

DN Sales Development & Implementation Steering Group Minutes

Meeting 31

4 January 2005, 10:00 am-1:30pm

Ofgem's office, 9 Millbank

Attendees

Sonia Brown	Ofgem (chair)	Sue Higgins	Transco
Helen Connolly	Ofgem	Peter Bingham	Transco
Karen Gribben	Ofgem	Nigel Sisman	Transco
Suzanne Turner	Ofgem	Alan Raper	Transco (part)
Paul Hemsley	SSE	Steve Rosa	RWE N Power
Alex Wiseman	UU / CKI	Stephen Parker	UU / CKI
Julian Bagwell	Macquarie	Alison Russell	Centrica
Mike Young	BGT	Peter Bolitho	E.On
Sam Parmar	Statoil		

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

a. Review of minutes

Sonia Brown stated that the minutes were not available until Friday, but that DISG 30 and 31 minutes will be circulated then. Sonia explained that this was due to resource constraints as Ofgem is working hard to get the Authority papers ready for the meeting on 20 January. Sonia explained that Ofgem would ask for comments on both sets of minutes at the next meeting.

Action - Ofgem to circulate DISG 30 minutes and accept comments at DISG 32.

2. Credit

Sonia Brown stated that this was an issue that Nick Wye raised concerning the open letter Ofgem issued on Credit. Julian Bagwell stated that he understood that Nick's concerns were surrounding process. In particular regarding the principle Ofgem's open letter suggested that credit arrangements should be put in place which are still be considered by Ofgem in a separate consultation. Sonia stated that Ofgem's credit team have been leading on this work and they have carefully considered the responses to the credit document. Although there may need to be some changes to the arrangements Ofgem considered that it is prudent for Transco to assume that these arrangements should be in the baseline UNC as the new credit arrangements need to be in place

across both gas and electricity by 1 April. Alex Wiseman had concerns with the credit arrangements going into the UNC as this complicates the process. Sonia Brown asked why this would complicate things as, in electricity, credit arrangements are in the CUSC and this appears to help. Ofgem is keen to see these that these arrangements are codified. Stephen Parker stated this was not true at the DNO level. Sonia confirmed that the high level principle is in the CUSC and this is consistent but at operational level this is not consistent as it is not in individual DNO codes. Sonia stated that a balance is needed as stated in the open letter. Peter Bingham stated that Transco had responded to the open letter and had agreed that the best practise is to codify the principles in the code. Sonia Brown stated that this also minimised the risk of a UNC modification later on in the process which the Authority will not be aware of and would have implications on the overall timetable. Sonia Brown stated that Ofgem colleagues would inform all concerned parties of any changes. Peter Bingham stated that Transco do not want to use Ofgem's base line principles as a result of the present consultation document. Peter stated that Transco do not believe that these arrangements need to be in place at D1 DN Sales and that they will not be consulting on Ofgem proposals as the baseline and instead will use the current NWC rules including one out all out termination. Peter Bolitho stated that whatever process used, Transco needs to make clear what they are doing. Transco agreed to consider the open letter on credit proposals further in terms of what could be implemented for day 1 DN sales.

Action - Transco to re-consider its position on the credit proposals for day 1 of any DN sales

3. Interim arrangements (Transco)

Nigel Sisman presented a paper on interim arrangements. He explained that this paper drew on presentations that had been made in the past both to the DISG and also to the exit reform development forum.

Included in the presentation were the interim proposals for; transportation charging arrangements; emulating the unconstrained product release; interruption; payments for greater than 15 days interruption; and access to system flexibility.

Nigel explained that in the interim period the transitional arrangements would attempt to emulate the unconstrained release approach but with minimal change for shippers.

Nigel explained that effectively shippers would continue to book capacity on the basis of their SOQ holdings. Sonia Brown stated that it was her understanding that it in short term DNs could request additional capacity and asked how the charging for this additional capacity would work. Nigel Sisman stated that it was an issue for the DN price control. Sonia stated that the answer must be that the costs would be recovered from shippers subject to any incentive scheme. Nigel Sisman stated that he did not consider there would be any impact as the pricing methodologies are based on long run marginal costs.

Mike Young asked whether this was also true if the DN books less capacity. Nigel stated that that would be an issue for the price control. Alison Russell asked if Nigel was saying bookings would effectively continue to be based on SOQs. Nigel stated that it is no different to what is presently in place. Alison asked who will the NTS collect it cash from as this will have implications for the drafting of the price control licence conditions? Nigel stated that it would be the shippers and that the present systems are already in place to deal with this. Mike Young stated that it was not a DN capacity model at all as shippers will book and pay for capacity. Sonia confirmed that in the interim it was not a DN booking model but rather a minimal change approach with the flexibility for DNs to book or sell capacity in appropriate circumstances.

Sonia Brown explained that she had received a question from a participant and requested that Transco re-confirm that these arrangements would apply to all DNs including RDNs. Nigel confirmed that this was correct.

Steve Rose asked whether Transco will be contracting for exit capacity buy back. Nigel stated that they would be if it is economical to do so. Steve asked whether those demand management tools, which will need to be developed, will be subject to the economic and efficiency test. Nigel Sisman stated that they would develop arrangements similar to those at entry. Sonia explained that Transco could enter into these contracts at the moment. Peter Bingham confirmed that it is a balancing of two obligations, economic and efficiency and non discrimination. Sonia Brown stated that as it is a balance of two obligations, Ofgem will be involved in the decision where capacity is not released as it will want to understand that Transco has not acted in a unduly discriminatory manner.

