

## Transmission Workstream Minutes

Thursday 5<sup>th</sup> May 2005

10 Old Bailey, London

### Appendix A Topic 003TR Exit Reform

#### Attendees (Afternoon session)

John Bradley (Chair)	JB	Joint Office of Gas Transporters
Dennis Rachwal (Secretary)	D.Ra	Joint Office of Gas Transporters
Adam Cooper	AC	Merrill Lynch
Andrew Pearce	AP	BP
Christiana Sykes	CS	EON
Dave Smith	DS	NGT LNG
Derek Russell	D.Ru	Viridian
Frank Gracias	FG	NGT Transmission
Gillian Frazer	GF	NGT Transmission
Harold Kwofie	HK	BP
Helen Bray	HB	Chemical Industries Association
John Costa	J.Cos	EdF
John Williams	JW	ILEX
Julie Cox	J.Cox	AEP
Katherine Marshall	KM	SSE
Mark Freeman	MF	NGT Distribution
Matteo Guarnerio	MG	Ofgem
Mick Curtis	MC	E=mc2
Mike Young	MY	BGT
Nick Wye	NW	Macquarie
Nigel Sisman	NS	NGT Transmission
Phil Broom	PB	Gaz de France
Rekha Patel	RP	ConocoPhillips
Ritchard Hewitt	RH	NGT Transmission
Robert Cameron-Higgs	RCH	CKI / UU
Sam Parmar	SP	Statoil
Sharif Islam	SI	Total Gas and Power Ltd
Steve Gordon	SG	Scottish Power
Steve Rose	SR	RWE Npower
Stuart Waudby	SW	Centrica Storage
Tanya Morrison	TM	Shell Gas Direct
Tim Davis	T.Da	Joint Office of Gas Transporters
Tim Dewhurst	T.De	Ofgem

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**A1 Introduction and Comments on Previous Minutes of Exit Reform Forum**

RH introduced the Topic, specifically Flow Flexibility, noting that a presentation had been prepared and a map showing the 31 zones had been sent out.

The workstream agreed to take comments on the minutes of 28<sup>th</sup> April. RP noted that a question she had raised at the last meeting regarding the number of zones and traders had not been recorded as she had intended. RH requested that RP issue the question by email and Transco NTS would respond. KM noted that her question about OPNs had not been recorded properly. The question related to the issue of Short Term Flexibility Restriction Notices (SFRNs) and whether, after issuing one of these, OPNs could be resubmitted. FG confirmed this to be the case.

**Action: Transco NTS to issue correction to ERF Minutes**

RH then commenced the Flow Flexibility Business Rules presentation.

**A2 Summary of Agreed Actions and Way Forward**

A summary of detailed discussions is provided in A3 to A6 below.

It was agreed that if Transco NTS require further discussions on this topic prior to the introduction of a Modification Proposal then it would provide the following information in support of this process prior to any future discussions on this topic:

1. List of DN and DC offtakes by zone for the 31 zone model
2. A map and list of offtakes by zone for a 5 zone model
3. An indication of flow flexibility capability for each of Ofgem's four options
4. Maximum, minimum and average historic utilisation data by month including 2 high demand days and 2 low demand days
5. Flow Flexibility capability for a seasonal normal demand day

Ofgem agreed to reconsider whether or not it would be prepared to provide an indication of baselines of different options to assist assessment by the community.

. Shippers requested that, in accordance with the Chairman's Guidelines, they be given 5 days prior notice of any future meeting to discuss this topic if such discussions were to be conducted outside of the normal Transmission Workstream timetable, and that any information to support such meeting be provided to them no later than 48 hours prior to the meeting date.

**A3 31 Zone Map**

KM asked if there was a 13 zone map. RH confirmed 13 and 31 zone maps had been published. KM requested a 5 zone map be produced. This was agreed.

**Action: Transco NTS to issue a 5 zone map**

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J.Cox noted that the zone configuration meant that some zones would only have DN off-takes. She asked if the baseline numbers were consistent with those published on Transco's website.

**Action: Transco NTS to respond to this question**

**A4 Historic Usage Figures and Baselines**

RH confirmed that the figures were in mcm and the historic numbers shown were a maximum recorded between 0600 and 2200 hours and were for a day in November 2004. The baseline figures represent the capability of the system for the particular 'array' of pipework in the zone concerned for 1 in 20 peak demand day. J.Cox questioned why there were some zones with historic use figures that were greater than the baseline. RH stated that the baseline figures represented peak day where transfer of flexibility between zones was in general not feasible. However, in an off-peak situation as depicted in the historic figures, flexibility could be transferred between zones to some extent. Therefore it is possible to support flexibility above the baseline figure by exporting flex from one array of pipes to another.

J.Cox raised concerns that a commercial regime would be put in place that would allow Transco NTS to increase revenues based on normal operation of the system. RH responded that it was likely that, as part of the incentive scheme, shippers would receive a percentage of any such revenues recovered.

MY noted that the southern zones appeared to use far more flexibility than the northern zones which suggested the product was more national than zonal. RH stated that on low demand days, the product could be more national, but on high demand days this was not the case. J.Cox suggested the product be monthly or seasonal or higher baselines to allow for better management of risk for Users. NW added that peak days are rare and was not convinced that auctions for this product would generate long term investment signals. In addition, this process would create administration costs that could be avoided by increasing the baselines and consideration should be given to the relationship between flexibility and demand. RH responded that this would depend on the auction structure, incentives, and the baselines set by Ofgem.

