

DN Sales Development & Implementation Steering Group Minutes

Meeting 11

8 June 2004, 10:00 am – 2:00 pm

Ofgem's office, 9 Millbank

Attendees

Sonia Brown	Ofgem (chair)	Simon Goldring	British Gas Trading
Jess Hunt	Ofgem	Martin Kinoulty	United Utilities
Nigel Nash	Ofgem	Sebastian Eyre	energywatch
Roger Morgan	Ofgem	Nigel Sisman	National Grid Transco
David Ashbourne	Ofgem	Chris Train	National Grid Transco
Nick Wye	Waters Wye Associates	Sue Higgins	National Grid Transco
Tory Hunter	Scottish & Southern Energy	Mike Ashworth	National Grid Transco
Eddie Proffitt	MEUC	Peter Bingham	National Grid Transco
Peter Bolitho	Powergen	Adam Higginson	Ofgem
Charles Ruffell	RWE Innogy	Bridget Edminson	Ofgem
John Costa	EDF Energy		

1. Review of items from previous DISG meeting held 4 May 2004

a) Review of minutes

Peter Bolitho suggested some amendments to the discussion of the governance of the UNC and the governance of the agency. Ofgem agreed to amend the minutes accordingly.

b) Review of actions

The actions arising at the previous meeting had been discharged as follows:

- ◆ *Sebastian Eyre to provide views on the objectives that should apply to the governance entity by Friday 28 May.* Sebastian Eyre has produced a paper which is due to be discussed later in the meeting.
- ◆ *Transco to develop a more detailed UNC governance model that addresses the issues raised in Peter Bolitho's paper.* Transco had not prepared a paper. Action carried over to subsequent meeting.
- ◆ *Group members to provide alternative approach to agency governance by Transco by 28 May.* Eddie Proffitt and Nick Wye had suggested alternative approaches to agency governance which were due to be discussed later in the meeting.

ACTION: Transco to develop a more detailed UNC governance model that addresses the issues raised in Peter Bolitho's paper.

2. Report from the Commercial Interfaces Workgroup

Sonia Brown said that the previous CIWG meeting had assessed two of the options for allocating NTS exit capacity; DN booking model and the shipper booking model. In addition, Eddie Proffitt had given a presentation on possible transitional arrangements that could accompany reform of the interruptions regime. Finally, the group had considered some papers prepared by Transco concerning the SOMSA arrangements.

Tory Hunter noted that the previous CIWG has also considered the arrangements applying to unmetered inter-LDZ transfers, and suggested that clarification is needed on the arrangements that will apply once meters have been installed at the offtakes.

ACTION: Transco to provide a paper for the next CIWG on arrangements at inter-LDZ offtake points. Paper due Friday 11 July.

3. Authority decision on the allocation of roles and responsibilities between the NTS and the DNs

Jess Hunt gave a presentation summarising the Authority's decision on the Roles and Responsibilities RIA. The Authority had formed the view that Option 1 gives rise to the most potential benefits to customers. Jess said that the Authority's decision was contingent upon the satisfactory resolution of certain outstanding issues. In particular, acceptable arrangements with respect to the SOMSA and the offtake arrangements need to be developed.

Peter Bolitho asked whether the results of Ofgem's assessment of the costs and benefits associated with each option had changed since the original consultation. Jess Hunt confirmed that the results had not changed.

Sonia Brown said that there is a considerable amount of work required to address outstanding issues. She said that Ofgem considers that these outstanding issues can be resolved and Ofgem will continue to work on the basis of Option 1 unless any issues emerge that clearly cannot be resolved.

Tory Hunter asked whether all of the areas of outstanding work required in regard to the SOMSA arrangements are being progressed. Jess Hunt said that there is an outstanding action on the CIWG to provide views on the questions regarding SOMSA that are set out in paragraph 5.9 of the decision document, and that the CIWG's conclusions of the SOMSAs would be reported back to the DISG.

Sonia Brown added that the outstanding issues with the offtake arrangements are considered in Ofgem's Offtake Arrangements RIA, to be published later in the week.

4. Authority decision on agency and governance

Sonia Brown gave a presentation summarising Ofgem's decision on the Agency and Governance RIA. The Authority had formed the view that Option C gives rise to the most potential benefits to customers.

Peter Bolitho asked whether the cost information set out in the OXERA report had informed the Authority decision. Sonia Brown said that the OXERA work has helped illuminate the costs that would be placed on shippers, and that the information will be used to add to debate on DN sales more widely and as part of Ofgem's overall RIA.

