

DN Sales Development & Implementation Steering Group Minutes

Meeting 30

21 December 2004, 10:00 am-4:30pm

Ofgem's office, 9 Millbank

Attendees

Sonia Brown	Ofgem (chair)	Sue Higgins	Transco
Jason Mann	Ofgem	Peter Bingham	Transco
Mark Feather	Ofgem	Mike Ashworth	Transco
Karen Gribben	Ofgem	Tim Davis	NGT
Suzanne Turner	Ofgem	Elaine Calvert	NGT
Matthew Young	Ofgem	Christiane Sykes	E.ON –UK
Martin Kinoulty	United Utilities	Alex Wiseman	United Utilities
Tory Hunter	SSE	Charles Ruffell	RWE N Power
John Costa	EDF Energy	Steve Gordon	Scottish Power
Nick Wye	Macquarie	Alison Russell	Centrica

Christiane

1. Review of items from DISG meeting 29 (held on 7 December 2004)

a. Review of minutes

Alison Russell highlighted that at page 7 of the minutes, in relation to standard special condition A4, she had no recollections of this comment being made. It was agreed that this comment should be deleted. Christiane Sykes stated also on page 7, in relation to standard condition A4, her comment was not quite as specific as recorded. Christiane stated that she had asked whether there would be separate charging methodologies. Alison Russell also stated that at page 9, in relation to standard special condition A7, she requested that a document should set out how Transco was going to respond to customers on the border of DN networks on a ongoing bases. Christiane Sykes had a further comment on page 11, in relation to standard special condition A15, and stated that her comment should be the other way around .

John Costa raised an issue in relation to page 2. John stated that he had made two points at the previous meeting. Firstly, whether it was unduly discriminatory for sites connected to the NTS to have different arrangements for flexibility relative to the arrangements for sites connected to DNs. Second, whether it would be better to

develop NTS flexibility arrangements for DNs only and leave the NTS direct connects outside of the new flexibility arrangements. Sonia Brown asked if Ofgem could also respond to these comments in the revised minutes, noting that her response was that for the first point that as sites connected to the DNs paid DN charges as well as NTS charges, it might well be appropriate for there to be different approaches and, in the second point, it was unclear how such an approach would sit with the licensee's undue discrimination and economic and efficient licence conditions. It was agreed that Ofgem would respond to these comments in the revised minutes.

There were no further comments on the minutes.

b. Actions of previous meeting

- UNC paper to be discussed at DISG – this paper is tabled for today's meeting
- Hourly overrun charges – Peter Bingham confirmed that there would not be hourly overrun charge for flexibility. Peter stated that they would be consulting on this later but clearly stated that there would be no charge.
- Shippers to state why they disagree with Transco's view on the due process – John Costa stated that he would be putting forward their views via their response to final IA. He stated that this would be a public response however, the point that he was asked to come back on does not appear to cover this issue but he would be covering a related issue instead. No other shipper representative responded on this issue.
- DISG members to get back to Mike Ashworth regarding a meeting to walk through the UNC. Mike confirmed that no one had contacted him.

Action on DISG members to get in touch with Mike regarding a walk through meeting.

- Action log for UNC development - Peter Bingham stated that the action log had gone out the day after the last DISG meeting. Peter stated that this would be updated and released as part of the consultation. Sonia Brown requested a timetable to address these issues. Peter stated that the majority of these issues would be closed down at the next UNC meeting on 5 January.
- It was agreed there was no need to go through the licence actions points, shippers stated that they were happy.

2. Update from Exit Reform Development Forum (Transco).

Peter Bingham stated that at the last meeting, Nigel Sisman reported a quiet meeting and that a lot of participants appeared overwhelmed by the depth and extent of material

being presented. Peter stated that there were concerns that NGT have not closed down the flexibility product. There was a discussion on flexibility and capacity and how the base line is derived. Sonia Brown stated that the incentive document would consult on the base line options which were a) the 1 in 20 obligation base line, b) equivalent entry base line, or c) more scenario based option where it is assumed dependency on offtake points. Sonia Brown confirmed that Ofgem considered it is a critical issue. Nick Wye stated that these three options were not discussed at the Exit forum. Nick stated that there were 4 options which were a) the 1 in 20 obligation base line, b) the 1 in 20 obligation plus interruptions, c) maximum physical, and d) maximum physical based on scenarios of offtake across the system. Sonia Brown asked why these are different to what Ofgem is consulting on. Peter Bingham stated that because these options had developed over time and the confirmed that the incentive document was the most developed thinking.

