

## **Development and Implementation Steering Group Minutes**

### **Meeting 21**

15 October, 10:00 am – 2:00 pm

Ofgem's office, 9 Millbank

#### **Attendees**

Alistair Buchanan	Ofgem	Mike Ashworth	NGT
Sonia Brown	Ofgem (Chair)	Martin Kinoulty	United Utilities
David Ashbourne	Ofgem	Alex Wiseman	United Utilities
Farook Khan	Ofgem	Charles Ruffell	RWE Npower
Liz Hillman	Ofgem	Mike Young	BGT
Jessica Hunt	Ofgem	Sharif Islam	Total
Tim Dewhurst	Ofgem	Lisa Waters	Macquarie
Suzanne Turner	Ofgem	Rob McDonald	SSE
Hannah Cook	Ofgem	Tory Hunter	SSE
Nigel Sisman	NGT	Rob Cross	Statoil
Chris Train	NGT	John Costa	EDF Energy
Sue Higgins	NGT	Bob Bruce	Glenton Bruce
Graham Barnett	NGT	Peter Bolitho	EON UK
Rob Lally	DTI		

#### **Update on DN sales timetable**

Alistair Buchanan opened the meeting by stating that as Chief Executive of Ofgem he is aware of the importance of the DN sales project and, as such, he apologised for the cancellation of the previous DISG meetings. He set out that, during the meeting, Sonia Brown would outline the new timetable with respect to DN sales which has come about through extensive work completed on the part of Ofgem, NGT and the DTI and which was signed off by Sir John Parker the previous evening. He stated that, following the development of this timetable, all of the parties involved in the project believed that they were now committed to a realistic and achievable timetable with hive-down scheduled for the end of April. Alistair recognised that DN sales is a complex project and congratulated the parties involved on the hard work and momentum that has been achieved. He believed that this momentum could be maintained through commitment to the new timetable.

Sonia distributed a copy of the revised timetable. She stated that, following Transco's stock exchange announcement regarding a delay in the project, Ofgem intended to issue an open letter to the industry.

Sonia detailed that in July Ofgem had issued an open letter to the industry setting out the proposed timetable for the DN sales project. She explained that as well as the timetable being challenging, it was also subject to an element of risk with respect to any

issues that may arise. She explained that an issue had arisen which would have implications for the timetable as it currently stands and that a number of new work streams would need to be undertaken in order to resolve the issue that had arisen. She set out that discussions regarding the timetable would be subject to the caveat that they do not pre-judge the decisions of the Authority in relation to the DN sales process.

Sonia stated that in July Ofgem had consulted upon the various possible offtake arrangements that could be implemented to accommodate a post-DN sales environment. She detailed that it had become evident that option 1, 2 and 3, outlined as part of the consultation, would require an exemption from certain provisions contained within the Gas Act. Sonia explained that, as such, Ofgem had been working with the DTI and Transco to try and resolve these issues.

Sonia detailed that Ofgem were currently in a position to make a decision regarding the grant of licence consultation towards the end of the month. She also set out that the Final IA would be issued in November and, subject to DTI policy clearance, the DTI would issue a consultation document in relation to the Gas Act exemption. She explained that, following on from this, Ofgem would issue a further consultation document and associated section 23 notice as a follow-up from the informal licence consultation issued in September. She stated that, as part of this, Ofgem would also be consulting upon the issues that should be included in the 8AA process.

Sonia outlined that all of these work streams would assist in informing the decisions of the Authority and the Secretary of State, to be taken in January, regarding the DN sales project and the decision to be taken by the DTI on the exemptions issue. She stated that, from January onwards, the timetable would look similar to the way that it had previously looked following the Authority and Secretary of State's decisions regarding the DN sales process. She explained that Ofgem's overall position was that the revised timetable is one to which it can commit while also retaining momentum in relation to the sales process.

Rob McDonald asked whether Ofgem's letter will detail the section of the Gas Act under which Transco will require an exemption. Sonia responded that the relevant provisions were contained within Section 5 (1) (c) of the Act which stipulates that in order for a person to be permitted to make arrangements with a gas transporter for gas to be introduced into, conveyed by means of or taken out of a pipeline system operated by that transporter the relevant person would need to be the holder of a shippers licence. She detailed that the exact form and scope of the exemption is currently being worked upon and will form part of the DTI's consultation document.

Rob McDonald asked whether, to the extent that there are vulnerabilities in the process there could be other delays in finalising the contractual framework. Sonia set out that the process remains subject to a degree of risk and that Ofgem and the DTI have simply worked up a timetable that is reasonable given the work streams involved. Rob also asked whether a debate is currently taking place regarding what the derogation will be seeking. Sonia set out that the DTI and Ofgem are currently working together to draft a consultation on the issue. Chris Train explained that the DTI's process is one of consultation and that they will undertake best endeavours to ensure that all of the relevant government parties are consulted. He detailed that a risk remains that further issues may occur but that in undertaking a precise process, the risk that this may happen is decreased.

Sonia stated that Ofgem would be happy to meet with any interested parties on a bilateral basis to discuss any of the details of the process. She anticipated that the DTI would also hold the same view. Rob McDonald enquired as to who the project manager is at the DTI and Sonia detailed that it was currently Rob Lally but that John Havard would take up this position when he returned from holiday.

Rob asked whether Transco's stock exchange announcement also included details of the revised timetable. Chris Train replied that it simply reaffirmed the delivery of DN sales next year and Sonia clarified this by stating that, if Authority and Secretary of State consent is obtained, the delivery of DN sales will be scheduled for the second quarter of next year.

