

Commercial Interface Working Group Minutes

Meeting 6

14 April 2004, 10:00 am – 12:00 pm

Ofgem's office, 9 Millbank

Attendees

Rekha Patel	Conoco Phillips	Phil Scott	HSE
Eddie Proffitt	MEUC	Christiane Sykes	Powergen
Beverley Grubb	SSE	Mark Sutton	NGT
Adam Whitmore	Deloittes	Nigel Sisman	NGT
Sonia Brown	Ofgem	Mike Young	British Gas Trading
Jess Hunt	Ofgem	Lisa Waters	Waters Wye
Mark Feather	Ofgem (chair)	Jimmy Smith	EDF Energy
Jason Mann	PA Consulting		

1. Review of minutes from previous CIWG meeting

Mark Feather said that Ofgem had not had the opportunity to prepare the minutes for CIWG 5, however they would be circulated prior to the next meeting.

2. Offtake rights and diurnal storage

Mark Feather noted that Transco's presentation on the offtake code sits within the context of Option 1 for the allocation of roles and responsibilities between the NTS and DNs. He said that, subject to the Authority decision on Thursday, Ofgem would be publishing a regulatory impact assessment (RIA) on the allocation of roles and responsibilities which recommends Option 1 as the proposed way forward.

Mark said that Ofgem had asked Transco to provide more detail on the offtake rights and diurnal storage aspects of the proposals set out in Transco draft Offtake Code business rules. He said that Ofgem was seeking to obtain further industry input on the advantages and disadvantages of these proposals.

Mark Sutton gave a presentation on offtake rights and diurnal storage. He said that Transco expected its proposals to evolve to reflect changes to the exit and balancing regime. He drew a distinction between NTS exit capacity, which is a commercial concept addressed under the network code, and offtake rights. Under Transco's proposals, offtake rights are a physical concept addressed via the Offtake Code.

Eddie Proffitt asked how offtake rights under the Offtake Code differ from rights conferred under interconnector agreements. Mark Sutton said that interconnectors required very different agreements due to their different circumstances. For instance, unlike DNs, the interconnector has no joint planning process and does not require linepack.

Planning process

Transco's draft proposals are an expanded and formalised version of the existing planning process. Mark Sutton explained that whilst Transco considers that it is appropriate for certain elements of the offtake code to be subject to charging arrangements, this should not occur on for Day 1 as it would necessitate a reopening of the price control.

Beverley Grubb asked whether Transco envisaged that DNs would also charge the NTS for services provided. Mark Sutton confirmed that Transco envisaged this outcome..

Jason Mann questioned whether the current price control prevents the establishment of charging arrangements prior to the next price control review.

Jimmy Smith and Mike Young suggested that an approach that does not include charging arrangements could be considered to be discriminatory because it gives some DNs a free service that others do not receive. Mark Sutton responded that no free services are currently planned for.

Lisa Waters said that if the NTS refuses to provide all the NTS exit capacity requested by a DN, then the NTS would be forcing the DN to breach its licence. Mark Sutton said that arrangements were required to ensure that the planning process is carried out in a consistent manner across the NTS and DNs. Lisa suggested that there was a bigger issue, which is that the Offtake Code requires a dispute resolution mechanism.

Offtake rights

Mark Sutton described primary and secondary offtake rights, where:

- ◆ primary rights are the maximum daily quantity (MDQ) which is provided at a flat rate
- ◆ secondary rights are the diurnal storage profile and associated pressures.

Jason Mann asked whether DNs would be likely to ask the NTS to provide more offtake rights than they actually require in order to be on the safe side. Nigel Sisman suggested that if the DNs did this, they would need to undertake extra investment on the DN network in order to be able to carry the additional gas away.

Lisa Waters noted that DNs will rely solely on the offtake code in order to meet their 1-in-20 investment planning obligations. In contrast, the NTS has additional tools such as the interconnector and storage capacity. Consequently, DNs will want to retain linepack margins that reflect this difference.

Nigel Sisman said that at present, the DNs plan their own 1-in-20 which establishes their own MDQ requirement. Sonia Brown noted that circumstances would be different in a post DN sales environment because at present DNs don't need to pay for their offtake rights. She suggested that in future it would be necessary to develop a dispute resolution mechanism or to impose an incentive on the DN to request an efficient amount of offtake capacity.