Peter Bingham stated that incentives were discussed at the meeting with a high level description of how they think incentives might operate such as efficient use of capacity. Tory Hunter stated that although Transco would be obligated to release baseline levels of capacity, the substitution process meant that there was the threat that capacity would not be available in the future. Jason Mann agreed. The proposal was to try to ensure that Transco don't start investing in capacity if they can meet customer demand for offtake rights by substituting from other unused baseline capacity of other nodes.

Peter Bingham stated that Transco would be consulting on again on the extent to which participants want to trade. Peter highlighted that the hourly overrun charge in relation to the flow flexibility product had been taken out of rules, but that some restrictions regarding Transco's liability and the deliverability of flexibility would need to be incorporated into the arrangements. Peter highlighted that discussions for interim agreements had gone well at the meeting and the within day flexibility gate closure concept. Peter stated that there was a general push back on further meetings this side of Christmas but that a review session was welcomed in New Year. Sonia Brown asked when the timetable would be coming out. Peter stated that this would be published during consultation which was due out today. Sonia highlighted that people were keen to understand process going forward.

John Costa asked what the interim arrangements were. Peter Bingham stated that the proposals were largely based on existing arrangements such as non discriminatory access to exit capacity and flexibility. Peter stated that the interim arrangements are set out in consultation document. Sonia Brown stated that many people were confused about the interim arrangements which was apparent from some of the responses to the Final IA and stated Transco should present to DISG on 4 January to clarify these issues. Sonia highlighted that this would be needed to ensure that people understand exactly what is proposed. Alison Russell asked whether there would be a concern over the clash of meetings. Peter stated that the Exit forum meeting was on the 5 January and not the 4 January as he previously stated.

Tory Hunter asked whether it was Transco or Ofgem who would be consulting on the final UNC, Sonia stated that it would be an Ofgem consultation.

Action – Transco to prepare a presentation on interim arrangements for DISG meeting on 4 January.

3. Update from UNC Development Forum (Transco).

Peter Bingham stated that the section Y changes were outlined during this meeting. Peter highlighted that further revisions are anticipated. NGT initial proposals did not reflect DISG discussions and Peter apologised for this. Peter stated that the new rules would be presented at the 5 January meeting. Sonia Brown stated that Ofgem were disappointed that the Section Y drafting did not reflect the outcome of the DISG meetings. Sonia went on to explain that Ofgem were having an on going discussion with Transco on the scope of these rules to be included in the UNC and stated that Tim Davis will be discussing this later. Sonia Brown asked whether there would be legal drafting available at the 5 January meeting. Peter stated that only business rules would be available.

Peter Bingham stated that further information would be picked up at next meeting. In relation to the Modification Panel the voting arrangements will be brought to DISG. Peter stated that this would be discussed at the UNC forum before coming to DISG. Sonia Brown stated that what was proposed previously was not what was discussed at DISG which is why this has to be brought to DISG again.

Christiane Sykes stated that in relation to the transitional issues for dealing with modifications in flight. Peter Bingham stated that Ofgem's mod team were looking at this issue. Sonia Brown stated that there were two issues, what arrangements would need to be working for Day 1 of DN Sales and any further changes would be future looking which is what her understanding of the Jon Dixon straw man would be. Tim Davis stated that it was his understanding that Jon Dixon would not be looking at voting rights. Sonia Brown said that NGT should come forward with proposals for voting rights and it is Ofgem's remit to ensure that it is satisfied with the arrangements.

Mike Ashworth said that the legal drafting on consolidated class 2 and 3 would be made available. Mike stated that consistent with the class 1 changes, there would be an explanatory note at the front and a straw man schedule about how legal drafting will be set out. Mike stated that a note would be sent around stating that the UNC is on the web site.

Nick Wye asked about outstanding credit arrangements. Sonia Brown stated that this would be dealt with in 'any other business'. Peter Bingham went over draft agenda for 5 January meeting where Section Y and B would be discussed.