**Action: Transco NTS to provide information at other demand levels if it felt that future discussions on this topic were required.**

KM queried whether interruptible demand had been included in setting the baselines and that as interruptible sites won't exist in the future would this mean the 1 in 20 figure would increase. RH stated that the baselines had been calculated considering how much storage capability a piece of pipe had and how much gas could be released from it given 1 in 20 demand levels. It did not account for what type of site the pipe was connected to. J.Cox and TM stated that these baselines only took account of investment planned up until 2008. RH responded that investment signals from the regime may trigger incremental investment.

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KM asked if Transco NTS will look at Entry, Exit and Flexibility products together when assessing investment and RH confirmed that this would be the case.

MY asked whether an increase in flat capacity would provide more flexibility product. RH responded that design choices in relation to pipeline sizing and length could lead to no change or an increase or a decrease.

J.Cox observed that if a zonal modal is used there seems to be a need for trading. RH responded that day ahead release was an alternative and that a hybrid would cause more caution for Transco NTS in regard to incremental release.

TM stated that the emphasis should be on Transco NTS releasing as much capacity as possible as their licence obligations related to investment, and not tradability. RH added that licence obligations also required Transco NTS to establish arrangements to secure effective competition between shippers and between suppliers, which could be delivered by allowing the trading of the flexibility product between zones.

SW asked about transferability between zones at Bacton. RH responded that the baseline figures reflected peak day flows.

## **A5 Players in Each Zone**

RH stated the “players in each zone” was intended to reflect offtake asset ownership in each zone and this approach received some support.

J.Cox noted that zone 18 had been allocated a baseline although it was recorded as having no off-takes within the zone. J.Cox stated that this zone could become ‘stranded’ if there was no trading with this zone. MC and SI queried how this zone could have historically had an off-take recorded if there were no off-takes within the zone. RH stated that this could have been because of varying flows through the zone and noted that there was the potential for connections to be made in the future, but would check the data.

**Action: Transco NTS to check off-take numbers in zone 18. Post meeting note – Zone 18 actually includes one Offtake. Slides amended to suit**

SW queried whether Transco NTS would be subject to flexibility overrun charges at exit points. RH stated that if Transco NTS was doing this it was likely to be doing this in response to shippers requesting additional flexibility in other zones.

KM noted that the number of players in zone 1 should be 2 as there were 2 separate legal entities. RH stated that the ‘players’ were those that would be subject to the charges i.e. the owners of the assets but understood the concerns and therefore the slides will be amended.

**Action: Transco NTS to revise the chart**

KM asked whether LDZ offtakes in zones will have different LDZ owners and RH confirmed that this was largely the case.

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Post meeting note: the slides have been updated to reflect the above comments and are being circulated.

**A6 Nodal or Zonal Release**

RH invited attendees to express a preference for the zonal or nodal release models. HB stated that if the baseline flexibility for a zonal model was capped, in order to ensure power stations could purchase enough of the product, she would opt for a nodal model although further information and assessment was needed.

J.Cox expressed a view that the regime should allow parties to secure a small amount of flexibility at a low cost and that a 'hybrid' model between zonal and nodal might deliver this. J.Cox expressed a concern that costs would spiral if a zonal model was adopted and the winners would be DN owners. RH stated that Transco NTS had researched hybrid models and had concluded that they did not deliver what was required. TM stated that the product had been developed to obtain long term investment signals and to ensure non-discriminatory treatment of NTS offtake points and invited Transco NTS's view. RH stated that he felt all the proposals presented had met the relevant objectives.

NW thought that the baselines were the issue and that they should be calculated using seasonal normal demand days rather than peak demand days. NW expressed some preference for a zonal model as there would be less administration costs associated with the auctions. T.De asked what additional flexibility was available on a seasonal normal demand day (SND) compared to a peak demand day.

**Action: Transco NTS to investigate and report on flexibility on SND**

The group felt that there was not enough information available from Transco NTS and Ofgem to reach a consensus on the preferred model. NW added that the product should be developed in line with Ofgem's consultation, which would establish the baseline values. J.Cox suggested there should not be a further meeting to discuss these issues until Ofgem had published this document. T.De stated that Ofgem were not planning to publish their proposal document until Transco NTS had raised a UNC Modification Proposal. RH stated that a proposal could be developed as part of discussions in the workstream. J.Cox requested that historic usage figures be produced to show the maximum, minimum and average usage by month. RH's was sceptical that such analysis would provide any further information of value to assist shippers in determining the relative merits of the proposed models. T.De added that the figures published in Ofgem's initial proposals also applied to the flexibility product. J.Cox stated that there were no indicative figures for flow flexibility and would like to see the baseline capability using seasonal normal demand. T.De commented that a zonal or nodal model could be selected without knowing what the baselines would be. NW stated that as Transco NTS had provided Ofgem with data for a flat product, which had been incorporated within the initial proposals document, perhaps Transco NTS could provide flow flexibility data for each option detailed in Ofgem's document. TM stated that these numbers could only be relied upon if Ofgem gave some assurance that they would use these numbers. T.De stated

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that it was always intended that the incentive scheme be designed around a set of working arrangements to be set out in a UNC Modification Proposal but he would take an action to consider what Ofgem could do to facilitate the process.

**Action: Ofgem to consider issuing information to facilitate the process**

It was noted that more than one UNC Modification Proposal could be put forward and AC asked if Ofgem intended to issue baselines and incentive schemes for each proposal, should there be more than one. He commented that Ofgem may be fettering their discretion if they only intended to formally respond to one proposal. T.De stated that it was not appropriate to comment on this point. TM stated that the shippers would prefer that Transco NTS raise three UNC Modification Proposals in order to get the further information they were requesting. RH added that Transco NTS could raise a UNC Modification Proposal and shippers could respond accordingly. JB pointed out that alternative proposals could be raised under the current Modification rules by any Network Code Party, other than the proposer and there is some precedence for inclusion of options within a Modification Proposal.