Lisa Waters said that pressure commitments are very important and should not be considered as secondary rights. She said that DNs need pressure commitments as

primary rights. Mark Sutton acknowledged that pressure commitments were a grey area, and agreed that they could potentially be considered to be primary rights. Jimmy Smith suggested that pressure commitments should be treated as an investment signal for the NTS. Mark said that this would happen if they were a primary right.

Adam Whitmore asked how diurnal storage would be allocated between DNs, given that it is a by-product of NTS investment. Mark Sutton said that in general diurnal storage would be location dependent, but that an 'allocation rule' would apply on the borders between DNs. Sonia Brown asked how Transco would prevent discrimination. Nigel Sisman said that the information used to derive the allocation rule would be known to DN purchasers at the time of the sales.

Sonia Brown asked whether Transco's proposals relating to forward offtake rights commitments (set out on slide 12 of the presentation) were based on established internal procedures. Mark Sutton said that the commitment to forward secondary rights already existed, however, the probable and possible forward rights curves were additional information included at the suggestion of Transco planning engineers.

Adam Whitmore questioned the relevance of the probable and possible forward rights curves given that they could not be relied upon. He asked whether there would be a best endeavours requirement applying to forward rights, and whether they would be published or reviewed. Jason Mann asked further what would happen if the 50% probable rights never came to fruition. Mark Sutton suggested that offtake rights forecasting could be subject to a regulatory incentive.

Lisa Waters noted that in year one, DNs would have no choice to adopt any investment strategy other than that proposed by Transco. She considered that DNs would not have the flexibility to make alternative investment commitments as only 90% of secondary offtake rights would be guaranteed in three years time (the investment planning horizon). Jimmy Smith suggested that prospective new owners would need to know about all project proposals that were being planned in order to accurately assess the value of the network.

Sonia Brown noted that the implication was that there would be a lag before the benefits of a sale would have the opportunity to arise. Phil Scott noted that DNs would still have flexibility to determine how they contract, so long as they meet their investment commitments.

Operational flows

Sonia Brown asked Transco whether, under their proposals, the NTS would have the opportunity to respond to DNs' NDM estimates. Nigel Sisman said yes. Phil Scott asked whether the DNs would have access to the information required to prepare NDM forecasts under the SOMSA arrangements. Mark Sutton said they would not have access to this information because NDM forecasting is a control room activity that would be delivered under the SOMA. Consequently, Transco would carry out the function in accordance with the DN's instructions. The daily 'number crunching' would be carried out by the control room, however, the evolution of processes would be driven by the DN.

Mark Feather asked how transparent the SOMSAs would be. Mark Sutton indicated that the SOMSAs would not be an industry document.

Jimmy Smith suggested that significant costs would arise at the end of the SOMSA when DNs establish their own area control centres.

ACTION: Transco to provide more detail on how the SOMSA will operate and what services will be covered at the next DISG meeting.

Summary of discussion

Mark Feather summarised the key themes of the discussions as follows:

- ◆ How will diurnal storage be allocated between DNs?
- ◆ Are there incentives on DNs to get their own forecasts right or will DNs have an incentive to overestimate their NTS offtake requirements?
- ◆ What are the planning timelines for DNs and how much discretion will they have on Day 1?
- ◆ Should charging arrangements be established for the use of diurnal storage and on the day flow variations?

Jimmy Smith raised a further issue relating to DN-DN offtakes. Mark Sutton indicated that Transco intended for these offtakes to be governed by bilateral agreements. Jimmy asked whether there would be scope for discrimination. Mike Young said that consistent rules should apply between RDN-RDN offtakes and RDN-IDN offtakes. Phil Scott noted that, as a minimum requirement, these agreements would be subject to Gas Safety (Management) Regulation safety case requirements. In response to a question from Beverley Grubb, Mark Sutton indicated that less than 20 DN-DN offtakes are used regularly.

3. Issues log

The group decided to postpone its consideration of the issues log.

ACTION: Ofgem to circulate issues log to CIWG members.

6. Next meeting

The next CIWG meeting will be held at Ofgem on April 28. It will consider a summary of the options for exit reform, and an alternative option on the allocation of offtake rights.