John Costa asked how realistic this target was in view of the fact that the Authority's decision regarding DN sales is only two months away and that this would have to include details of the provisions to be implemented to accommodate exit arrangements. Sonia Brown replied that key work streams would have to be completed with regard to the exit arrangements to be put in place and that Ofgem would be keen to get further details of the proposed arrangements in this respect to share with DISG. She detailed that the final IA is almost finished and that Ofgem is simply waiting to include final considerations in relation to exit and interruptions in order to have a completed document. She stated that Ofgem would hope to be able to issue a final version in the next couple of weeks.

Tory Hunter stated that she didn't understand how Ofgem would be able to produce a final IA at the same time that the DTI is consulting upon the options for a Gas Act exemption in view of the fact that Ofgem would need to incorporate details of the final regulatory framework to be able to develop the IA. Sonia explained that Ofgem would be working upon the assumption that the exemption would be granted by the DTI. She detailed that, in the event that the Secretary of State decides not to grant an exemption in January but continues to believe that completion of the DN sales project would be good for customers then the way forward would be considered at this point. This possibility therefore constitutes a risk to the overall project.

Rob Lally arrived at the meeting and Sonia asked the group whether they had any questions for him regarding the exemptions consultation. She explained that Ofgem are working with the DTI on the exemptions consultation, subject to policy clearance, to allow the Authority and the Secretary of State to take decisions regarding the DN sales process and the exemptions consultation at the same time. Rob Lally detailed that the DTI is currently working up the policy case for the exemption and that they are aiming to get it to the Secretary of State sooner rather than later. He stated that while the DTI is awaiting policy clearance it should issue an informal policy with Ofgem to improve clarity in relation to the process.

Rob McDonald asked what the DTI considered to be the key risks facing development of the exemptions consultation. Rob Lally responded that risks would be encountered throughout the process but that the DTI is hoping to put together a Statutory Instrument and consultation document to explain why Transco is seeking the exemption and that this will place demands upon Ofgem, the DTI and Transco. He considered that one hurdle currently facing the project related to the need to obtain policy clearance while a general hurdle is the acquisition of parliamentary consent.

Lisa Waters asked when it was likely that an election would be called. Rob Lally replied that this would all be in the hands of the Prime Minister.

## **1. Review of items from DISG 20 (held 21 September)**

### **a) Review of minutes**

Nigel Sisman asked whether the minutes regarding his presentation on treatment of entry points could be amended to reflect:

“These DN entry points are treated in the same way as commercial entry points admitting gas directly into the NTS...”

### **b) Actions from previous meeting**

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

- Transco to present on credit arrangements to DISG. Transco will be undertaking this action at a future DISG.
- Transco to circulate roadmap prior to DISG 21. This did not take place prior to DISG 21 but DISG members were provided with a copy at the meeting.
- Transco to confirm whether the pipes associated with DN entry pipes are sole usage. Nigel Sisman explained that Transco had been working on an internal note which will take a couple of days to finalise. He detailed that the second point that he had made in his presentation at DISG 20 was incorrect and that the Hatfield Moor site was not in the Northern DN but the Eastern DN. He set out that the revenue associated with this entry point is less than £500 a year and that the revenue for the relevant IDN would be zero. Sonia suggested that Transco might want to discuss this revision with the potential purchasers and that Ofgem would not want to close off the action until the buyers are happy. Rob McDonald stated that, as a representative buyer, he would be happy to take this off of the agenda as there are more pressing things to discuss. Nigel detailed that Transco would complete the note and send it to Ofgem and the DISG.
- Transco to consider SOLR as part of its presentation on credit issues. Transco detailed that it would discuss this at DISG 23. Tory Hunter explained that she thought that in relation to credit, if a system user did not pay the relevant debts they would be terminated from the network and that the SOLR provision would only be used when a shipper had gone into administration. Sonia set out that this issue was really about credit arrangements rather than SOLR and that Transco would need to clarify this.
- Transco to confirm whether there is scope for divergence in the CV methodologies in a post-sales environment. Nigel Sisman responded that Transco would ensure that they delivered this to DISG 23.
- Ofgem to update a list of forward agendas. Sonia detailed that Ofgem will try its best to do this but that delivery will be dependent on a number of parties.

## **2. Report from workgroups**

### **a) UNC development workgroup**

Graham Barnett detailed that last Wednesday the UNC development forum had discussed sections L, N, O and Q of the Network Code. He stated that today's workgroup had been deferred in view of the rescheduling of the DISG and that at the next meeting they would be discussing sections C, D, E, H and X and that section P would be revisited at a later date. He set out that the UNC workgroup had not yet decided to escalate any related issues to DISG.

Lisa Waters commented that when the UNC development forum had discussed issues surrounding emergencies there had been a sense that clarity was needed regarding the way in which the procedures would operate and, as such, these would need to be drawn up prior to the establishment of the provisions within the Network Code. Sonia suggested that a paper could be circulated to the DISG to ensure that this debate ties in with conclusions made in relation to the licence.

Lisa set out that the UNC development forum simply needed to work out how the procedures would practically work. She detailed that, in particular, there is a problem within the code in relation to the definition of interaction between a local emergency and the NEC. Chris Train responded that the NEC only operates in a national emergency not a local one. Lisa pointed out that the NEC has a role under the Network Code and that a local emergency would become national if more than 500 properties were affected. Chris clarified that the NEC would intervene where the emergency affects more than one DN and, as such, there is a requirement for coordination between the DNs. In this respect he detailed that if the emergency is retained within one DN then the NEC would not be required.

