Commercial Interface Working Group Minutes
Meeting 12
14 July 2004, 10:00 am – 2:00 pm
Ofgem's office, 9 Millbank

Attendees

Christiane Skyes	E.ON UK	Mark Sutton	NGT
Adam Whitmore	Deloitte	Adam Davidson	NGT
Mark Feather	Ofgem (chair)	Nigel Sisman	NGT
Jason Mann	PA Consulting	Michael Young	British Gas Trading
Jess Hunt	Ofgem	Nick Wye	Waters Wye
Sam Parmar	Statoil	Bob Bruce	Glenton Bruce
Richard Street	Statoil	Steve Rose	RWE Innogy
Julie Cox	AEP	Phil Scott	HSE
Sharif Islam	Total Gas & Power	Tim Dewhurst	PA Consulting
Matteo Guarnerio	Ofgem	James Smith	EDF Energy

1. Review of items from previous CIWG meeting (held 7 July 2004)

a) Minutes

No changes were requested from the minutes of the previous CIWG meeting

b) Actions

No action was taken forward from the previous CIWG meeting

2. Update from the Development & Implementation Steering Committee

The DISG had not met during the previous week. No update was therefore needed.

3. Transco paper on information flows

As Transco had not prepared the paper, discussion of this issue was postponed until 28 July 2004. Mark Feather noted that the paper had not been prepared in time for the meeting and emphasized that it was important that papers were submitted on time.

4. Transco paper on measurement

Mark Sutton described the key features of Transco's paper on offtake code measurement arrangements. Transco proposed some business rules as the basis for drafting offtake code provisions relating to measurement arrangements at NTS/DN exit points. These rules would be based on existing ancillary agreements provisions and have been developed to reflect the fact that ownership of measurement equipment will lie within the DN.

Mike Young asked for more information about last year's change to attributed value of relative density. He also asked whether density is measured at each offtake. Mark Sutton confirmed that the current arrangements and parameters are still the same.

Answering a question from Steve Rose, Mark Sutton confirmed that Transco considers that the routine validation based on current practice is sufficient. Richard Street asked how the process for making validation more regular would operate. Mark Sutton noted that the offtake code is subject to modification rules.

Jason Mann asked whether incentives on DNs would be in place to ensure that measurement is correct. Mark Sutton explained that measurement equipment tends to under-read if sufficient maintenance is not undertaken. As an under-read has a negative effect on DN revenue and NTS shrinkage payments, network operators would have an incentive to ensure that measurement equipment is maintained. Richard Street noted that any over-reads would affect the reconciliation by differences (RBD) process, and consequently network operators may have an incentive to permit measuring equipment to over-read true flows.

The group discussed the process by which an expert would be selected to arbitrate in the event of a dispute. Mark Sutton said that Transco proposed to follow network code principles.

Mark Feather noted that members of the group were generally comfortable with the proposed arrangements.

ACTION: Comments on this paper (and on all papers presented) to be submitted by 21 July.

5. Transco paper on gas quality

Mark Sutton described the key features of Transco's paper on offtake code gas quality arrangements. Transco proposed some business rules as the basis for drafting offtake code provisions relating to gas quality arrangements at NTS/DN exit points.

The group considered the following issues:

- Gas quality specification
- Calorific value

Gas quality specification

Transco's proposed provisions mirrored Network Code arrangements at NTS direct connect exit points and the Gas Safety (Management) Regulations requirement as to gas quality.

James Smith noted that in some circumstances, off-spec gas could enter the DN's system before it has been identified. Nick Wye agreed with this point and noted that, although it may not be particularly relevant at the moment, it may be valid in the future.

Mark Feather noted that two separate issues should be considered:

1. GSMR compliance of gas accepted at beach
2. Transco's own gas quality specifications

There was a discussion of the extent to which Transco's specifications are consistent with GSMR requirements. Adam Davidson noted that Transco can get an exemption from GSMR for a particular pipe, in which case blending would occur on the NTS system. Mark Sutton confirmed that every NTS/DN offtake point is GSMR compliant. It was noted that shippers and DNs may choose not to accept gas if it is not GSMR compliant.

Julie Cox asked whether the compensation arrangements still apply, considering that gas can be affected before entry into the DN. Mark Sutton explained that UNC rules apply to NTS/ DN offtake.

The group then discussed the chain of liability in this process. Mark Sutton said that shippers can claim recompense from DNs. DNs can claim recompense from the NTS, if the NTS is the cause of the problem. Finally, the NTS can claim recompense from to the shipper who has provided off-spec gas. Each stage in this chain of liability is subject to a 10% cap – i.e., the claimant will receive compensation for only 10% of the gas value, where the costs relate to quality and network clean-up costs.

