

Commercial Interface Working Group Minutes

Meeting 1

27 January 2004, 10:00 am – 4:00 pm

Ofgem's offices, 9 Millbank

Attendees

Nick Wye	Waters Wye Associates	Sharif Islam	Total Gas & Power
Mike Pearce	Independent Pipelines	Christiane Sykes	Powergen
Phil Scott	HSE	Stuart Hunter	BG Connections
Mark Sutton	National Grid Transco	Bob Bruce	Glenton Bruce Ltd
Paul Whittaker	National Grid Transco	Alison Cooney	Scottish Power
Nigel Sisman	National Grid Transco	Robert Cross	Statoil
Mike Ashworth	National Grid Transco	Julie Cox	AEP
Russell Cooper	National Grid Transco	Mark Feather	Ofgem (chair)
Beverley Grubb	SSE	Kyran Hanks	Ofgem
James Smith	Electricity de France	David Ashbourne	Ofgem
Mike Young	British Gas Trading	Jess Hunt	Ofgem
Eddie Proffitt	MEUC	Jason Mann	PA Consulting
Rekha Patel	Conoco Phillips	John Houlden	Burges Salmon
Steve Rose	RWE Innogy		

Role and composition of group

Mark Feather welcomed the group and said that although the Commercial Interfaces Working Group¹ was oversubscribed, Ofgem had decided to invite all those who had nominated to ensure that all interested parties could express their views.

Mark gave a presentation setting out Ofgem's view of the role of the group.² In Ofgem's view, the role of the group is to develop commercial interface arrangements between NTS and DN in 7 key areas: NTS and DN exit and interruption arrangements, capacity availability and investment planning, treatment of diurnal storage, shrinkage, gas quality, emergencies and interface metering.

Mark noted that Ofgem is working towards presenting proposals to the Authority in April and that the views of the CIWG will inform the development of these proposals. Ofgem's aim is to resolve policy 'gateways' and where possible, develop business rules for commercial arrangements by end of March.

¹ Ofgem has changed the name of the Exit and Balancing working Group to the 'Commercial Interfaces Working Group' because the scope of the issues to be considered by the group is broader than exit and balancing. Rather, the group will consider the commercial aspects of the relationship between the DN and the NTS.

² The presentation will be made available on the Gas Distribution Network Sale area of work on Ofgem's website.

Mark drew the group's attention to the Next Steps document which indicates that there can be no expectation on the part of interested parties arising out of the group process, either as to what the Authority's decision may be, or as to the revised regulatory framework which may be implemented, if the Authority consents to the proposal. Mark noted, similarly, no expectations with regard to the views of CIWG members should arise from the group process and that the group is merely intended to be a forum for discussion to facilitate policy development. Mark also stated that any conclusions reached by the group would not be binding on the Authority.

There was a discussion of the scope of the work to be considered by the Commercial Interfaces Workgroup and its Terms of Reference. Some participants considered the group's terms of reference to be excessively broad. Others indicated that the group should focus on developing a high level policy framework. Changes to the group's terms of reference were agreed to reflect this (see below).

There was a discussion of the roles of the CIWG and the exit capacity workstream. Russell Cooper expressed concern that if the CIWG replaced the exit capacity workstream, then it may not be possible to go into the amount of detail required to deliver exit reform. Paul Whittaker indicated that, given timing constraints, NGT were keen to develop business rules for the offtake code at the NTS/DN interface. He said that it was appropriate for the group to aim to deliver a road map for reform rather than to seek to resolve each of the exit capacity reform issues.

Kyran Hanks indicated that it will be necessary to have an established framework for the new commercial interface and timetable for implementation before Ofgem can form a view on whether a sale will benefit customers, while the detail of the arrangements could be finalised after this time. Kyran indicated, however, that a framework for exit reform should be developed through the CIWG process within the context of a potential sale and that Ofgem did not believe it was appropriate to address exit reform as a longer term issue on a separate timeline.

The group agreed to reconsider the role of the exit capacity workstream (and whether it is appropriate for that group to address some of the more detailed issues arising from the CIWG) at the next CIWG meeting.