Sue Higgins asked whether a presentation should be given to discuss these issues and improve understanding. Lisa Waters considered that this presentation should be given to the UNC development forum. Sonia suggested that as a first action the presentation should be given to the UNC development forum and if any ambiguity still remained then this should be escalated to the DISG.

**Action:** Transco to provide further clarity to UNCWG regarding the emergency procedures.

#### **b) SPAWG**

Jessica Hunt explained that although neither Nigel Nash or Roger Morgan had been able to attend the meeting they had briefed her on the events at the SPAWG. She detailed that the meeting had been held on 5 October. As part of this meeting the SPAWG had decided upon new terms of reference for the group and would be sending a second report to the DISG after its next meeting on 6 December setting out the actions they intended to take to mitigate the issues that had been identified during discussions.

Two main issues were discussed at the SPAWG:

- Escalation issues – the SPAWG expressed support for the approach proposed by Transco in this respect; and
- The User Forum – this group will allow feedback to be given to Xoserve in relation to the services it provides. A number of outstanding issues were identified in relation to this, in particular the group required clarity regarding the way in which this forum would fit in with existing groups. Transco agreed to look into this. The group agreed that minimum timescales should be established for the agency when it notifies a change in its services to the relevant users and, in this respect, users should be notified sufficiently in advance.

Rob McDonald asked whether the UNC and the SPAWG have a detailed roadmap setting out the timetables for their work and Jessica responded that they are anticipating using the roadmap provided by Transco.

### **3. Grant of licence consultation**

Hannah Cook detailed that as part of its proposed sale of DNs, in July 2004 Transco applied for 8 new additional gas transporter licences and, as such, in July 2004 Ofgem issued a notice under the Gas Act regarding the potential grant of new additional GT licences. Ofgem invited views regarding the number of additional licences that should be granted and the scope of the authorised area of each new additional GT licence. She stated that six responses were received, of which, two were in support of the proposals and considered that the new additional GT licences should cover the whole of GB. She set out that, in contrast, four IGTs opposed the grant of new additional licences to Transco. She set out that IGTs had also raised wider issues in relation to Transco's proposed sale of DNs which would be considered as part of the wider sales process.

Hannah explained that Ofgem's initial view was that it intended to grant five new additional GT licences for each separate entity that will exist in a post-DN sales world which would reflect the Authority's decision not to insist on DN-DN separation. She also detailed that the authorised area will cover the whole of GB in order to facilitate competition between the DNs. She stated that the grant of new additional licences should not raise any expectations as to what the Authority's final decision in relation to the proposed transaction will be.

Hannah detailed that the Authority would reserve the right to revoke the new additional licences if the Authority does not grant its consent to the proposed sale, completion of the sale does not take place in the specified time period, Transco does not comply with any of the conditions of consent or fewer than five licences are required. She stated that the way forward would be:

- STEP 1: Grant of new additional GT licences to Transco;
- STEP 2: Amend Transco's current GT licence and the new additional GT licences;
- STEP 3: Transfer the new additional GT licences from Transco to wholly owned Transco subsidiary companies.

Rob McDonald asked what the specified time period for the deal, referred to as part of the revocation conditions, would be. Sonia replied that she wasn't entirely certain but that Ofgem would not want to determine a period of time which is too short and will then require Ofgem to grant new licences. Rob asked whether this would allow slippage and Sonia responded that it would and that Ofgem anticipated granting the licences toward the end of the month.

Alex Wiseman asked whether the grant of only one licence to Transco would have implications for regulatory and accounting provisions. Sonia responded that Ofgem would seek to create a level playing field for each business and that, as such, regulatory information would be collected from each RDN. Alex asked whether it would be necessary for Ofgem to report back to the DISG and Sonia did not think that this would be required.

### **4. Respondents views on the licence consultation document**

Tim Dewhurst detailed that Ofgem's consultation document regarding 'initial thoughts' on the amendments required to the existing GT licence was published in September 2004 and that 18 responses were received. He set out that the responses to the consultation largely focussed upon:

**1. Transportation charging arrangements** - Tim stated that the issue addressed in the informal licence consultation regarding the transportation charging arrangements was whether separate DN ownership may lead to differences in arrangements for charging for transportation, and increased frequency of changes. He set out that there was general support for the proposed role of Joint Office and, as such:

- 3 respondents were concerned that the proposals did not go far enough; and
- 3 respondents believed the scope for flexibility should be retained.

Tim detailed that the Responses were split between those that favoured “reasonable endeavours” on limiting changes to charging methodologies, and those who wanted to restrict changes to 1 per year.

**2. Emergency services coordination** - Tim detailed that in relation to emergency services the document invited responses to the provisions that should be implemented to ensure responsibilities are clear in response to emergencies at DN boundaries, and the provision of first response emergency services to IGTs and the NTS. He set out that the majority of respondents had expressed support for the introduction of new licence conditions for DNs, which would require the notified DN to make safe the incident. He stated that most respondents were in favour of the introduction of a licence obligation on DN-GTs to provide first response emergency services to IGTs. Although there was a mixed response regarding the inclusion of repair and restoration services in this obligation and, as such 10 respondents favoured their inclusion while 6 respondents were against. Tim stated that the general consensus was that it is appropriate to place an obligation on the DNs to provide first response emergency services to the NTS.

**3. System operator managed services agreements (SOMSAs)** - Tim detailed that in the informal consultation Ofgem proposed that SOMSAs should not be regulated and that responses regarding this issue were mixed. He explained that while 5 respondents considered that SOMSAs should be regulated, 3 respondents suggested that they should not. He stated that some respondents had also commented that regulatory oversight was warranted in the short term.

