

DN Sales Development & Implementation Steering Group Minutes

Meeting 7

23 March 2004, 9:00 am – 2:00 pm

Ofgem's office, 9 Millbank

Attendees

Tory Hunter	Scottish & Southern Energy	Simon Goldring	British Gas Trading
Farook Khan	Ofgem	Paul Whittaker	National Grid Transco
Sonia Brown	Ofgem	Mike Ashworth	National Grid Transco
Jess Hunt	Ofgem	Nigel Sisman	National Grid Transco
Mark Feather	Ofgem	Chris Train	National Grid Transco
John Smith	Burges Salmon	Sue Higgins	National Grid Transco
Jason Mann	PA Consulting	Nick Wye	Waters Wye Associates
Pascal Habay	PA Consulting	Helen Bray	EDF Energy
Russ Ward	Independent Pipelines Ltd	Peter Bolitho	Powergen

Apologies

Apologies were received from Eddie Proffitt, Neil Shaw and Charles Ruffell.

1. Review of minutes from previous DISG meeting held 9 March 2004

Paul Whittaker noted the 4 week consultation process associated with the agency and governance RIA and the roles and responsibilities of DN's RIA would close by the end of May, not by July. Jess Hunt agreed to amend the minutes accordingly.

Peter Bolitho informed the group that the Gas Forum had decided to commission a study of the potential costs to shipper associated with industry fragmentation. He also suggested that the timeframe for Ofgem's agency and governance RIA was very tight. He said that shippers were finding it difficult to complete the pro forma survey of shipper interface costs (which Ofgem circulated to shippers on Friday 5 March for reply by Friday 12 March).

2. Actions from previous meeting

Jess Hunt reported that no comments were received on the minutes of DISG 5 (which has been tabled at DISG 6). Further, Ofgem had not received any e-mails from group members seeking to discuss new issues associated with the roles and responsibilities of DN's.

Sonia Brown asked group members to provide comments on Transco's paper on the differences between the options for the allocation of roles and responsibilities between the NTS and the DN. If no comments were received, Ofgem would adopt Transco's paper as the correct interpretation of the differences between the various options.

ACTION: Group members to provide comments (if any) on Transco's paper on the differences between the options for the allocation of roles and responsibilities between the NTS and the DN.

Each other action from the previous meeting was scheduled to be presented and debated as a part of the current meeting.

3. Reports from workgroups

(a) Regulatory Architecture Workgroup

Farook Khan indicated that the RAWG has been considering the changes required to Transco's licence conditions, and had focussed in particular on conditions relating to charging methodologies. He said that the next RAWG would consider the changes required to the network code.

(b) Commercial Interfaces Workgroup

Mark Feather reported that the CIWG has been focussing on options for exit reform. He said that the previous meeting had considered long term exit capacity auctions, and that a number of key areas for further investigation had been identified:

1. the impact of a more complex exit regime on wholesale and retail competition
2. the definition of zones (geographic, pressure tiers);
3. Treatment of 1 in 20 investment obligations; and
4. Systems implications and registration obligations.

Mark said that the next CIWG meeting would discuss the options for exit reform developed in the workstream.

(c) Agent Workgroup

The agency group had not met since the previous DISG, however, a meeting was scheduled for Friday to discuss options for the agency and the implications for IT systems.

Simon Goldring suggested that since the Agency Workgroup tended to specialise in supply point administration, it might not be well equipped to assess the broader agency proposals. Sonia Brown responded that the workgroups' composition reflects the competencies required to deal with issues discussed. She added that the DISG has been considering the agency proposals as well as the Agency Workgroup.

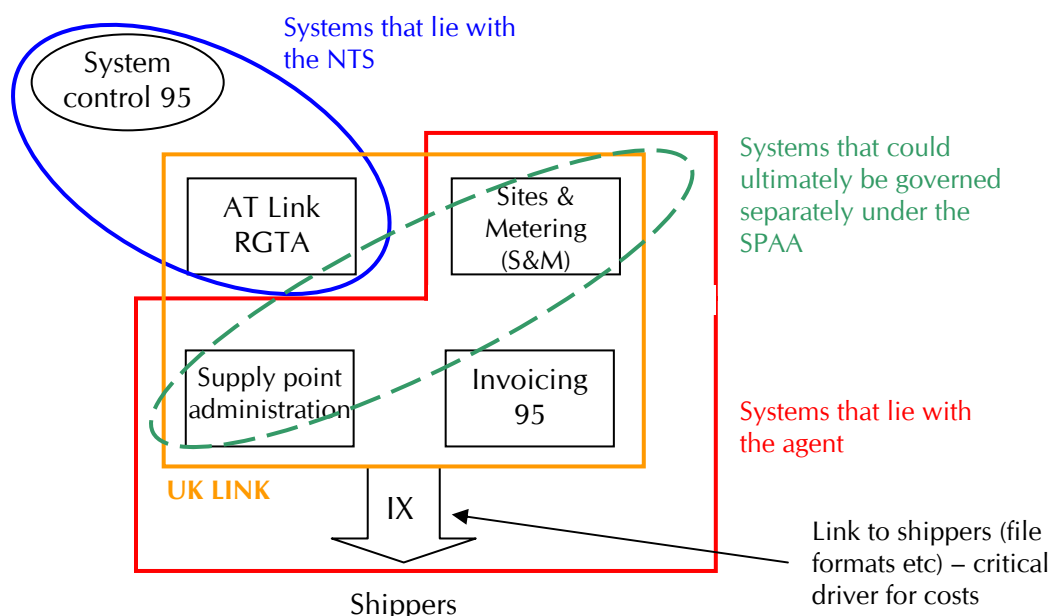
4. Governance and the role of the agency