Action 1: Group to discuss relationship between CIWG and the exit capacity workstream at CIWG meeting 2.

Terms of reference

The group agreed to adopt the draft terms of reference as set out in Appendix 1 of Ofgem's Next Steps document, subject to the following changes:

1. References to the Exit & Balancing Workgroup to be changed to the Commercial Interfaces Workgroup.
2. The first terms of reference to be amended to "Develop *high level* proposals to consider, and where necessary, resolve each of the following issues".

Action 2: Jess Hunt to amend terms of reference and publish on Ofgem's website.

Issues log

The group reviewed the issues log (tabled at the meeting). Group members were invited to come back to the next CIWG meeting with any views they have on the accuracy and comprehensiveness of the issues log. Mark indicated that the issues log would be placed on the Ofgem website.

Action 3: Participants to review issues log and provide feedback.

NGT presentation on exit reform

Russell Cooper gave a presentation setting out NGT's view of the progress of the exit capacity workstream in relation to the pricing of interruptions and the contractual arrangements for exit and interruptions.³

Russell presented a model of interruptions pricing whereby DN customers could seek to become interruptible using one of two processes: a matrix process and an application process. The group raised a number of issues relating to the application process, including the extent of market power problems at DN supply points and the potential for NGT to need to undertake large additional investment if customers who are currently interruptible decide (or are required) to go firm.

Russell described how the workstream has considered a variety of contractual arrangements, and that the preferred approach was one where the DN would book NTS capacity on behalf of all DN customers. Russell noted that this approach was conceptually simple, however, it may give rise to additional complexity in the DN licence as it will be necessary for the DNs to be incentivised to book an appropriate level of NTS capacity.

Julie Cox noted that the proposed model was one where there was a single SO for gas balancing purposes but a multiple SO for constraint management purposes. Mark Feather said that next week's DISG meeting was intending to discuss the relevance of the BETTA model in the context of the DN sales. Mark stated that, under this model, Transco would act as GB system operator, responsible for energy balancing and constraint management across both the NTS and the DNs. He said that the conclusions of that debate were likely to influence the way forward with respect to exit reform.

NGT presentation on the offtake code

Mark Sutton gave a presentation on NGT's proposals for the offtake code, which would define the relationship between the NTS and the DN.⁴ In particular, it would define the arrangements at NTS offtake points with the DNs. Mark indicated that in preparing its draft offtake code NGT has sought primarily to codify existing practices that exist between the NTS and DNs.

³ The presentation will be made available on the Gas Distribution Network Sale area of work on Ofgem's website.

⁴ See above.

NGT's draft offtake code assumes that NGT would operate each IDN's network on behalf of the IDN for a transitional period under the terms of a System Operation Managed Service Agreement (SOMSA).⁵ After the transitional period, the IDN would be expected to establish its own control centre, however, RDNs would continue to be controlled from NGT's Hinckley control centre. Eddie Proffitt questioned whether this arrangement would give NGT the opportunity to discriminate against IDNs. The group noted that although NGT would have a cost advantage, the key relationship was between the NTS and DNs (not between DNs), and consequently inappropriate discrimination may not necessarily be expected to arise as a result of NGT controlling all RDNs from Hinckley. Mark Feather indicated that one of the key issues to be addressed in relation to preventing discrimination relates to regulating information flows between the NTS and the RDNs.

The group also discussed offtake rights and how to ensure that the NTS and the DNs receive appropriate investment signals.

Mark Sutton noted that in order to maintain consistency with the current price control, the offtake code does not propose to set charges for diurnal storage (or, indeed, for other balancing services provided by the NTS to the DNs). However, he noted that it is likely to be desirable to introduce diurnal storage charges at the next price control review in order to enable both the NTS and the DNs to trade off the costs of diurnal storage against the costs of using other network management tools or physical network investment.

Next meeting

The next CIWG meeting was tentatively scheduled for Wednesday 4 February, depending on the outcome of the BETTA debate at Tuesday's DISG meeting.

Action 4: Ofgem to present its view on exit reform at the CIWG meeting 2.

⁵ Mark indicated that SOMSA charges would be set at historical cost.