**4. Network Code and offtake arrangements** - Tim detailed that two proposals for the governance of the offtake arrangements were presented in the document; either a “UNC only” approach, or a “UNC plus offtake code” approach. He set out that, again, responses to this issue were mixed with 5 respondents in support of the approach of UNC plus offtake code and 3 in favour of the UNC only approach. He explained that some respondents stated that the “UNC plus offtake code” approach would reduce simplicity and endanger consistency while another respondent stated it was inappropriate for “unaffected parties” to be able to amend the offtake arrangements.

**5. Price controls and incentive arrangements** - Tim explained that the DN sales process requires that the current price control arrangements (including incentives) will need to be reflected in each DN-GT licence and that Ofgem has previously concluded that Transco’s price control will not be reopened. He detailed that the majority of respondents who expressed a view supported Ofgem’s view that it would be inappropriate to reopen Transco’s price control. He set out that 1 respondent favoured reopening Transco’s price control while 2 supported a proposal of having an initial one year DN incentive scheme.

**6. Pipeline security standards** - Tim detailed that Transco's licence requires network security consistent with the 1 in 20 obligation and set out that Ofgem had consulted upon whether this should apply to both NTS-GT and DN-GT licences following DN sales. He stated that most respondents considered that current security standards should apply to all licences.

**7. Proposed licence modification procedures** - Tim stated that the statutory collective licence modification (CLM) process does not apply to Standard Conditions to the extent that they have been modified and that Ofgem therefore consulted upon solutions to accommodate this within its informal licence consultation. He stated that the majority of respondents favoured the development of a private CLM procedure with most in favour of the retention of the current statutory CLM procedures (e.g. 20% objection rule). He set out however that 2 respondents had significant legal concerns over private CLM. Tim also stated that this issue would be discussed in more detail at the next DISG meeting.

**8. Gateway requirements** - Tim detailed that new licence conditions may be required to implement the gateway requirements identified in the July 2003 consultation as set out in each of Ofgem's RIAs. He stated that some respondents noted that more detail was required in some "gateway requirement" areas before these conditions could be drafted.

**9. LNG** - Tim stated that the consultation document proposed that, given LNG storage facilities are connected to the NTS, the most appropriate location for the relevant licence obligations should be Transco's NTS-GT licence only. He detailed that 6 respondents had agreed that LNG should be dealt with by special conditions in the NTS-GT licence only while one respondent believed LNG storage arrangements should be part of both NTS and DN-GT licences. He also set out that some respondents had stated that the approach chosen should not constrain the future development of LNG import facilities.

Tim detailed that Ofgem's way forward with respect to the licences was that the Section 23 notice and informal consultation would be issued in mid-November with views invited. He stated that any feedback received on this will inform the Section 8AA process and consent to disposal and that the Section 8AA process would be issued in mid-February and completed in mid-April.

Sonia Brown stated that, in summary, there was a split of opinions on most of the issues. Rob Cross asked whether Ofgem would be discussing the legal concerns raised regarding the private CLM at the DISG next week. Sonia stated that Ofgem did not anticipate doing this. She detailed that Ofgem is satisfied that the Private CLM is legal and therefore does not intend to discuss the issue in any detail. John Costa asked whether Ofgem had discussed the issue with the DTI. Sonia responded that Ofgem is clear that the implementation of a private CLM is a lawful interpretation of the Gas Act and that having looked at the opinion that Roger Barnard expressed in his response to the consultation, and which other shippers have mirrored in theirs, it does not have any concerns regarding legality.

Sonia informed the DISG that the draft licence conditions in relation to the price controls had been on Ofgem's website for a couple of weeks. She detailed that during the DISG that was held regarding the proposals included within the informal licence consultation, the group had expressed their preference to provide views regarding the price control licence conditions. She therefore asked whether any of the group



members had any views regarding the current drafting for the section 23 notice. She stated that if any DISG members, potential purchasers in particular, would like to raise any issues on a bilateral basis then Ofgem will organise a relevant meeting. She clarified that the licence conditions on Ofgem's website were drafted by Transco and that the section 23 will reflect Ofgem's views.

## **5. Road map for DN sales process**

Sue Higgins detailed that the road map provided a high level view of the process and was intended to outline the key stages of the project and therefore allow interested parties to plan the relevant resources. She set out that she would run through each of the key stages.

She detailed that with respect to the development of the licence Ofgem had issued its informal consultation, published the draft licences and that it anticipated that the new additional licences would be granted around 25 October. She stated that Ofgem intended to issue its Final IA around 15 November.

Rob McDonald clarified that this would be before the final Authority meeting. Sonia replied that it would be and that the Authority would meet on 20 January. Rob suggested that there could be a chance that the Authority would meet and conclude that it requires further work to be done before it is satisfied to grant its consent to the sale. Sonia explained that if the Authority made a substantively different decision then it would be necessary for Ofgem to re-consult. She detailed that Ofgem are trying to provide the Authority with as complete a picture of a post-DN sales environment as possible to ensure that the Authority is comfortable with the decision that it reaches. She set out that the Authority may still attach conditions to its consent and through these it may require a further consultation and new licence amendments. Sue Higgins detailed that this would not be infeasible in the current timetable. Sonia further clarified that it may be feasible but that if substantive issues are raised these may pose a risk to the current timetable. Rob expressed concern that the Authority meeting is so late in the process and that there would be no room for slippage. Sonia responded that the timetable had been developed with practical issues in mind including the timescales required for the Authority to receive papers prior to their meetings and Christmas and these combine to place the relevant Authority meeting on 20 January.

