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## Transmission Workstream Minutes

Wednesday 15 June 2005

10 Old Bailey, London

### Attendees

John Bradley (Chair)	(JB)	Joint Office of Gas Transporters
Helen Cuiin (Secretary)	(HC)	Joint Office of Gas Transporters
Tim Davis	(TD)	Joint Office of Gas Transporters
Mike Young	(MY)	BGT
Rachel Turner	(RT)	BGT
Stuart Waudby	(SW)	Centrica Storage
Christiane Sykes	(CS)	e.on UK
Mick Curtis	(MC)	E=mc <sup>2</sup>
Phil Broom	(PB)	Gaz de France
David Cox	(DC)	ILEX
Adam Cooper	(AC)	Merrill Lynch
Elaine Calvert	(EC)	NGT
Penny Garner	(PG)	NGT
Robert Cameron-Higgs	(RCH)	Northern Gas Networks
Amrik Bal	(AB)	Ofgem
Claire Rozyn	(CR)	Ofgem
Fiona Lewis	(FL)	Ofgem
Matt Guerrio	(MG)	Ofgem
Nienke Hendriks	(NH)	Ofgem
Peter Dickinson	(PD)	Ofgem
Beverley Grubb	(BG)	Scotia Gas Networks
Steve Gordon	(SG)	Scottish Power
Tanya Morrison	(TM)	Shell
Katherine Marshall	(KM)	SSE
Adrian Fernando	(AF)	Star Energy
Rob Cross	(RC)	Statoil
Steve Ladle	(SL)	Total Gas and Power Ltd
Mark Freeman	(MF)	Transco DN
Peter Close	(PC)	Transco DN
Claire Thorneywork	(CT)	Transco NTS
Eddie Blackburn	(EB)	Transco NTS
Paul Roberts	(PR)	Transco NTS
Ritchard Hewitt	(RH)	Transco NTS
Nick Wye	(NW)	Waterswye Associates
Liz Spierling	(LS)	WWUtilities

## 1 Ofgem Consultation Document “Gas Transmission – new entry points, reserve prices in auctions and unit cost allowances (UCAs)”

Ofgem introduced this document and confirmed the Consultation Response deadline as 30 June 2005, requesting if the deadline could not be met respondents should contact them beforehand. The Authority Meeting set to approve Ofgem’s conclusions was scheduled to take place at the end of July. Following this meeting, a Section 23 notice might be issued.

The reserve price set in many of the Entry Capacity auctions, including the Long Term System Entry Capacity (LTSEC) auctions held each September, are based on Unit Cost Allowances (Gross) (UCAGs), which are calculated by Ofgem from Transco cost data and other information. These were set prior to the first LTSEC auctions held in September 2002 and were based on cost data for 2001. UCAGs for new Entry Points have been the subject of Ofgem consultation in 2003.

Looking forward, Ofgem confirmed it was considering two main options and these were outlined within the document:

- a Review all existing UCAGs before the next long-term entry capacity auction. (Currently scheduled for September 2005)
- b Cap UCAGs at new Entry Points and only revise all UCAGs as part of the next price control (i.e. from 1 April 2007).

In response to a question from the Workstream, Ofgem clarified that it had not excluded the possibility of revising UCAGs at existing Entry Points to become effective in the 2005 LTSEC auctions. It did not view this as a retrospective change as the capacity already purchased in LTSEC auctions would be unaffected.

Whilst Workstream members understood this suggestion, the view was expressed that both Ofgem and Transco had indicated that a period of stability would exist in the entry regime for the duration of Transco’s current formula period. Revising UCAGs within the period was viewed as inconsistent with this indication.

Ofgem emphasised that no decision had been made on the options but recognised that a decision in favour of implementing the first option, for the 2005 LTSEC auctions, would be inconsistent with holding Entry Capacity auctions over a ten business day annual invitation period within September 2005. Transco NTS is required to notify Users of reserve and step prices twenty eight days in advance of the annual invitation period. This, in turn, would indicate that the latest date for a September 2005 Auction notification would be mid August 2005 – only two weeks after Ofgem’s anticipated decision date.

Workstream members indicated, also, that UCAG revisions would affect their bidding strategy and for this reason alone, they would favour delaying the auctions, in the event of such a revision – and some favoured delay irrespective of whether or not there was a revision. A Modification Proposal would have to be raised to change the invitation date of the auction. This date change was discussed further, with a deferment to November suggested, as this would provide better stability for prospective Entry Capacity bidders. It was recognised that any delays and revisions to auction reserve prices would impact on buy quantities, analysis work and authorisation processes.

Transco NTS made a suggestion that it could take an action to consider raising a Modification Proposal to delay the auction date, if Ofgem decided in favour of a change in UCAGs for existing Entry Points. The Workstream discussed alternatives of Transco NTS requesting Urgent procedures or requesting the Panel to reduce the normal timescales to:

- 5 business days for issuing the Draft Modification Report,
- 5 business days for responses; and
- 5 business days for issuing the draft Final Modification Report.