Transco's explanation of how its proposal for the agent would impact on its IT systems

Chris Train described the various systems at the interface between NGT, the proposed agency and shippers. He said that the system underlying the services performed by Transco (including the services that would be discharged by the agency) is composed of four integrated modules (AT Link/RGTA, Supply Point Administration, Sites & Metering Database and Invoicing 95) plus one external module for data acquisition (System Control 95). The IX network ensures communication with the shippers and is the critical cost driver for shippers. System Control 95 is a tool that, amongst other things, measures network pressures at inputs and offtakes and provides Transco with a real time picture of the state of its network.

Chris drew a sketch (reproduced below) that demonstrates how responsibilities for each system would be allocated between the NTS and the agent under Transco's proposals.

Figure 1 Transco explanation of the allocation of systems between NTS and agent



Chris said that, in Transco's view, the principle of accountability implies that each entity should retain ownership of the systems that support their business. Transco therefore proposes to retain ownership of the system that processes physical data for the purpose of balancing the network. The agency would own the systems supporting supply point administration and commercial data. This rationale entails a split in the ownership/management of the integrated UK Link system between NGT and the Agency. NGT will retain ownership of AT Link/RGTA and the Agency will obtain ownership of SPA, S&M, Invoicing 95 and IX network. In future, Chris stated that the SPA and S&M modules could be shifted to separate governance procedures under the Supply Point Administration Agreement.

Chris also stated that despite the split in ownership, the integrated system and IX network processes would still be under the governance of the UK Link manual and UK Link committee. Chris said that the services provided through the UK Link system were required under the network code, and consequently any proposals for fragmentation of these services would need to be considered in the context of network code governance.

Peter Bolitho questioned the extent to which governance procedures could prevent fragmentation. He considered that fragmentation was inextricably linked to structure, and that RGTA should not be split from the initial coherent integrated system. He preferred to transfer all UK Link services to the agent.

Transco said that RGTA supports the physical balancing of the transmission network and should remain within the NTS, in accordance with the principle of accountability. Chris Train also reiterated that fragmentation concerns could be addressed through effective governance.

Peter Bolitho suggested that the agency should be responsible for settlements, similar to Elexon in the power industry. He stated that all SO and settlement systems should be in one place under the management of one entity.

Nick Wye noted that under the current arrangements, all systems are encompassed by a single contract between Transco and shippers. Consequently, there is no opportunity for problems to arise that are outside the scope of shippers' contract. He suggested that the electricity industry is an example of an approach where systems have been split between entities (e.g. BSC and MRA), and the split has not meshed very well. Nick said that since file formats drive shipper costs, concerns regarding fragmentation can be addressed through a single governance mechanism.

Paul Whittaker suggested splitting an existing integrated system was likely to be less problematic than attempting to mesh separate systems operated by different entities. He said that shippers would be protected from adverse impacts through the governance arrangements that apply to changes to IX file formats, and that behind this interface, the systems should be organised in the most efficient way.

Simon Goldring questioned whether shippers would be able to ensure that obligations were fulfilled if there was fragmentation of responsibilities behind the primary shipper interface.

Presentation of options for the Agency

Jason Mann gave a presentation outlining options for the agency. Each box in the presentation represented a "doing" activity rather than an obligation to perform the activity. According to the network code, the obligations remain with the network operators. Under the proposed arrangements, the agency discharges the network operators' obligation.

Jason described three potential options for governance and agency with the following characteristics:

- ◆ Option Alpha matches NGT's proposal, as discussed at previous meetings.
- ◆ Option Beta introduces a governance entity to administer the network code and the transmission and distribution charging methodologies. Option Beta also raised a separate question of whether credit and cash collection should be assigned to the agency or network operators.
- ◆ Option Gamma differs from the other options in that demand estimation and connections services are performed by the agency rather than by DNs. These changes were made because shippers have suggested that the development of customer profiles needs to be developed by a neutral entity, and that there are benefits associated with having a uniform connection standard.