Sue detailed that Ofgem would be launching the Section 23 statutory consultation regarding the proposed licence amendments to support a potential DN sale on 22 November. She stated that, during this period the associated licence drafting would also be available. Sonia Brown explained that Ofgem intended to issue a consultation document with the Section 23 attached. She explained that the document would explain Ofgem's intended way forward with regard to each of the issues and would provide a link to the relevant drafting.

Sue set out that the Authority meeting would be held on 20 January and, following the anticipated receipt of the Authority's consent, Transco intended to serve a notice to Ofgem requesting an 8AA transfer request, as well as a request to the DTI for the transfer of licences. Sue stated that Ofgem will then launch the 8AA consultation on 14 February running until 18 April and this should ensure that the licences will be in the required form for IDNs by 1 May, in time for hive-down.

Rob McDonald asked why a month's gap had been allowed between the Authority meeting and the launch of the 8AA consultation. Sonia responded that this would fit in with the required regulatory process.

Sue continued that Ofgem would have likely drawn up the conditions of consent by the end of March and that the DTI's opportunity to prevent the transfer of Transco's assets would expire at the same time as this. Sonia detailed that she did not think that this was quite Ofgem's process. Sue stated that Transco would require a direction on the section 23 to be issued and for the DTI to grant its consent on the transfer of assets on 1 May and at this time, Transco would also anticipate Ofgem to transfer authority for the UNC and 8AA process. Lisa Waters asked what Sonia perceived to be wrong with the plan. Sonia detailed that the timetable looked confused toward the end of the process. She stated that the final Authority meeting would be held on 20 January and that there would not be any further Authority meetings after this date (i.e. on 17 April). She therefore considered that some of the processes are not clear and that, although she was happy with the plan up until the launch of the 8AA consultation, the rest of the timetable would need to be reviewed.

**Action:** Transco to review the timetable process that has been set out after the launch of the 8AA consultation.

With respect to the DTI exemption process, Sue detailed that the consultation would be issued toward the end of October and run for a period of 28 days, subject to clearance from other departments. She explained that this would close in mid-December and that the Secretary of State would consider the responses and make a decision around the third week in January. She anticipated that this would be laid before parliament in early February and come into effect around the second week in March.

In relation to the safety case, Sue stated that version 4 had been submitted in mid-October and that approval of this was expected toward the end of February. Rob McDonald asked whether the safety case would be approved at the end of the 8AA consultation as it would require consultation with the HSE and he was unsure how these processes would fit together. Sue responded that the safety case should be in place by the end of the 8AA consultation. Sonia stated that more detail would be required with respect to the roles of the DTI and HSE to illustrate all of the stages involved.

**Action:** Transco to expand the safety case section of the route map to highlight all of the roles of the HSE and DTI.

Lisa Waters asked whether the safety case would be approved but not become effective until hive-down. Chris Train responded that the timing of implementation of the safety case and hive-down was something which would need to be discussed with the HSE but, in principle the safety case could be approved to come into effect at hive-down. He detailed that version 5 would then be submitted to the HSE post hive-down. He clarified that this was not included in the timetable as it only highlights the industry processes transferring the DNs into separate entities and does not provide details of the processes that will take place after this. Sonia indicated that Transco had informed her that the HSE would need to know the content of each and every licence condition prior to the grant of its approval to the safety case and therefore will need to know the outcome of the 8AA process unless it is willing to assume what will be included within the 8AA decisions. Chris Train stated that moving version 4 of the safety case back to accommodate this would be relatively easy. Sonia considered that Transco would need

to update the road map to illustrate this change and to highlight the process that will be followed after hive-down. For example, any other licence modifications that will be required.

**Action:** Transco to include the delay to the safety case submission and the processes to be followed after hive-down on the road map.

With respect to the Network Code, Sue detailed that Transco would be raising a closing modification in mid December and that the mod report would be drafted between mid-December and mid January with a 28 day consultation following this. She set out that the final mod report would be drafted in a 21 day period to allow Ofgem to make a decision regarding the closing mod in advance of 1 May.

Rob McDonald highlighted that the industry need to be provided with a more detailed explanation of the process that will be followed in the transition from the Network Code to the UNC. Sue suggested that this would form the basis of a separate, more substantive discussion. Chris Train set out that the Network Code would require a modification to convert it into a UNC with associated SFC's and stated that the later stages of the timetable highlighted how the rules and arrangements would be assembled. He considered that it would be mechanistic process and that a modification to the Network Code is simply required to close it down. Sonia clarified that shippers want to obtain an understanding of the way in which the process will work and that it would be most appropriate for Transco to explain this at the next DISG. She considered that once this clarity is attained it will be important to incorporate it within the road map, showing every stage of the process, in order to provide shippers with some comfort.

Peter Bolitho indicated that some key questions remain unanswered in relation to the transfer from the Network Code to SFC's. He detailed that these were critical issues, in particular the transition to the UNC and the termination of certain arrangements. Lisa Waters detailed that problems with the timetable were evident in that the consultation process regarding the modification of the Network code appears to be running in parallel with the legal drafting of the UNC.

Sonia Brown also outlined that Ofgem would not want to make a decision regarding the shut down of the Network Code before a decision had been reached regarding the UNC. Jessica Hunt also considered that it would be difficult for interested parties to make comments on the close down of the Network Code before clarity is obtained regarding what it will be replaced by.

