposal, JCox observed the benefits seemed to be intangible but there would clearly be administrative and transaction costs. If a key driver was flaws in the present Safety Monitor compensation arrangements, why not specifically address this? It was evident that a number of shippers considered the identified disadvantage meant the draft proposal was unacceptable in principle since responsibilities might be more efficiently and economically satisfied without being obliged to tie into storage products. CL suggested the materiality of the proposed obligation may be small. Workstream members asked if illustrative data could be provided.

**Action TR1062** NG NTS to provide data based on winter 2006/7 to individual shippers to illustrate the scale of the proposed obligation to procure Safety Monitor gas.

SR and PB observed that whilst there was some merit in this, shippers would still have uncertainty about Safety Monitor levels and the dynamics of their portfolios.

JCox and JBa questioned the timing of the initiative given the recent level of storage bookings and growing availability of beach/imported gas.

CL noted the discussion and stated NG NTS current intention was to formally submit a modification proposal to Panel seeking it to be sent direct to consultation with a view to timely implementation for winter 07/08.

The following areas were identified as potentially in need of clarification:-

- Shipper Warrant – what form and who should it be to?
- Safeguards and incentives to mitigate the perceived risk of distressed storage procurement
- The extent to which different EUC and WAR bands might be taken into account in the calculation of a shipper's obligation
- Elements to ensure administrative and transaction costs are minimised
- How the storage volume obligation would be calculated for each storage type.

### 3 Topics

#### Managing the Costs of New Developments<sup>5</sup>

Further to the presentation circulated on 18 December, CL asked if there were any questions or observations for NG Transmission to consider to inform its response to Ofgem's initial proposals consultation "National Grid Electricity Transmission and National Grid Gas System Operator Incentives from 1 April 2007"<sup>7</sup> (closing date 16<sup>th</sup> January). In discussion it was evident that a baseline allowance of £250,000 seemed low when some fairly simple UNC Modifications had reported cost estimates of

<sup>6</sup> <http://www.dti.gov.uk/consultations/open-consultations/index.html>

<sup>5</sup> <http://www.gasgovernance.com/Code/Workstreams/TransmissionWorkstream/2007Meetings/>

<sup>7</sup> <http://www.ofgem.gov.uk/ofgem/live-consultation/index.jsp>

approximately £120,000. AR observed that DNs envisaged an approach similar to that put forward by NG Transmission in pursuit of transparency of cost incurrence. SR enquired how the proposal might work in practice – would modifications be evaluated one by one and how might costs be fed back through incentives and smeared? It was pointed out that there is already provision for such aspects to be covered in the Modification Reports and JB suggested that that the relevant sections might attract more scrutiny by the Panel in future if this change were adopted.

**4. Other Business**

None.

**5. Diary Planning**

Workstream meeting

Date: Thursday 1<sup>st</sup> February 2007

Start Time: 10:00 am

Venue: Elexon, 350 Euston Road, London

**Appendix A Action Log – UNC Transmission 4 January 2007**

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 (Paul Roberts)	<b>Carried forward.</b> NG NTS internal consideration in the context of TPCR discussions.
TR 1060	2/11/06	3.1 Topic 018TR	Consider raising a UNC Review Proposal on provision of Market Information	Interested parties.	<b>Carried forward</b> Proposals 97/97A, 0104 and 0121 in progress
TR 1061	4/01/07	1.4	Update the Workstream on development of emergency cashout/trading in the context of gas import dependence	APX (Neil Dewar)	
TR 1062	4/01/07	2.1	provide data based on winter 2006/7 to individual shippers to illustrate the scale of the proposed obligation to procure Safety Monitor gas.	National Grid NTS (Chris Logue)	