Charles Ruffell asked if Ofgem preferred Option C because of systems issues, and whether the loss of operational data control was factored into the decision. Sonia Brown said that Ofgem considered the AT link operational system issues not just from the perspective of Transco, but of shippers as well, and that it was necessary to trade off the interests of various parties when making the decision.

In response to a question from Peter Bolitho, Chris Train said that Transco is willing to progress on the basis of Option C. He said that in Transco's view, the RGTA system is largely driven by NTS activities, however, Transco acknowledges that there are legitimate concerns for shippers associated with RGTA issues.

In response to a question from Charles Ruffell, Sonia Brown said that detailed work is being undertaken on the formal conditions to be placed on transactions in the short and longer term, and that the final RIA will pull these issues together.

5. Governance of the Uniform Network Code (UNC)

At the previous DISG meeting, Transco had agreed to develop a more detailed UNC governance model that addresses the issues raised in Peter Bolitho's paper. Chris Train said that Transco is in the process of writing a paper and suggested that the paper could be discussed at the next meeting.

ACTION: Transco to prepare a paper that sets out a more detailed UNC governance model and to circulate it in advance of the next meeting.

Sebastian Eyre presented a paper on the options for setting objectives in the UNC. The paper looked at how objectives are set in other Industry Codes and suggested that any proposed objectives for the UNC should be consistent with the three basic objectives in the existing codes, namely:

- ◆ a competitiveness of markets objective;
- ◆ an efficiency objective; and
- ◆ a discharge of licence obligations objective.

Simon Goldring questioned whether the objectives proposed in Sebastian's paper would be effective. He suggested that they might be overly simplistic for the UNC. Sebastian said that objectives should be aspirational guiding principles, and consequently it is appropriate that they are simplistic.

Peter Bolitho suggested that the BSC objective of promoting efficiency in the implementation and administration of the balancing and settlement arrangements could also be useful. Sonia Brown said that this objective is relevant to the BSC because ELEXON is an independent entity.

Peter Bolitho said that the UNC objectives should also have consideration to efficiency of users' systems and not just transporters. Sonia Brown said that a competitiveness of markets objective would cover this type of issue as, for example, if huge costs are imposed on users then this would create a barrier to entry and therefore not promote competition.

In general the group agreed with Sebastian Eyre's suggested approach to setting objectives for the UNC.

6. Governance of the agency

Nick Wye discussed his paper on the ownership structure of the Agency, which critiques Transco's suggested ownership structure as provided in their stakeholder agreement. Nick said that Transco's suggested ownership and voting structure (which is based on supply points) would give Transco dominance on the Board of the Agency which would not be beneficial to the industry and ultimately customers. He added that even though Transco's proposal includes a special majority voting system to give the IDNs greater weight, given Transco's holding majority, they will always retain the balance of power.

Nick also expressed concern that Transco could be providing staff to the Agency, particularly if staff were seconded. Chris Train said that Transco did not propose to second Transco staff to the Agency.

Nick Wye proposed an alternative ownership structure whereby Transco and IDNs would have true equal ownership of the Agency based on corporate entities and not supply points.

Eddie Proffitt said that Transco's suggested ownership and voting structure would result in Transco always being able to have the majority of directors on the board and therefore having control of the decision making process. Eddie suggested two options for ownership structure:

- ◆ Transco keeps total control over the Agency and charge IDNs for providing the service. A steering group could be established to provide industry input into Agency decisions; or
- ◆ Appoint a non-executive director taken from the industry (perhaps a shipper) and amend the voting structure so that they have the deciding vote.

Chris Train said that Transco would not support the option of Transco keeping total control over the Agency because the Agency was responsible for discharging the functions of all network operators. He also suggested that a non-executive director would ultimately be obliged to act in the interest of shareholders rather than a particular industry group. Some members of the group suggested that this need not be the case. Transco do not support the alternative of equal ownership because they are concerned about other networks imposing costs on Transco and to mitigate the risk the ownership structure needs to be based on supply points.

Chris Train suggested that the interests of Transco and other IDNs would be aligned because they will both seek to act in the interests of shareholders and to fulfil obligations under their licences. Nick Wye did not agree that the interests of Transco and IDNs would be perfectly aligned. He asked, if this is the case, why is Transco uncomfortable with an equal ownership structure? Chris responded that Transco is not comfortable on equal ownership because of service risks which could change in the future. It could be argued that if Transco retain the majority of DNs, then they have more risk, which is why they require the majority voting rights. However, it could also be argued that under Transco's proposal IDNs will be exposed to the same risks.

Chris Train said that under Transco's proposed structure decisions cannot go ahead without agreement from at least one other IDN for issues that require a special majority.