4. Commercial Framework (Transco).

Peter Bingham stated that key issues were presented at the Exit development forum. This detailed that the types of information that would be presented in the NWC and that which would be in the ancillary operating agreements. The general principles were that the NWC are will set out the parameters that should be specified in the ancillary document. Site specific technical parameters and physical parameters themselves will sit within ancillary agreements. Peter went on to state that the connection points for DNs would have a similar outline in the code as to that in the current NWC Section J that details provisions relating to NExAs and CESP's .

Peter summarised that all commercial rules for NTS offtake points will be covered in the UNC and site specific technical issues will sit in ancillary documents. Sonia Brown asked if these will be published. Peter stated that they would be, but that some site specific issues may be confidential and went on to say that, overall, in relation to the ancillary arrangements, DNs need to be able to see that they all have the same arrangements.

Sonia Brown stated that Ofgem was much more comfortable with these arrangements than what was originally proposed as it reduces the scope for discrimination between users of the NTS. Shippers were also more comfortable with these new arrangements. Peter Bingham welcomed comments on these agreements. Sonia Brown urged shipper to speak to their operations people to ensure that they were also satisfied with these arrangements and that comments should be sent to Transco.

Action: DISG members to report back on the split between the UNC arrangements and Transco's proposals on operator agreements.

5. Joint Office arrangements (Transco).

Tim Davis presented the proposed arrangements for the Joint Office. Tim noted that the presentation will be posted on the Ofgem website. Tim's presentation covered the Joint Office's constitution, arrangements agreement, how the Joint Office will be resourced as well as the proposed location of the Joint Office. The presentation further covered the next steps such as the responsibilities of the UNC. Tim also provide a hand out which looked at the Joint Office coordination/administration of the UNC modification process as well as the Joint Office administration of the charging methodology change process.

Alex Wiseman raised an issue on cost allocation for the JO as the NTS would have more modifications than DNs. Sonia Brown stated that the key point in relation to this matter is allowed revenue and whether it is possible to split this out. Sonia stated that going forward a better way of dealing with these costs would be to split the money in the price controls. Alex asked how easy is it to tell where cost allocation is. Sonia agreed that it would not be that easy as shipper services is the only identifiable cost allocation. Tim stated that the annual operation cost of the JO would be around 1 million.

Sonia Brown suggested that DN purchasers would probably want to discuss this with NGT. However, from an Ofgem and therefore customer perspective it was clear that these costs were allowed as part of the previous price control settlements. It was stated that this would be transparent as it is part of JAA. In relation to the proposals that contain part of the modification which states that GTs must nominate subject matter experts, Sonia Brown stated that it is important to looked at how material these costs are for the subject matter experts. Sue Higgins stated that there was a risk that there is

duplication of work as NGT will have to ensure that a subject matter expert is available in case a shipper subject matter expert was not forthcoming.

Nick Wye stated there may be a likely event that a shipper subject matter expert will also work for GTs. Tim Davis stated that there is a restriction and code of practice to ensure that the subject matter experts are acting in the correct manner. Nick Wye stated that this seemed to be too onerous on DNs. Sonia Brown said that it is not disproportionate as this ensures that the subject matter experts would be acting in an unbiased way, acting as experts rather than representing a particular corporate entity.

Sonia stated that this has been discussed at length at many DISG meetings. Nick Wye stated that he understood this, but thinks that DISG got it wrong. Nick did state that he would be willing to sign the code of conduct but thought it unnecessary. Instead, he considered that the subject matter experts can represent its own company and JO without a code of conduct. Sonia Brown stated that Ofgem was not prepared to change the code of conduct in transporters when shippers argued that the code of conduct should be put in place. Sue Higgins stated that shippers had wanted this code of conduct and this will be reflected in the charges that they pay.

Alex Wiseman asked if, in the early days following a sale, the subject matter experts are likely to reside in Transco. Sonia Brown stated that this was not the case as some subject matter experts would need to be provided from other transporters. Whilst a choice for shippers, there would be a licence requirement on GTs to ensure that they provide subject matter experts. Sonia highlighted that it is the panel's choice as to what subject matter experts are needed.

Sonia Brown stated that the hand out of the JO coordination/administration of the UNC modification and invited DISG members to give any comments at the 4 January meeting. Sonia said the charts cover a lot of useful information and people should look through this and get back to Tim with any comments.