Nick Wye noted that if a DN receives off-spec gas, it will incur in its own clean-up costs. He considered that the proposed 10% cap on the NTS contribution is insignificant considering the scope of clean-up costs. Adam Davidson noted that this proposal reflects the arrangements in place at the entry level.

Jason Mann questioned whether a 10% cap in payments between NTS and DN is needed. Mark Sutton explained that this approach is consistent with industry standard. Nick Wye noted that Transco has some power in determining gas quality, while the DNs' powers are more limited. Nigel Sisman said that NTS 'blending' is really involves curtailment, and the ability of the NTS to change the spec of gas is also limited.

Jess Hunt asked why compensation should be capped at 10%. Mark Feather noted that Ofgem's markets division has been considering issues relating to gas quality and the ability of shippers to enter different quality gas onto the system via arrangements that enable gas quality services to be provided by Transco, which target the costs of such services to those that use them. Mark Sutton said that the 10% cap on liability had been introduced when the Network Code was first implemented. Mike Young suggested that the cap was introduced because it is not always possible to tell which shipper brought off-spec gas onto the system. Richard Street noted also that the removal of a cap on liability may create a security of supply issue, since a provision of unlimited liability may have a negative effect on shippers' willingness to bring gas in the United Kingdom.

Nick Wye asked if a liability cap applies when off-spec gas is delivered to a DN as a result of Transco's failure to monitor. Adam Davidson noted there is no distinction as regards the origin of the gas quality problem, or the nature of the costs incurred as a result of the gas quality problem.

Mark Feather noted that the DN sale creates a new link in the chain of liabilities and that Ofgem needs to consider whether the current gas quality arrangements require further revision as a result.

ACTION: Ofgem to consider whether the current gas quality arrangements require further revision as a result of DN sales.

Calorific values

Mark Sutton explained that the current process of calorific value calculation is centralized, and CVs calculated for a particular LDZ might be dependent on measurements made at other LDZs. Transco proposed that after an interim period where the status quo is adopted, the calorific value measurement should be undertaken by LDZs.

Bob Bruce asked how the billing chain would work in the process envisaged by Transco. Mark Sutton explained that the DNs would calculate the calorific values, and then would pass the information obtained to an agency.

Mike Young asked a question regarding the proportion of sites which have chromatographs rather than tracker sites, and Sharif Islam asked whether the issues surrounding wet CV gas had been addressed.

ACTION: Transco to report to the CIWG 13 on:

- the proportion of NTS/DN offtakes that have (a) chromatographs and (b) tracker sites
- the arrangements for measuring density at each offtake;
- the arrangements relating to wet CV gas.

6. Transco paper on connection facilities & telemetry

Mark Sutton described the key features of Transco's paper on connection facilities and telemetry arrangements.

Julie Cox raise the issue of the circumstances in which it is appropriate for NTS to take override control of the DN's pressure flow management equipment, and whether Transco (or rather the NEC) should do this under any circumstances expect a declared emergency. Mark Sutton replied that these circumstances would include the DN breaching offtake limits and causing safety concerns. Julie further queried how this was consistent with the Roles and Responsibilities RIA Option 1 that was to be pursued, with DNs having full responsibility, accountability, and control of their network.

ACTION: Transco provide to provide further information on the circumstances in which the NTS is able to override DN control of offtake points at CIWG 14.

The group discussed whether there might be incentives to over-read in the current scheme and the circumstances under which the NTS can exercise override control over DNs for safety purposes. Mark Sutton explained that under Transco's offtake Code proposals no independent audit is envisaged in the measurement process.

ACTION: Transco to report to the CIWG 13 on the arrangements to ensure that the measuring equipment at NTS/DN offtakes do not over-read.

7. Transco paper on maintenance arrangements

Mark Sutton described the key features of Transco's paper on maintenance arrangements. Transco proposed some business rules to be used as the basis for drafting offtake code provisions relating to maintenance. Mark explained that NTS maintenance can only be undertaken in the period between April and October, while DNs can do it at anytime, as long as they provide notice sufficiently early. Mark also confirmed that the proposed arrangements do not affect the Network Code rules on NTS direct connects.

Mark Feather said that in Ofgem's view the key issue is that Transco's maintenance program should not unduly discriminate between DNs. He expressed a concern about the possibility that DNs might lose control over their maintenance programs, and suggested that a way of overcoming this would be for the NTS to enter into interruption arrangements in order to carry out maintenance. In these circumstances, parties affected by NTS maintenance would be compensated to the extent that Transco was unable to provide capacity due to maintenance.