In response to a question from the group, Transco advised that demand estimation involved calculating end user category algorithms in order to allocate demand between users for transportation charge invoicing purposes. Demand derivation involves long and short term demand forecasting for system operation processes. It is also an input to the demand estimation process.

The group discussed the governance procedures that apply to the network code and NTS and DN charging methodologies. Peter Bolitho suggested that the Modification

Panel should have a role in making recommendations to Ofgem on whether to accept or reject a modification to the Network Code. Mike Ashworth suggested that this approach would require a change to Transco's licence conditions. Chris Train stated that having the governance entity manage the charging methodology changes was adding an unnecessary overhead. Sonia Brown responded that such a structure would help to ensure non-discrimination.

Chris Train asked how the agency and governance entity would be governed. Sonia Brown indicated that they would remain a part of Transco until the next price control, however the issue requires further consideration by the workgroups.

Comments and preferences on the Agency options

Sonia Brown asked for comments and preferences for the agency options bearing in mind criteria such as cost mitigation, non-discrimination and other objectives, such as facilitating competition in connection.

Peter Bolitho expressed his preference for the Gamma option. In his view, it provides the best safeguard for the shippers because it avoids structural organization issues, avoids fragmentation going forward and retains an integrated system. Peter considered that the other two options did not meet these criteria. Peter expressed particular concern that Transco retains a dominant role in network code governance under Option Alpha. He suggested that shippers need some form of control over changes to the network code, and that they should have a seat on the board of the governance entity.

Chris Train expressed Transco's preference for Option Alpha on grounds that it best promotes accountability, responsibility and efficiency. Chris said that Transco considered the second best option to be Option Beta, however, he emphasised that credit and cash collection is a fundamental part of running the business and therefore it should be part of each DN's business.

Nick Wye expressed a preference for Option Beta. He suggested that the ownership of the agency and governance was likely to be a key issue, and that whilst he preferred an approach where network operators control the entity, he was prepared to consider sharing control with shippers in the long term. He said that it was important that IDNs receive assurance that the agency will act on their behalf. Chris Train said that IDNs would receive such assurances through the shareholder agreement.

In response to a question from Nigel Sisman, Sonia Brown indicated that the governance entity is separate from the agency for reasons of non-discrimination. Paul Whittaker stated that the non-discrimination concern is not significant as DNs will be able to complain to Ofgem if they have any concerns about Transco's conduct under the Network Code, which would effectively deter Transco from any anti-competitive conduct.

Peter Bolitho acknowledged that price control regulation of the entity could mitigate against the risk of cost escalation, however, he preferred an approach where shippers have a voice on the board.

Tory Hunter preferred Option Gamma on grounds that it is similar to the BETTA model.

Helen Bray said that centralised credit and cash collection was key for shippers, and she supported Option Gamma on that basis. Helen said she would be more inclined to consider Option Beta if the credit and cash collection was assigned to the agency.

Mark Feather indicated that there is a presumption that the network owners are best placed to manage charge, credit and cash collection. Simon Goldring suggested that this presumption is contradicted in the electricity industry by BSC trying to move to single party credit arrangements. Simon favoured Option Gamma. He reiterated concerns about industry fragmentation and expressed doubt as to the level of protection to shippers afforded by governance arrangements alone.

Sonia Brown stated that those who support having cash collection undertaken by the agency would need to indicate why they believe this would mitigate costs. Sonia Brown asked whether shippers would be more comfortable with the proposals if they had a right of appeal. Peter Bolitho said that shippers would feel more comfortable if they had a right of appeal, and that was why it was important for recommendations on network codes modifications to be made by the Modification Panel rather than by Transco.

ACTION: Group members to provide to Ofgem by Monday:

- ◆ confidential submissions on the costs associated with multiple credit arrangements;
- ◆ confidential submissions on the costs that would be mitigated by having the agency take on the role of directing shippers/suppliers to the correct DN for the purposes of connections;
- ◆ any other submissions relating to the issues discussed at the meeting.

5. Legal separation

The discussion of legal separation was postponed until the next meeting.

6. Any other business

Peter Bolitho said that the Gas Forum, MEUC and AEP had collaborated to put forward a common paper that sets out their view on the principles that should be used to guide the DN sales process. He indicated that the paper has wide support across industry. Sonia Brown noted that the paper was available on Ofgem's website.

Simon Goldring requested that the next DISG reviews the issues log.

ACTION: Group to review the issues log at next meeting.

Next meeting

The next meeting will be held at Ofgem on 6 April 2004