Alison Russell asked why this appeared to be different from what NGT provided at DISG 16, Alison stated that the drafting of the note was different in that those proposing modifications should take an active role in report drafting. Sonia Brown stated that this was because Ofgem are encouraging those that are able to propose modifications to put

some thought into the proposals so that that party would take responsibility for modifications, which do, of course, carry a cost when they are considered.

Action DISG members to contact Tim Davies for clarification on any points in the handout on the joint office and to feed any comments back to the next DISG meeting.

6. Review of licence drafting (Ofgem).

a. Business Separation conditions

Sonia Brown explained the timetable for responses. The licence drafting will be made available on Ofgem's website. Alex Wiseman expressed some concern as to whether he would be able to turn comments around in the short timescales. Sonia acknowledged that the timescales were short but it was important for Ofgem to have early comments and all the licence conditions would be subject to further consultation later in the process. Sonia additionally explained that the timescales were longer for shippers to recognise the resource constraints that they might have. Sonia further explained that the consultation on the licence was an iterative process with plenty of opportunities for interested parties to comment.

Jess Hunt explained the business separation package. Jess highlighted to DISG that some of these conditions were discussed on the read through of the conditions last week but that there were some new additions to try to ensure emulate the effects of legal separation. Tory Hunter asked whether this was included in the consultation or if it was new conditions. Jess explained that some were new conditions whereas others were contained within the section 8AA consultation.

With respect to Special Condition C20, Alison Russell asked whether the intention was to have different individuals on the boards. Sonia explained that this would not have been a requirement for legal separation and is therefore not part of what is being proposed. Jess explained that the structural separation requirements meant that it is unlikely that the same person would be on both boards.

Jess went on to explain the new role for the compliance officer within C21.

Suzanne Turner explained that there would additionally be a prohibition of cross subsidies. Jess explained that this would apply to NTS and RDNs but also between

RDN networks. Suzanne stated that this condition would be posted on Ofgem's website for review.

John Costa asked whether these provisions were within Transco plc or between DN networks. Jess replied that the conditions were designed to emulate the effect of legal separation between the NTS and RDNs. John asked whether this could be extended to be between RDNs. Sonia explained that this discussion had taken place over several meetings and that it had been decided that separation of RDNs would be inappropriate to require legal or structural separation. Jess however highlighted that accounting separation was very important but that Ofgem's proposals in this area were being slightly delayed so that Ofgem could take into account new requirements that are being introduced in this area as part of DCPR 4.

Suzanne also noted that there were two business separation conditions that related to the separation of competitive and monopoly activities. She noted that, since publication of the consultation document in November, some further tweaks to these conditions had been made to ensure that the arrangements were consistent with electricity. These would also be posted on Ofgem's website.

b. Price control provision.

Elaine Calvert explained that she proposed to take people through a log of the changes that are being proposed rather than going through the licence drafting.

Alison Russell asked whether these are amendments to s23 drafting. Elaine confirmed that they were.

Elaine talked the group through the various changes made to the price control drafting, as described within the log. Suzanne Turner drew the group's attention to changes made to the principal price control formulae to reflect the Option 2A payment flows which would pass through the DNs. Elaine highlighted that there are no incentive changes to this drafting. Suzanne confirmed that it was the intention to process licence changes associated with the incentives schemes proposed in a Section 23 process once the Section 8AA consultation had closed.

Alison Russell raised a query with respect to TO commodity charges. Sonia Brown clarified that any charge changes would be consulted upon by NGT. Alison Russell asked whether the charging consultation proposed would just relate to the TO charge. Nick Wye responded that his understanding was that all charges would be subject to a charging consultation, which is scheduled for release on 21 January 2005. Sonia stated that she was not aware of this consultation.

Christiane Sykes asked for clarification of commodity charges, and whether there would be two commodity charges. Sonia Brown said she assumed that this would be part of Transco's consultation but that Ofgem's initial view was that one TO commodity charge for entry and exit would seem appropriate. Alison asked how this would flow through Option 2A. Elaine stated that this would depend on what was agreed.

Sonia Brown placed an action on NGT to present revenue flows and what is meant by the Option 2A approach. Sonia stated that this clarity would be welcomed by all parties and would help shippers to understand credit cover issues.

Action – Sue Higgins keep the road map up to date so we know when the charge change will be made.