Sonia Brown enquired as to how exiting mods will be dealt with during this period. Sue Higgins detailed that the transition plan will deal with any new or existing mods that are being considered. Sonia highlighted that interested parties will need to understand the plans in relation to the way in which these mods will be dealt with. Lisa Waters stated that the UNC development forum had also requested that Transco speak to Ofgem to obtain more clarity regarding the way in which the process would work.

**Action:** Transco to deliver its view regarding how the process of transition from the Network Code to the UNC will work.

Sonia asked where the step for shippers to sign on to the SFCs was included. Graham Barnett detailed that it was incorporated within the orange block and Sonia suggested

that people will need certainty regarding who will be responsible for managing these processes.

With respect to the UNC, Sue set out that the development of new business rules would be complete by mid-December and that consultation would take place regarding these for a period of 28 days. She stated that Transco would then develop and review the legal drafting from the beginning of January until mid-February. She detailed that a second strand of work would also be taking place in this period, from early October to mid-November involving the development of Network Code to UNC continuity rules. Rob Cross questioned whether the business rules should be finalised before Transco began a consultation on them. Tory Hunter considered that the legal drafting of the business rules would be required to allow a proper consultation to take place. Graham Barnett responded that a workshop early in the consultation period would allow people to engage in the process.

Rob McDonald asked why the business rules would only be unveiled in mid-December. Lisa Waters set out that Transco would provide the UNC development forum with copies of the drafting that it had been working on, in relation to the UNC, next month. Tory Hunter clarified that these would be the marked up versions of the Network Code. Rob McDonald asked whether the UNC development forum had a work plan backing up the provision of certain deliverables and Sue Higgins responded that it had.

Sonia Brown asked whether the processes of the UNC would be expanded and Mike Ashworth responded that until the policies regarding offtake are developed then the full framework of arrangements will not be clear. He therefore detailed that the UNC development forum is dealing with all of the relevant Network Code mods apart from those in relation to the offtake arrangements. Sonia suggested that all of this would need to be timetabled.

Sue Higgins set out that with respect to the third strand of work regarding the draft of NTS licence changes for option 2A, business rules will be developed from mid-October to the end of November. Sonia asked whether these licence changes would be made as part of the 8AA process and Sue responded that this would be the case. Sonia asked for clarification regarding who would be responsible for drafting this and Sue replied that a policy decision would need to be made in this respect. Sonia detailed that two things need to happen in relation to the separation of price controls to support 2A and that this includes – an amendment of the relevant licence conditions; and

- the development of an incentive regime

Sue considered that the work strand regarding the development of an incentive regime would require its own line.

With respect to Xoserve, Sue detailed that the development of service definitions to include option C would be finished in mid-November but considered that the signing window at the end of the process would need to be expanded to illustrate the process that will be followed. Tory Hunter suggested that shippers would like Transco to walk through the service lines that will be provided by xoserve under option C. Graham Barnett replied that if this is the case Transco will organise a seminar at the appropriate time to go through this. Sonia anticipated that shippers would want to see the relevant service lines that Transco propose xoserve will deliver during the development process. Rob Cross detailed that shippers had asked for this on a number of occasions.

Rob McDonald asked when the industry would get to see an initial view of what the exit and interruptions regime would look like. He asked whether Transco had a model that they could share with the DISG and Chris Train replied that they did. Sonia clarified that if this came to the DISG it would be something that Ofgem will not have seen. Sue Higgins stated that Transco would bring their proposals to the DISG 23. Sonia Brown stated that Ofgem would like to see this analysis before it was presented to the DISG and asked Transco whether they would be delivering the analysis on offtake arrangements to Ofgem that evening as agreed. Nigel Sisman responded that they wouldn't. Sonia asked whether they would prefer to have a bilateral discussion regarding this and Nigel and Chris Train replied that they would. John Costa asked when the DISG would be able to see the detail of the exit and interruptions proposals and Sonia detailed that Ofgem and Transco would need to discuss this. Rob Cross indicated that if Transco want shippers to meet the deadline for hive-down then shippers will need to understand what it is that they need to deliver. Tory Hunter set out that the delivery of these systems will require development. Rob McDonald highlighted that Transco's timetable anticipated a public consultation on these issues at the end of November which is only 6 weeks away and therefore stated that he assumed that the proposals had been developed and that the industry would want to see them sooner rather than later.

With respect to the Joint Office (JO) Sue detailed that Transco had landed on a constitution and associated arrangements and that the JO rules would be developed by the end of December. A subsequent period of review in relation to these rules would take place from mid-November to the end of December with the arrangements completed by mid-January.

Sonia Brown highlighted that the development of JO rules would depend upon the way in which it is constituted i.e. through the UNC or through the licence. Mike Ashworth suggested that one way would be through the licence provisions. Sonia stated that she anticipated that the JO would be constituted through both the UNC and the licence as this would allow shippers to get involved through the UNC mod process. She further detailed that if the JO is to be constituted through the licence this will require that it is incorporated within the licence work stream and similarly, if it is to be included in the UNC, this will need to be reflected in the UNC development forum.

Sue Higgins considered that required licence provisions would be hidden in the detail of the drafting. She held the opinion that the JO would be constituted by a licence condition requiring DNs to enter into agreement with other GTs to provide certain services with certain accompanying rules regarding the way in which these services would be delivered. Sonia highlighted that this process would be different from the way it is undertaken in electricity and asked how transparent it would be. Sue responded that it would be contained within a standard industry document and, as such Sonia considered that transparency would be required to give shippers comfort in response to the fact that they cannot change any of the rules.