Consensus was reached that a reduced Modification process timescale was the preferred option of the two.

**ACTION. Transco NTS to consider timetable and raise a Modification Proposal.**

In addition to the immediate concerns on timescales, the following issues were discussed:

- Complexity of the entry regime meant that any change would, of necessity, prompt considerable analysis on the part of intending bidders.
- The interactions between Entry and Exit capacity indicated that the two regimes ought to be considered together, particularly if a revision to the UCAGs were intended.
- Continuance of the use of standard (i.e. 9 mscm/day) flow increments, on which the UCAGs of Entry Points were based, was discussed. Ofgem confirmed that it was considering, as an alternative, “bespoke” incremental flows for each Entry Point.
- The 1 in 20 day had been used in Ofgem’s assumptions but it would consider alternatives. Ofgem invited the Workstream members to submit alternative solutions, if deemed appropriate, within their responses.
- Clarification was requested of when a new Entry Point becomes an existing Entry Point and when it gets factored into calculations. Transco NTS clarified that an entry point is only “new” for the first LTSEC auction in which bids in respect of that entry point are invited. For the purpose of UCAG calculations, Ofgem took the view that that new Entry Points should be treated as existing Entry Points from the point at which Entry Capacity had been booked through auctions.
- The potential for regulatory uncertainty in bringing forward a UCAG review, previously intended to take place as part of the next price review. Workstream members emphasised the major cost commitment involved in long-term bookings of Entry Capacity.
- Robust forecasting. For example, concern was expressed over assumptions including interconnector flows. If there were a supply surplus in the UK, the interconnector might export gas into continental Europe even on peak days.
- Network Investment principles - who pays and whether charges are deep or shallow.
- Ofgem highlighted the implications to the Consumer, Shipper and investments. For example, the future pattern of peak flows into the NTS is expected to be different from that anticipated in 2001, not least due to the prospect of LNG supplies at Milford Haven. This would affect the cost reflectivity of entry capacity payments by Shippers, if UCAGs did not reflect the changed flow pattern. Ofgem reminded the Workstream that inaccurate price signals might prompt inefficient investment decisions and these would ultimately impact upon Consumers.
- Whilst recognising this, members of the Workstream stated the belief that Ofgem was underestimating the associated adverse impacts and risks of a UCAG revision. Ofgem stressed that there was an opportunity for Shippers to provide responses on these points in their consultation responses.

Ofgem confirmed that it was aware of the issues discussed and once more invited responses to the consultation document formally raising all the issues discussed at the Workstream.

## **2 Transco NTS Consultation “Review of Incremental Entry Capacity Release Methodology Statement”**

Transco NTS has issued a proposed revision to the above statement on 25 May 2005 which highlighted its proposed changes. Under Special Condition C15 of Transco NTS’ licence, the licensee is obliged to consult with shippers and the deadline for responses to this consultation has been set for 24 June 2005. Responses should be sent to:

Nick Pittarello  
 NGT House  
 Warwick Technology Park  
 Gallows Hill  
 Warwick

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CV34 6DA

Email [nick.pittarello@ngtuk.com](mailto:nick.pittarello@ngtuk.com)

Transco NTS gave a presentation that summarised the revisions and invited questions from the Workstream.

A number of the Workstream members were concerned with Transco's proposals, in respect of new Entry Points, where a lead-time in excess of three years was required. Whilst the Workstream recognised that there are projects of this nature, Transco NTS should be expected to identify them prior to the auction taking place. Where this has not been achieved, Transco NTS should be prepared to accept the risk of buy-back purchases. Whilst not accepting this view, Transco NTS agreed to consider its position, if this view were reflected in the consultation responses.

AF raised the following issues:

- The investment costs had increased from those set out in the July 2004 document. Transco NTS confirmed this and referred to recent increases in steel prices as an example of cost increases that contribute to investment costs.
- The allocated costs were capped at zero. Transco NTS explained that pipelines were not abandoned if it were established that there was surplus entry or exit capacity. It was, in its judgement, unrealistic to apply a negative cost within the allocation. AF concluded that, in his opinion, Transco NTS was applying an economic, rather than mathematical, measure at these points. Transco NTS pointed out that this was not a change as the zero capping principle was included in the 2004 document.
- The textual change from 40 to 45 years was confirmed by Transco NTS as being a correction to the 2004 document. Transco has historically based this type of investment, and the associated LRM calculations, on the assumption of a 45 year asset life.
- Transco NTS confirmed that NTS Supply Points were not aggregated into LDZ Exit Zones but held as separate Exit Zones.