Nick Wye pointed out that issues could also be blocked by Transco under their proposed voting system. Eddie Proffitt suggested that clarification was needed by Transco on which decisions would apply to the special majority voting and which decisions would be deemed critical and not apply. The group agreed that it would be useful to see the next level of detail.

ACTION: Transco to provide detailed information on how the special majority voting system would work and to discuss paper at the next meeting.

Chris Train said that in Transco's view, the principle of joint ownership entails that control of the agency should be aligned with usage and funding. Nick Wye said that this view assumes that costs increase in proportion with supply points.

Peter Bolitho considered that Transco and IDNs will have slight conflicting objectives. He recognised that Transco would have more risk however, he consider that it was important that Transco is not able to dominate voting and therefore supported the option of appointing non-exec directors. Chris Train suggested that there are extremes between Transco having total control and not having enough control to mitigate risk. He said that the special majority voting system was Transco's attempt to find a balance in the middle.

ACTION: Transco to assess the four proposals for ownership structure, which are:

- ◆ special majority shared ownership (Transco's proposal);
- ◆ equal ownership (Waters Wye proposal);
- ◆ Transco full ownership; and
- ◆ Non executive director with deciding vote (including the option of a shipper non exec).

Transco to provide a paper for discussion at the next meeting.

Simon Goldring asked whether IGTs would have a role in the agency. Chris Train said that in the first instance, IGTs were not expected to have a role in the agency, however, there is potential for the structure to evolve to include IGTs, especially in relation to SPA.

Tory Hunter asked whether Ofgem's decision on the scope of the Agency to include the RGTA system would change the scope of the funding arrangements in the price controls. Chris Train suggested that it would change the funding arrangements. It was noted that the funding arrangements can be divorced from ownership issues. Sonia Brown suggested that nothing has been decided yet on the funding arrangements and this area will be developed in the future.

7. Waters Wye paper on emergency procedures and other issues

Nigel Sisman summarised Transco's response to the issues raised in the Waters Wye paper, including security standards, priority customers and emergency procedures, non-compliant gas and SOMSAs. The group agreed that the security standards issue have been overtaken by the offtake arrangements RIA, and consequently this issue was not discussed.

Priority customers and emergency procedures

Nigel Sisman outlined the arrangements for priority customers. He said that the Secretary of State defines the criteria for priority end users, and then shippers (on behalf of customers) make an application to Transco for priority customer status. Priority customer details are held in a database by the Agency which is accessible via remote PC links at all times by each DN. With respect to local emergencies, the DN will contact interruptible end-users directly for emergency interruption. This process would continue post DN sales.

Nick Wye suggested that for local and national emergencies it would be better if Transco contacted customers directly, or else there will be too many independent players in the loop which could cause confusion. Chris Train said that Transco's National Emergency Co-ordinator's role is concerned with co-ordination only and Transco would not be overtaking the functions of the DNs.

Tory Hunter asked if Transco make an assessment when an application for priority customer status is made. Nigel Sisman explained that the assessment is a mechanical and not a judgement process.

Non compliant gas

Nigel Sisman explained that Transco proposes to provide a structure for compensation that is consistent with the current Network Code. If a gas quality issue arises, then it would be resolved between the shipper and the GT at the point of offtake from the system i.e. at the supply point. To the extent that any compensation payment by a DN arises as a result of a failure by the NTS to meet a gas specification requirement as set out in the offtake code, the DN will be entitled to compensation from the NTS under that document.

Simon Goldring questioned whether, in practice, it was realistic to expect that shippers would not be affected as it may be difficult to identify the cause of the gas quality problem. Mike Ashworth suggested under Transco's proposal the shipper would be held harmless and that financial responsibility between network operators would be resolved via the offtake code.

It was noted that this issue is in the issues log and will be progressed as a part of the forward work plan.

SOMSA's

Sonia Brown said that the SOMSA issues are being considered by the CIWG. There is an outstanding action on the CIWG to provide views on the outstanding issues that have been identified in paragraph 5.9 of the decision document on the Roles and Responsibilities RIA.

ACTION: DISG members to consider if there are any other additional SOMSA issues the CIWG need to consider and to provide these to Ofgem by Friday.

8. Way forward on supply point administration issues

Roger Morgan gave a presentation on the way forward on supply point administration issues, which outlined the status of the Agency Working Group, the key future issues for the SPA Working Group, the key consideration for SPA reform and the next steps.

AOB

Tory Hunter requested Ofgem produce a timeline that sets out the way forward for the DN sales work program. Sonia Brown said that Ofgem hoped to produce a more detailed project plan over the next few weeks, after the offtake RIA and the interruptions RIA have been released.

Next meeting

The next meeting was scheduled for 10 am, 22 June 2004.