Peter Bolitho considered that the way that the business is runs will be crucial. Sue responded that Transco has submitted to DISG and discussed a paper regarding the development of business rules for the JO and that the detail of these is still being discussed. Sonia considered that Transco would need to be clear of where the business rules will be contained and, if they will be incorporated within a separate agreement this will need to be clear. Peter Bolitho indicated that if these business rules are going to stray into shippers day-to-day business, they will need to understand the details. Sue

responded that Transco have previously set out their proposals in detail for the DISG and the DISG had agreed with those set out. Tory Hunter outlined that one such proposal was that shippers could 'opt in' to provide legal resource in relation to the business rules. Sue also detailed that the JO will run the UNC mod process. Sonia considered that transparency would be required with respect to the JO agreements and the mod rules for the UNC.

Jessica Hunt asked whether details of the subject matter experts would be included in the JO agreements or the UNC and Sue responded that a set of rules in relation to this would be developed by the UNC mod panel. Sonia asked whether these would be included within the UNC and Sue replied that only those aspects that are significant enough to require detailed drafting would be included within the UNC and that these rules could be maintained in an informal way without having to include them in the UNC. Sonia was of the opinion that if problems arise in relation to the way in which this is carried out, then individuals may raise mods to include these rules within the UNC itself.

John Costa pointed out that there will be a considerable number of UNC mods immediately following DN sales and that it would be more helpful if Transco replicated the current set up as is presently in place with the mod rules contained within the UNC. Sue Higgins considered that the industry currently has a low level of understanding in relation to the Network Code and that incorporating more detail within it would add extra complexity. Peter Bolitho highlighted that shippers would simply want to retain an understanding of the mod rules that are applicable to them. Sonia Brown emphasised that transparency in the process is key and that if individuals do have concerns they should retain the ability to raise mods.

Sonia asked when Transco anticipated that the industry seminar would take place. She set out that the Gas Forum was keen for this seminar to take place around December to achieve an understanding of what is happening in the wider constituency. She stated that this could be before or after the Authority's final decision. Peter Bolitho considered that it should be held at a stage when the industry has a coherent vision of the whole package of arrangements that would be implemented within a post-DN sales environment. Nigel Sisman anticipated that the seminar would be held around the time that the Authority makes its final decision and Sonia suggested that it would therefore need to be around Christmas or New Year.

With respect to the transition approach, Sue Higgins set out that a transition plan would be developed throughout January and would be signed off in mid-March. Sonia asked whether Transco could break this transition approach down into its various component parts and anticipated that following the Authority decision any mods would have to be subject to transitional arrangements and, as such, a relevant process would need to be developed. Rob Cross agreed and considered that the industry requires more detailed proposals in this respect and in relation to whether system changes will be required or implementation of new systems will be necessary. Sue responded that not all of the relevant Transco representatives were present but that she would envisage that changes to existing systems would be required.

Lisa Waters considered that IDNs would need to see what developments Transco is making to its systems in order to inform them of the development to their system that would be required and that part of this relates to the development required during the transition period. Tory Hunter detailed that DN's may need advice regarding the

management of their systems and Sonia Brown responded that much of the management of systems would be covered by the SOMSAs.

Chris Train set out that in terms of DN operators one system that would need to be developed is in relation to cash collection and validation and that Transco was reasonably comfortable with the way in which this would be done. Sonia asked what the implications of this would be for the offtake arrangements. Chris stated that Transco is currently looking at option 2A and that changes are required with respect to the shipper services including the issuing of invoices and cash collection services. He detailed that as a DN operator entities will need to know what file formats will look like and this will be mapped out under option 2A. Sue considered that quite a few changes would be required as part of this and that Transco would update this and make clear what would be necessary.

**Action:** Transco to update DN operators regarding the changes to the systems that will be required to support a 2A world.

Rob McDonald asked where Transco was up to with respect to the development of an offtake code. Nigel Sisman detailed that this would be set out under exit regime 2A framework agreements. Sonia stated that the interactions between the offtake code and the exemptions requirements are still being worked through and that the development of issues associated with the exemption means that the offtake code would logically fit into the UNC. She detailed that once this has been determined Transco will bring the proposals back to DISG and run through them with DISG members. Rob McDonald set out that the sooner that DISG members have views regarding the structure of arrangements the better. Lisa Waters set out that members need to know the critical path and, as such, if one target slips what else may also slip. Alex Wiseman also considered that Transco needs to be clear on the process. Sonia asked whether Transco would be able to turn around these comments by the next DISG on Tuesday and Sue set out that they would as far as they have the relevant details.

## 6. Agency

Nigel Sisman opened the presentation by setting out the component areas under option C and where the split of responsibilities would lie. He detailed that in the RIA on Agency & Governance Ofgem used option A as a benchmark and set out its preference for option C in the short-term. He stated that there are three key differences between these options:

- Under option C a governance entity would be responsible for administering changes to the UNC and transportation charging methodologies;
- The agency would be responsible for demand estimation; and
- The details of where the systems would reside.

As such, Nigel detailed that three key changes to the current industry structure would be required including; the creation of a governance entity, the transfer of UK-Link systems to the Agency and the responsibility for demand estimation to be undertaken by the Agency.

He detailed that the JO would be responsible for the administration of changes to the UNC and transportation charging methodologies. He set out that the JO would be physically separate from transporters and therefore would not require a change to the price control formula.

He stated that an issue existed in relation to the UK link systems and outlined the five key components of the system including:

- AT-Link system;
- NGTA capacity;

(These provide the commercial interface with shippers regarding NTS activities)

- S&M database;
- SPA; and
- Process to support invoicing.

