

**DN Interruption Seminar Minutes**  
**Tuesday 19 August 2008**  
**Ofgem Offices, 9 Millbank, London SW1P 3GE**

**Attendees**

|                      |       |                                  |
|----------------------|-------|----------------------------------|
| Tim Davis (Chair)    | (TD)  | Joint Office                     |
| John Bradley         | (JB)  | Joint Office                     |
| Andy Casper          | (AC)  | National Grid Distribution       |
| Alison Meldrum       | (AM)  | Corus                            |
| Alex Wiseman         | (AW)  | Northern Gas Networks            |
| Brian Durber         | (BD)  | E.ON UK                          |
| Bruce Toper          | (BT)  | GlaxoSmithKlein                  |
| Cesar Costa-Lima     | (CCL) | Eni UK                           |
| Clare Gibney         | (CIG) | NHS Purchasing and Supply Agency |
| Cynthia Granger      | (CyG) | Wingas                           |
| Claire Harris        | (CH)  | RWE                              |
| Clare Temperley      | (CT)  | Gas Forum                        |
| Carol Williams       | (CW)  | StatoilHydro                     |
| David Page           | (DP)  | Pfizer                           |
| Edward Lawns         | (EL)  | SSE                              |
| Eddie Proffitt       | (EP)  | Major Energy Users Council       |
| Gareth Davies        | (GD)  | Chemical Industries Association  |
| Gareth Evans         | (GE)  | WatersWye                        |
| Graham Jones         | (GJ)  | IPA Energy and Water Economics   |
| Jemma Woolston       | (JW)  | Shell                            |
| Lewis Hodgart        | (LH)  | Ofgem                            |
| Mark Freeman         | (MF)  | National Grid Distribution       |
| Natalie Roberts      | (NR)  | Pfizer                           |
| Paul Branston        | (PaB) | Ofgem                            |
| Phil Broom           | (PhB) | Gaz de France                    |
| Peter Curtis         | (PC)  | British Gas                      |
| Peter Halliwell      | (PeH) | RWE                              |
| Phil Hindmoor        | (PhH) | Innovia Films                    |
| Russell Cooper       | (RC)  | National Grid NTS                |
| Robert Cameron-Higgs | (RCH) | Northern Gas Networks            |
| Richard Dutton       | (RD)  | Total                            |
| Richard Street       | (RS)  | Corona Energy                    |
| Simon Carter         | (SiC) | Shell                            |
| Steve Chambers       | (StC) | Wingas                           |
| Steve Edwards        | (SE)  | Wales & West Utilities           |
| Stefan Leedham       | (SL)  | EDF Energy                       |
| Steven Sherwood      | (SS)  | Scotia Gas Networks              |
| Simon Trivella       | (ST)  | Wales & West Utilities           |
| Tony Bailey          | (TB)  | Ofgem                            |
| Tim Mutton           | (TM)  | StatoilHydro                     |
| Tony Pearson         | (TP)  | Northern Gas Networks            |
| Terry Tippell        | (TT)  | SSE                              |

**1. Introduction**

TD welcomed attendees to the meeting and thanked Ofgem for providing a meeting room.

## **2. Results from June 2008 Interruption Bids**

### **2.1 National Grid Distribution**

MF gave this presentation. He explained that due to the low number of bids per location (ie less than three) the results of the June auction were only being provided on an LDZ basis, as specified in the UNC. National Grid Distribution would be available to discuss the results in more detail with individual Users. The aggregated bids included linked bids so the disaggregated bids gave a more realistic picture of the potential quantity of interruptible capacity offered.

PhH commented that the published results gave limited information on price for the purpose of pitching bids. MF explained that this was as agreed during the Modification Proposal 0090 development process - publication of specific bid information was suggested but rejected as a principle due to confidentiality considerations. ST pointed out that a UNC Modification would be required to change the extent of information published if there were confidentiality issues.

GE suggested that the information published by each of the DNs was different. The DNs stated that they had tried to retain consistency but agreed to investigate what more information could be provided without breaching confidentiality.

BD suggested that each tender should have the same framework. This received general support. He mentioned, for example, that DNs had different provisions for accepting linked bids and that this was unhelpful to Users.

CIG asked why bids in East Midlands LDZ had not been accepted and whether National Grid Distribution had any realistic hopes that bids would be acceptable this time. MF stated that bids had not been accepted if reinforcement would be cheaper than the cost of the interruption offered, or if the volume and/or number of days offered was insufficient such that reinforcement would be necessary irrespective of whether any bids had been accepted. National Grid Distribution would be willing to give more precise feedback to individual Users regarding why any particular bid had not been accepted.

RS questioned whether, considering the costs involved in tendering, there was sufficient benefit to justify conducting an Ad-Hoc auction. The DNs responded that they considered an Ad-Hoc auction worthwhile. PhB asked whether one of the lessons learned was that a multiple round auction would have been better. RCH responded that all the DNs were considering a number of lessons learned with a view to implementing any change but that the forthcoming Ad-Hoc auction would necessarily use the existing UNC requirements.

EP believed that the expression "Ad-Hoc" was misleading and that the Ad-Hoc auction process was not being used in the way indicated during the Modification Proposal 0090 development process. MF acknowledged that the UNC provision for Ad-Hoc arrangements may not have been intended for holding auctions across all DNs but the UNC as written does not prevent this outcome.