### **3 Topic 004TR "Emergency Arrangements"**

#### **3.1 UNC Urgent Modification Proposal 0021 "Revision of Emergency Cash-out Arrangements"**

On behalf of Transco NTS, EB presented a proposed Energy Interruption Volume (EIV) Calculation Methodology. At the onset of the presentation, Transco NTS emphasised that its proposal would apply only to a Gas Deficit Emergency, not a Critical Transportation Constraint Emergency.

The concept of an EIV was relevant, primarily, to the second part of this Urgent Modification Proposal that had been raised by Transco NTS. Whilst this information had been circulated, TD stated that the already issued Draft Modification Report would not be amended to include this additional information - such an amendment would not conform to the current Modification Rules.

Transco NTS was asked whether it was proposing that this methodology would form part of the UNC. It responded by stating that this was not its intention. However, it would follow the methodology stated within its document and inform Users of any change.

Some concern was expressed with respect to Transco NTS' proposal, that shippers would have an obligation to provide the division method for calculating the EIV, within an hour of the onset of interruption.

The Workstream also discussed the applicability of the existing appeals process. An appeal could not be lodged, under the current UNC rules, if an emergency did not proceed past Stage 1 of the Gas Supply Emergency procedure. Thus, there would be no opportunity for an appeal to be made in respect of the consequences of an EIV trade unless the emergency proceeded to Stage 2. Even if the event of an emergency proceeding to these later stages, the appeal would only apply to Users that had a surplus imbalance on their daily allocation account. Transco NTS suggested that if this

was a concern, a further Modification Proposal could be raised. Workstream members asked whether the Modification Proposal could be amended in order to include changes to the appeals criteria. TD cautioned against making an amendment that would considerably add to that already proposed. It was debatable whether this would be consistent with the principles embodied within the Modification Rules.

It was pointed out that the proposal has two distinct elements and that it would be possible, for example, to progress with the cash-out price element without including the EIV element. Transco NTS responded that it saw a strong commercial linkage between these two elements and therefore would not support separation of the two elements.

JB then went through the Draft Modification Report particularly emphasising those issues that had been raised by the Subject Matter Expert (SME).

In response to the SME's request for examples of the consequences of emergency interruption when the User's position is balanced, long and short, Transco NTS identified that it intended to supply this information in its response.

Transco NTS also identified that a detailed system impact assessment had not yet been conducted but it did not believe that these would be major. Similarly, it did not at this stage have anything to add in terms of operational implications to that already summarised in the Draft Modification Report.

### **3.2 Proposed Changes to UNC Section Q: Emergencies**

At the previous meeting of this Workstream, Transco NTS had made a presentation on the effects of implementation of Network Code Modification Proposal 0710 "Removal of Top-up Arrangements" and of the DN Sales. Transco NTS had identified at this meeting the possibility of raising a UNC Modification Proposal to align Section Q with the revised Safety Case. Transco NTS outlined the scope of the Proposal required and circulated a copy of a draft proposal.

JB identified that Transco NTS' draft assumed that the July Panel would agree for the Proposal to be sent to consultation. He suggested that the Panel would expect the relevant business issues to have been discussed within the Workstream if it were to agree to this. It was agreed, therefore that this should be discussed under the relevant Topic Heading at the next Transmission Workstream (6 July 2005). To facilitate discussion, Transco NTS agreed to provide draft legal text.

**ACTION. Transco NTS to provide legal text prior to July Workstream.**

## **4 Third Party UNC Modification Proposal 006 "Publication of Near Real Time Data at UK sub-terminals"**

Ofgem were conducting an Impact Assessment prior to reaching a conclusion on this Proposal. The associated Consultation Document was issued 27 May 2005 for responses by close of business 24 June 2005.

Section 5.8 of this document sets out a comparison between the provisions of the Modification Proposal with that contained within the DTI information initiative particularly phase 3 category 1. It considered that "the current draft text is ambiguous in the timing of information release and would welcome respondents' views on the clarity of this text." It also referred to Transco NTS' offer to discuss the draft legal text "at a modification workstream for further industry consideration." The draft legal text is included in Appendix 2 of the Consultation Document.

Transco NTS suggested that the objectives of this Proposal would be served if hourly quantities were published shortly after completion of that hour. Whilst the proposer (energywatch) was not present, NW confirmed that WWA had been involved in supporting analysis and offered to contact the proposer on this issue. NW did, however, express the view that Transco's suggestion was unlikely to meet the proposer's aspirations and discussion proceeded on alternatives of say 15 minutes rather than an hour. A comparison was made with the Stock Exchange trading system where a time lag has been adopted to reduce the potential for undesirable volatility. It was pointed out, however, that a lag of a certain time period is not the same as producing aggregate volumes at fixed intervals.

**Action: NW to contact the proposer to clarify requirements.**

**5 Future Diary – July Workstream (Note date and location change)**

**Date:** Wednesday 6<sup>th</sup> July 2005

**Start Time:** 10:00 am

**Venue:** [77 Oxford Street](#)