Mark Sutton said that Transco recognised the potential impact of maintenance on capacity provisions and indicated that the proposed maintenance arrangements would need to accommodate any interruptions reform. He said the final paragraph of section 7.2 of Transco's paper on maintenance addressed Ofgem's concerns.

Mark Sutton considered that the potential discrimination for between RDNs and IDNs is not a major problem. Nigel Sisman explained that the maintenance program would be published, thus ensuring transparency. The group considered that maintenance issues have not been problematic up to date and Transco has been accommodating with customers.

8. Quantitative assessment of transitional measures for interruptions

Jason Mann gave a presentation providing a quantitative assessment of the transitional measures outlined in Ofgem's interruption arrangements regulatory impact assessment.

Jason explained that in quantifying the costs associated with transitional arrangements Ofgem assumed that all existing interruptible customers that choose to remain interruptible would face a cap and collar in price. The gap between the cap and the collar would extend over time (on a "glide path"), until the end of the transitional period. Jason explained that for some customers, the price cap would be relevant and for others the price floor would be relevant.

The group discussed how this approach would work in practice. Jess Hunt said that the assumptions were made for the purpose of undertaking the cost benefit analysis and should not be regarded as an indication of how Transco could implement any transitional arrangements. She said that if the Authority formed the view that transitional arrangements should be adopted, then considerable further work would be required to design an appropriate mechanism.

Jason noted that with a glide path approach the inefficiencies identified in the RIA would continue for the transitional period although they would reduce on a flat line basis over time. He assessed the possible costs of the different options outlined in the paper and stated that the costs increase with the length of the glide path.

Nick Wye challenged Ofgem's position that a price cap might lead to over investment. Jason Mann confirmed that in the model Ofgem assumed that the price cap does not reflect customers' value of interruption which could lead to over investment as Transco is prevented from making efficient trade offs between pipes and interruptions.

Sharif Islam asked whether NSLs are actually seeking to become firm. Mark Feather confirmed that some customer groups have raised the issue in the past, but Nigel Sisman noted that NSLs are generally not requesting firm status from Transco.

Nick Wye noted that a market based model assumes that there is sufficient competition for customers to signal their need to interrupt and consequently to express a market value for interruption. Jason Mann explained that this approach reflects the assumptions that were originally made in the RIA.

9. Incentives and booking of NTS Exit Capacity

Adam Whitmore gave a presentation on the incentives required in order to reach an effective system of booking of capacity. Adam considered that, among the different approaches considered in Ofgem's RIA on offtake arrangements, Option 2A would be preferable. He suggested that no long term commitment should be taken on Option 4.

Mark Feather reiterated Ofgem's position that a market approach is better placed to provide correct investment signals. Adam Whitmore said that under an Option 2A approach it would still be possible for shippers (and customers) to provide market signals via the interruptions regime, however responsibility for responding to those market signals and planning should be delegated to the party who is best able to do so. He said that DNs have a number of alternatives to purchasing NECs (such as purchasing interruption or local storage) however these alternatives are not available to shippers. He considered that it would be difficult for an efficient market to emerge under a shipper booking approach.

James Smith added that if a new connection is being built on a DN, many shippers would purchase capacity based on their marketing strategy, and noted that a DN knows the physical capacity requirements and consequently has better information than shippers. He suggested that if a DN relied on signals from shippers, they might be encouraged to over-invest, as sometimes multiple shippers would seek to purchase capacity for a given customer on the chance that they might win the customer. Mark Feather indicated that if a shipper over-booked capacity in one year and effectively paid too much for that capacity it would then reassess its requirements in following years to the extent that it was unable to pass the costs of its over-bookings through to customers. Mark indicated that market disciplines should drive shippers to towards efficient booking strategies which in turn should provide valuable signals to network owners. Jason Mann noted that when making investment decisions, DNs would always be able to supplement market information with their own information.

Richard Street noted that a bundled NEC and DEC capacity product would help smaller shippers, by reducing complexity.

Adam Whitmore suggested that the DN incentive scheme example outlined in Ofgem's RIA on offtake arrangements needs to provide a one-for-one retention of gains. He said that the efficient level of NEC for the purposes of the incentive scheme should be considered as part of the price control.

Other issues

Mark Feather announced that Ofgem is preparing an industry wide letter on the indicative timetable for Ofgem's role in the DN sales process.

Next meeting

The next meeting will be held at Ofgem's offices on Wednesday 28 July.