

## Commercial Interface Working Group Minutes

### Meeting 10

16 June 2004, 10:00 am – 2:00 pm

Ofgem's office, 9 Millbank

#### Attendees

Sharif Islam	Total Gas & Power	Mark Sutton	NGT
Beverley Grubb	SSE	Adam Davidson	NGT
Adam Whitmore	Deloittes	Nigel Sisman	NGT
Sonia Brown	Ofgem (chair)	Michael Young	British Gas Trading
Jess Hunt	Ofgem	Nick Wye	Waters Wye
David Ashbourne	Ofgem	Bob Bruce	Glenton Bruce
Richard Street	Statoil	Steve Rose	RWE Innogy
Julie Cox	AEP	James Smith	EDF Energy

#### Apologies

Apologies were received from Eddie Proffitt and Phil Scott.

#### 1. Review of items from previous CIWG meeting (held 26 May 2004)

##### a) Minutes

There were no suggested amendments to the minutes of the previous meeting.

##### b) Actions

The following actions arose at the previous CIWG meeting:

- ◆ *Group members to put forward proposals for additional regulatory safeguards around the SOMSAs. Papers or presentations to be provided to Ofgem by Friday 11 June. Ofgem had asked Transco to prepare a paper responding to the issues raised in para 5.9 of the Roles and Responsibilities RIA decision document, as those issues reflected the suggestions made to Ofgem. Transco's paper was due to be discussed later in the meeting.*
- ◆ *Transco to provide a paper for the next CIWG on arrangements at inter-LDZ offtake points. Paper due Friday 11 June. (Action from DISG.) Transco's paper was due to be discussed later in the meeting.*

#### STANDING ACTIONS:

- ◆ *Group to provide feedback to Ofgem regarding which issues they consider to be important. Ofgem had received some feedback via email and was intending to progress the issues raised via the workgroups.*
- ◆ *Interested parties to suggest alternative investment planning process to Ofgem. Jess Hunt noted that this standing action had become outdated following*

Ofgem's publication of the Offtake Arrangements RIA. The group agreed to remove the standing action.

## **2. Update from the Development & Implementation Steering Committee**

Sonia Brown told the group that the DISG had heard presentations on Ofgem's decisions on the Roles and Responsibilities RIA and the Agency and Governance RIA. The DISG had also discussed the governance of the agency and had asked Transco to prepare a paper that assesses each of four different models of agency governance.

Sonia said that the DISG had also received an update from the Agency Workgroup. Going forward, this workgroup will be reconvened as the Supply Point Administration Workgroup and will concentrate on supply point administration issues. It is intended that the DISG will progress the development of the agency model (other than SPA issues), including the governance entity, equivalent service levels, and the codification of non-agency services.

There was agreement in the DISG that the CIWG should consider issues associated with the SOMSAs and put forward any recommendations to the DISG.

## **3. CIWG forward work plan**

Sonia Brown said that Ofgem had not had the opportunity to develop a detailed work plan, however, the Offtake Arrangements RIA outlines a number of areas where further work is required. Ofgem intends that the CIWG will have a key role in developing detailed proposals that determine how the offtake arrangements could work in practice.

Steve Rose noted that the level of work involved in developing detailed proposals for the offtake arrangements would depend on which model is adopted. Sonia agreed, and said that while the consultation process is underway, the group would consider those issues that are not being decided by the RIA.

**ACTION:** Ofgem to prepare a detailed forward work plan setting out issues to be considered over the next four meetings, to be discussed at CIWG 11.

**ACTION:** Ofgem to circulate issues log for discussion at the next CIWG.

## **4. Offtake Arrangements RIA**

Jess Hunt gave a presentation on the Offtake Arrangements RIA, which was released on 11 June. She said that the document considers the issues at a high level and that a large number of issues remain to be addressed.

Jess described each of the models for the allocation of NTS exit capacity that were outlined in the document and the outcomes of the analysis in the RIA. She said that Ofgem's initial view was that Option 4 (the shipper booking model) has the potential to deliver the greatest benefit to customers. However, as it may be impractical to move directly to Option 4 within the timeframe of DN sales, Ofgem considers that it may be preferable to adopt Option 2 initially, whilst also allowing shippers the opportunity to book capacity directly from the NTS if they should wish to do so. (This approach was subsequently referred to as Option 2\*.)

Julie Cox questioned whether shippers would be interested in booking their own NTS exit capacity. Sonia Brown explained that shippers would have the choice of whether or not to book their own capacity, and if they preferred not to, then the DN would book it on their behalf. Julie suggested that this approach might result in considerable complexity, and consequently Option 3 might be a more straightforward approach. Sonia Brown explained that the key feature to distinguish between Option 2\* and Option 3 is where obligations lie. Under Option 2\* shippers would have the choice but not the obligation to book capacity.

The group discussed how Option 2\* would work in practice. Sonia Brown requested that group members read the Offtake Arrangements RIA and then contact Ofgem if they have any further questions.

Adam Whitmore asked about the nature of the product that a shipper would purchase if it chose to book its own NTS exit capacity under Option 2\*. Sonia Brown said that further work needs to be completed on the definition of the product.

The group discussed how an independent pipeline could be accommodated within the various models for allocating NTS exit capacity. It was noted that the arrangements for independent pipelines is a separate issue and does not arise as a result of any particular option.

The group discussed the need for incentives on the DN, particularly in relation to Options 2 and 3. It was agreed that further work was required to develop any incentive mechanism.