Nigel set out that Transco is currently in the process of replacing AT-Link and RGTA systems and detailed that these systems currently perform the following functions:

#### RGTA Capacity

- Long term and short term capacity auctions;
- Buy-back market;
- Capacity Management agreements; and
- Data processing to support invoicing

#### AT-Link

- Exit capacity booking;
- Gas flow nominations;
- Gas trade registration;
- Allocations;
- Imbalance determination;
- Gas cashout calculations; and
- Data processes to support transportation/settlement.

Nigel stated that RGTA functions had been dropped out of the AT-Link system when RGTA was introduced. He detailed that Transco is in the process of replacing these systems with the Gemini system and that they envisage that at hive-down part of the Gemini system will be operational as well as AT-Link. As such he explained that AT-link would be 'live' as an exit and energy balancing system and that responsibility for operation and maintenance of these two systems would rest with the agency at hive-down. The costs associated with the operational and maintenance contract would be recovered via Agency charges and this would deliver the same outcome as the UKT procuring service and recharging to NTS SO and networks.

Nigel went on to detail that the Gemini project would be delivered by UKT as they have no desire to hand over responsibility for the project at a critical point in development and have a responsibility to deliver a currently specified system. As such, he set out that the system would be handed over to the Agency on completion, coincident with the decommissioning of AT-Link.

Nigel informed the group that the Agency would become responsible for the change management process from hive-down with respect to the UK-Link committee chairmanship and management and systems development management and that the Agency would charge for systems development in accordance with the Agency Services Agreement.

Sonia Brown asked what this would mean for the Gemini governance process and whether UKT would still undertake to consult with the industry. Nigel responded that UKT committee management would pass to the Agency at hive-down and that, from this point, the Agency would be responsible for development activity. Sonia highlighted



that shippers have concerns regarding the development of Gemini systems and that the Agency User group may help to provide safeguards for them. Nigel agreed that this could be a useful forum and Sonia added that although there was not a formal role for this within UKT she would anticipate that Transco would take the views expressed by shippers into account. Nigel replied that they would.

Lisa Waters asked whether Agency staff have been involved in the development of Gemini systems. Nigel responded that they are beginning to get involved to obtain an understanding of how the systems will evolve in the future and to facilitate an efficient handover. Rob Cross pointed out that they had not been attending the public meetings and Nigel replied that they had been involved in internal meetings with Transco.

Peter Bolitho asked whether Transco envisaged that there would be radical changes to the way in which decisions were reached in the UK-Link forum and Nigel responded that there would not be. John Costa asked how it was proposed that the Agency would charge for systems development and Nigel detailed that shippers would fund it through transportation charging. John asked whether behind the scenes contracts would be developed between Transco and the DNs and how this would be accommodated through allowed revenue. Chris Train replied that this would be recouped through price control transportation revenues. Sonia set out that, in the long term, the Agency may have its own price control but that this was not something that would need to be discussed at present but that the Agency would need to maintain transparency in terms of activity-based costing. Nigel stated that Transco is currently taking this forward. Sonia requested that the costing would identify each area of activity and how this would be attributed to the individual DNs. Chris Train explained that this area is currently under discussion through the SPAWG and Sonia considered that development of the relevant idea may offer comfort to the industry.

Nigel explained that responsibility for demand estimation would be transferred to the Agency and, as such, the Agency would be responsible for chairing and managing the Demand Estimation Sub-Committee (DESC). He set out that the provision of relevant data to the DNs would be managed by the Agency through:

- The provision of information from dataloggers and data recorders through an existing contract with TMS and Ewans (an independent third party);
- The data from Ewans would be filtered and processed by the Agency and then this data would be sent to a team of analysts. Initially this would involve establishing a new contract with UKT for a period of a year but Nigel anticipated that in the future this would be tendered.

Nigel stated that governance of the DESC would continue to reside with the Agency allowing shippers to be represented and influence the analysis undertaken. He set out that this would necessitate changes in the Agency services contract and the provision of a service contract let by the Agency.

Nigel concluded the presentation by setting out that under option C the agency would be responsible for:

- Maintenance and operation of Gemini systems;
- Management of relevant IT systems development;
- Shipper set up process from transmission; and
- Provision of demand estimation services from transmission.

Peter Bolitho asked why staff would not be transferred from Transco into the Agency to carry out analysis of the relevant data. Nigel responded that this would lose synergies

and increase costs. He considered that to establish an effective service more quickly it would be easier to simply set up a contract between UKT and the Agency in this respect. Lisa Waters considered that a contract would have to be in place between Transco and the Agency as the Agency would be undertaking some work for which Transco is responsible. Chris Train explained that this was part of the services agreement and Jessica Hunt noted that the contract between Transco and the Agency could be found on the Ofgem website. Lisa Waters suggested that as the existing contracts would have to be amended this should be included as part of the transition plan.

## **7. Update on progress relating to IGTs**

Sonia detailed that an action had been placed on Ofgem to update DISG members on the progress made with respect to IGTs but that there were not any IGT representatives at the meeting. Graham Barnett detailed that an IGT workshop had been held and that the proposed safety case had been well received. Sonia asked whether the new DN companies had been involved as this had been a key request of the IGTs in relation to the extension of the existing emergency services contract. Graham replied that the contract had been extended by the RDNs to April 2006 but that he couldn't comment on this with respect to the IDNs and would report back to the next DISG in this respect.

**Action:** Transco to report back to DISG 22 regarding IDNs position in relation to the extension of emergency services contracts for IGTs.

Jessica Hunt acknowledged that Ofgem had received relevant work from Transco in relation to the review of board voting arrangements and safeguards for the Agency and Sonia detailed that this would be discussed at DISG 22.