PhH repeated that he did not believe that the Ad-Hoc auction would produce any further bids, but BT suggested that some further bids may be made.

CCL asked whether there was a minimum threshold of bid numbers below which the auction would be cancelled. The DNs responded that there wasn't and they would go ahead even if there was an indication that numbers were small.

RS asked whether the DNs had taken into account the cost to Users in making bids. SE responded that reinforcement would involve costs to Users and so they still considered it correct to invite Users to tender in this way prior to committing to reinforcement.

GE asked whether in some locations there were insufficient bids even if all offers had been accepted. The DNs confirmed that there were some locations of this nature. AW, responding to requests for changes in the auction practice, reiterated the restrictions of timescales for the Ad-Hoc auction but agreed that some changes could be put in place for 2009.

BD asked when the decision would be made to reinforce? AW responded that for 2 or 3 zones in the NGN network a decision would have to be made very soon but for others the decision could be made in twelve months time. Other DNs stated that they were in a similar position.

EP pointed out the numbers: 1200 sites were currently interruptible but only 200 had bid and most of those were not accepted. The DNs responded that they were generally satisfied that a good number of bids had been received and suggested that the numbers quoted did not of themselves indicate that the principle was flawed.

LH suggested that whilst the DNs were not anticipating major changes in the number and extent of bids made, small changes in quantities at specific locations would in some cases remove the need for reinforcement.

RD suggested that alternative processes might produce better results, for example having reserve prices. LH responded that Ofgem had not been asked to decide on this as no alternative of this nature was put forward when Modification 0090 proceeded to consultation.

BD asked how GB would be placed in an emergency if, due to lack of economic bids, reinforcement took place and the interruptibles currently relied on to come of the system first were firm. LH pointed to the requirements of DNs agreeing their own Safety Case and the requirement for an NEC Safety Case. EP referred to repeated requests for information on the Safety Case discussions but these had not been answered. He also referred to the lack of publication of reinforcement costs. MF referred to information to be provided by Ofgem on this but acknowledged that any suggested additional capex allowances would not be published until after the Ad-Hoc auction. ST stated that publishing indicative prices prior to the Ad-Hoc auction would potentially be regarded as unfair to Users whose bids had been accepted in the initial auction.

## **2.2 Northern Gas Networks**

TP gave this presentation. There were no comments or questions.

### **2.3 Scotia Gas Networks**

SS gave this presentation. In the Southern Network, Scotia Gas Networks were seeking to avoid major project investment but no bids were acceptable. He felt that some bids included a very high exercise price and suggested that use of the calculator designed by Wales & West Utilities might assist Users in finding an appropriate level.

GE suggested that publicising the extent to which the bids were insufficient on a location by location basis would be helpful. ST responded that this information could be made available as far as Wales & the West were concerned. SS stated that the DNs would be willing to share this information on an individual basis when providing auction feedback and believed that economic bids might result from this in certain locations.

Scotia Gas Networks have taken into account the latest demand forecast and, as a result, will not be seeking tenders for two of its zones in the Ad-Hoc auction. RD suggested that this indicated the phasing of forecasting and auctions was wrong. SS did not agree with this but confirmed that DNs kept demand forecasts and the assumptions behind them under review. He emphasised that reductions in Annual Quantity would not necessarily lead to a commensurate reduction in peak demand. Attendees acknowledged this but stated, for example, that investment in insulation to improve energy efficiency would affect both.

CIG expressed concern that delaying requirements by a year might lead to current interruptible consumers scrapping back-up fuel options. PhH stated that uncertainty about demand could lead to consumers loading the option price rather than their exercise price. There followed a discussion on the criteria for accepting bids and the account taken of option and exercise prices. CG suggested that this becomes irrelevant when there are insufficient bids in total.

EP pointed out that demand forecasting uncertainty can work both ways but a reduction of the scope for interruption would increase the risk of not meeting firm demand. All the DNs expressed confidence that their networks would be capable of meeting 1 in 20 firm demand and emphasised that this was a licence obligation.

In response to a question from AM, SE confirmed that a re-opener existed in the Distribution Price Control if investment was required due to lack of efficient bids. However, the DNs had to show that such investment was efficient which incentivised them to seek options to contract for interruption.

### **2.4 Wales & West Utilities**

ST gave this presentation. PhB asked whether the DNs have tools available other than DN Interruption and investment. ST stated that they did take into account other options, such as NTS flexibility booking, but this did not materially affect the decisions taken to date.

ST confirmed that demand forecasts are based on booked capacity, not bottom stop SOQ.

**3. October 2008 Interruption Bid Window**

ST outlined the key dates for the Ad-Hoc auction. TD asked the meeting, other than reserve prices as discussed previously, what additional information would be helpful to make the process as successful as possible. GE responded that reasons for not accepting bids at zonal level should be provided. GE also suggested that consistency in the units used would assist as there were some differences between the DNs – which the DNs agreed to investigate.

ST clarified that no DN intended to conduct a further Ad-Hoc auction prior to the 2009 Annual Auctions. Nor would the DNs consider individual arrangements outside the UNC.

GE suggested that there should be a further discussion on what information could be provided at the next Distribution Workstream.

**4. Any Other Business**

None.