Action – Transco to present changes to revenue flows

Elaine continued to take the group through the changes log. Suzanne explained that the prescribed rates changes were required to reflect the fact that, post share sale, the prescribed rates bill received by Transco plc would need to be spread across a different number of networks. Tory Hunter asked whether there will be more than one bill. Suzanne stated that there would be a bill for Scotland, Wales and England. Suzanne explained that, because, following sale, Transco plc's only interests in Scotland and Wales would relate to the NTS, these rates bills should be allocated accordingly. However, she stated that percentages would need to be inserted to attribute the rates bill for England between the NTS and the four retained DNs. Suzanne stated that the approach adopted could either try to maintain consistency as far as possible with the percentages within the existing licence, or could try to reflect the approach applied by the Valuation Office Agency in assessing rates for Transco plc. She stated that the percentages included within the drafting reflected the licence consistency approach, but that these percentages may change as the most appropriate approach was yet to be

agreed. Alison Russell asked whether the rates due for Scotland will go partly to NTS. Suzanne stated that the Scottish DN would receive a separate rates bill, and Transco plc would receive a rates bill for its activities in Scotland, which would be NTS specific.

Nick Wye asked what the RCOM charge is. Elaine stated that this picks up basically the SO commodity charge. Nick asked whether this is a change to methodology without consulting. Elaine stated that this was not the case as it is presently in the licence.

In relation to C14 – Alison Russell asked why it is that Transco do not report the there is commodity volume reported under the TO reporting obligations or TORCOM and RCOM terms. Elaine stated that the TO commodity charge was based on entry input volumes and the reason that the volumes are reported for the DNs is that they drive allowed revenue. Sonia stated that Ofgem would reconsider reporting requirements and get back to Alison in this regard.

Action Ofgem to get back to Alison.

Elaine continued to run through the changes made to the IDN price control conditions. Suzanne explained that the changes to the RDN licence would be similar, but that the prescribed rates issue would need to be addressed in the same way as explained for the NTS. Suzanne also pointed out that the treatment of over and under-recovery would need to be reconsidered as part of the section 8AA process to ensure that RDNs were not treated as a single entity for these purposes. Drafting for the RDN licence will be circulated on the Ofgem website.

Sonia Brown said that as there are many changes we would be grateful for initial comments ASAP. Sonia explained that Ofgem had only just been received the drafting from Transco and therefore had not had an opportunity to review the drafting. As such, the drafting is not at an equivalent stage as other licence drafting presented to DISG by Ofgem.

Alison Russell asked, as there is a lot of information being placed on the Ofgem web page, whether it would be possible for Ofgem to send an e-mail highlighting when such documents are put on the web page. Sonia Brown stated that Ofgem do not have the resources to do this. Alison asked, in that case, whether it is possible for the drafting to have version numbers on it. Sonia stated that as far as this is possible, given issues with

PDF formatting, we will endeavour to ensure that drafting versions numbers are included.

Suzanne went through the changes to standard special condition D9 which are shown in revision marking. Suzanne highlighted that some changes are to bring into line with electricity provisions. Other changes relate to tidying up some issues. Sonia Brown stated that this does not need to be commented on ASAP we are just demonstrating the changes we are making, there will be further opportunity to make comments on this draft.

Alex Wiseman asked, whether for the next DISG meeting on 4 January, the agenda would be made available as soon as possible. Suzanne highlighted that there will be licence drafting on that agenda such as storage conditions, switch on and off provision as well as the provision concerning the Collective Licence Modification condition.

7. Any other business

1. Credit rating issues. This issue has been moved to next meeting as Nick Wye had left the room briefly at this point.
2. Common systems agreement – Sue Higgins detailed business rules will be developed by 18 January DISG meeting. Sonia Brown asked when the agency agreement will be ready. –. Sonia Brown said it would be really useful if this was ready for the 18 Jan as well.

Action - NGT to get back to DISG for next meeting as to when agency agreement will be ready by

3. Conditions of Consent – Mark Feather presented a paper on the potential conditions to Authority's consent. Mark emphasised that these proposals will in no way fetter the discretion of the Authority. These are potential conditions the Authority may or may not wish to impose. A copy of the presentation was also handed out during the meeting.

Sonia Brown highlighted that until the Authority makes a decision and assuming that the decision is to grant consent it will only be at this stage that the conditions will be made publicly available.