Jess Hunt described the options for diurnal storage considered in the Offtake Arrangements RIA. Jimmy Smith noted that Option B, which provides for commercial arrangements, would help to develop DN provision of commercial storage. Richard Street asked whether there is an environmental aspect of diurnal storage that needs to be considered. Jimmy Smith suggested that environmental issues were not really relevant because the arrangements considered in the RIA primarily relate to NTS diurnal storage.

Jess Hunt described the various forms of business separation that could be adopted in order to reduce the risk of undue discrimination by Transco between RDNs and IDNs. She said that Ofgem has carefully analysed the debt restructuring costs that would arise as a result of legal separation, and has formed the view that legal separation of the NTS business from the RDN business is unlikely to have any significant effect on future allowed revenues under Transco's NTS and RDN price controls. Jess added that Ofgem considers that the implementation costs that Transco incurs in order to separate its NTS and RDN businesses should not be passed through to customers. Consequently, Ofgem's initial view is that full legal and structural separation should be required.

Steve Rose requested an explanation of the ticks and crosses. Jess Hunt said that there was a figure in the document that seeks to clarify the meaning of the ticks and crosses, however, if anyone had any further ideas on how we could make the assessments clearer Ofgem would be grateful to receive these.

Jess Hunt told the group that submissions on the Offtake Arrangements RIA were due on 9 July 2004.

## 5. System Operation Managed Services Agreements (SOMSAs)

Mark Sutton summarised Transco's position on SOMSAs. He said that Transco considers that there are a number of safeguards that will prevent undue discrimination between RDNs and IDNs. He added that Transco would prefer not to rely on a SOMSA, however arrangements of this nature are necessary to facilitate the transition to a divested industry structure. Mark suggested that it would be unusual to regulate such an arrangement, and questioned whether there would be any benefits associated with regulation.

Jimmy Smith suggested that the SOMSA arrangements failed to give DN purchasers the opportunity to operate their own area control centres from Day 1. Mark Sutton said that this would be impossible within the timescales of the transaction for reasons set out in Transco's paper. Jimmy noted further that IDN control centres could not be operated separately under the system that Transco is currently building. He asked Transco when they truly expected the SOMSAs to finish. Mark Sutton acknowledged that it was possible that the SOMSAs would last beyond 18 months, however this would be determined by the buyers, not Transco.

Nick Wye suggested that DN purchasers would have strong incentives to complete the sale quickly and then extricate themselves from the SOMSA as soon as possible. Sharif Islam noted that other potential owners may have a different view on the SOMSAs. Jimmy Smith said that if the SOMSA became something more than transitional arrangements then they should be regulated.

**ACTION:** Group members to come prepared to consider the advantages and disadvantages of each of the issues raised in paragraph 5.9 of Ofgem's Roles and Responsibilities Decision Document at CIWG 11.

The group discussed whether the SOMSAs should be made publicly available. Sonia Brown said that if they were a regulated agreement, it would be appropriate for SOMSAs to be transparent, however, if they are a normal commercial agreement then they should be confidential. Jimmy Smith said that SOMSAs were not a normal commercial agreement because IDNs could not choose whether or not to enter into it. Sonia Brown noted that buyers could choose not to purchase a DN, and that Ofgem assumes that large commercial entities are fully aware of the implications of the agreements they enter.

Beverley Grubb asked whether the operational aspects of the SOMSAs could be discussed. Mark Sutton said that Transco had already provided detailed information regarding information flows and frequencies. Beverley said that SSE was not comfortable with the level of detail provided in the documents.

Adam Whitmore asked whether it was possible for the group to consider information regarding level of costs that would be incurred under the SOMSAs. Sonia Brown said the buyers should ask Transco this question as a part of their due diligence.

**ACTION:** Group members to critique Transco's notes on SOMSAs and identify what additional information is required.

Nick Wye asked: How would revenue from the SOMSAs be treated? Further, in the absence of legal separation, how would the NTS relate to RDNs? He noted that potential purchasers would want assurances that the terms for IDNs are mirrored for

RDNs, and that such assurances could be partially provided by legal separation. Sonia Brown said that Ofgem is considering the treatment of revenues under the SOMSAs.

Sonia Brown said that Ofgem's initial position is that Ofgem would only seek to price regulate if there is no alternative to price regulation. She said that SOMSAs are commercial agreements, and consequently, Ofgem prefer to avoid regulation if possible. She noted, however, that Ofgem is conscious of the level of concerns that were raised in submissions to the Roles and Responsibilities RIA and consequently it is necessary to carefully consider whether additional safeguards are required.

## **6. Unmetered inter-LDZ transfers**

Nigel Sisman summarised Transco's proposed treatment of inter-LDZ transfers. Under Transco's proposals, network operators that share DN-DN offtakes would agree to maximum and minimum limits, and that when such offtakes are used there would be an adjustment to the attribution process under the UNC.

Sharif Islam asked about the materiality of the inter-LDZ transfers. Nigel said that the maximum possible flow associated with all six of the inter-LDZ offtakes is less than 1 mcm per day, and that only one such offtake has been used in the last six years. Steve Rose asked whether it is worthwhile to retain these offtakes. Nigel Sisman said it was worthwhile because in extreme circumstances they help maintain security of supply.

### **Next meeting**

The next meeting will be held at Ofgem's offices on Wednesday 30 June.