Steve Rose asked if Transco could confirm whether DNs are presently in the loop today relating to NTS interrupting. Nigel Sisman stated that presently DNs are aware of what interruptions are called. The DN manages what sites will be interrupted. Steve asked, from a shippers point of view, whether the instruction to interrupt comes from the DN or NTS operations? Nigel was unsure of this and would have to check although he thought that it should come from the central control.

Action Transco to check whether the instructions to interrupt are from the NTS or DN control rooms?

Nigel stated that there should not be any system implications for shippers. Alison Russell asked if the NTS said to DN, for example, a meter of load needs to come off the system will the DN have to sieve through the equitability algorithm. If there were 3 sites that are suitable for interruption then this would still be suitable for the new world. Nigel confirmed that this would be the case, however, the equitability tests are being reviewed to ensure that they work in the new world but there appears to be no reason for a change.

Steve Rose asked whether there is equitability between a NTS connected site and DN connected load. Nigel Sisman stated that the NTS is first looked at and then a cascade effect is put in place. Mike Young asked how many SNI and TNI sites are there on the NTS. Nigel stated that he was unsure and would find out.

Action: Transco to revert to DISG on how many SNI and TNI sites are there on the NTS.

Sonia Brown highlighted that on the administration of payments between transporters for interruption beyond 15 days it was important that was an auditable process as these costs would feed into NTS and DN incentive schemes. Nigel Sisman stated that this would not be a problem.

Nigel explained that in its consultation document, Transco were consulting on its proposals to reduce the scope for undue discrimination in the provision of short term system flexibility. Nigel stated that NGT were keen to get the community's feedback on its proposals. Steve Rose stated that the presentation appeared to be suggesting that the costs associated with balancing actions would be targeted to users. He considered

that this was a significant departure from the current arrangements where participants get this flexibility for free. Nigel stated that Transco need some form of auditable method to access flexibility– either random approach or something that reflects proportionality cost. Peter Bolitho stated that if he was bidding for flexibility then he would like to be able to bid for both the price and the volume. Sonia Brown stated that it appeared from Transco’s proposals that shippers would bidding for volume and not price. Sonia asked how Transco are going to select from 2 competing bids, for say 100 units of flow flexibility, without understanding the willingness of those parties to pay. Nigel Sisman stated that NGT would assess the costs associated with allocating the 100 units to each party and then determine who to allocate the capacity to. Nigel went on to state that this was consistent with the current arrangements whereby flexibility is granted as long as in doing so no costs are generated for the community. Steve Rose stated that he would not envisage any charges for flow flexibility in the interim 3 years.

Mike Young asked if there were competing bids for flow flexibility would there be an overrun charge? Nigel stated that there would not. Mike asked whether in practise if you can’t satisfy everyone what happens if they take it anyway the flexibility? Sonia Brown stated that it could ultimately be a licence breach.

Sonia Brown stated that to be clear, Transco have outlined at previous meetings that the arrangements are not quite first come first served. Instead, Transco have informed DISG that they will discriminate against DNs in favour of other direct connects to provide flow flexibility. In any post sales world this would clearly not be possible. Sonia stated that careful consideration therefore needed to be given to the arrangements given this potential change from the status quo. Alison Russell asked whether it is assumed that DN flexibility is zero value, that is between now and end of price control, will Transco be receiving an income for flexibility? Nigel stated that, no, they would not. Alison asked why it was the case that there are any provisions in the 8AA drafting for such a revenue flow? Peter Bingham stated that this is to show what the conditions may look like in 2008 after the present price control.

Julian Bagwell questioned whether in the example where you have 100 units of flow flexibility, and two bidders requesting 60 units each whether only one bidder would receive 60 units or Transco would offer one bidder 60 units and the other 40. Nigel Sisman stated that he considered that as now there would be a discussion between the

operational staff of NGT and the party requesting capacity. Peter Bingham stated that in his view it would not be economic and efficient to only allocate the 60 units.

Nigel completed his presentation by stating that he very much welcomed respondent's views on all these issues which are contained within NGT's consultation.

4. Changes to revenue flows under Option 2A (Transco).

Nigel Sisman presented a paper on revenue flows. Nigel stated that this presentation again drew on previous presentations that had been given to both the DISG and the exit reform development forum.

Included within this presentation were NGT's proposals for TO and SO pricing methodology consultations which would consider, amongst other things, whether SO and TO commodity charges would be charged to DNs or shippers. Nigel stated that these consultation documents would be issued in January 2005, and a conclusion report to the Authority would be issued in April 2005.

Sonia Brown stated that the pricing consultation proposals were incompatible with the licence proposals. For example, Sonia stated that it would be necessary to understand whether the SO and TO commodity charges would be charged to DNs or shippers in order to finalise policy with respect to the charge change window. Sonia highlighted the 14 February 2005 deadline for issuing the Section 8AA licence consultation. Sonia stated that there does not appear to be any joined up working with these proposals and the licence drafting.

Suzanne Turner stated that the licence consultation document had stated two charge change dates per year on 1 April and 1 October, and that were Ofgem to move to a single charge change window, that different respondents had been in favour of either April or October, but that the strength of opinion probably lay with an October change. Suzanne also noted that the nature of charge pass through would have implications for the principal formulae of the DN price control licence conditions, which again, were scheduled for consultation on 14 February as part of the Section 8AA process

Alison Russell asked whether the January pricing consultation document will contain prices before 2008? Nigel Sisman stated that potential NTS exit capacity cost rebasing may be discussed in this consultation document.

Sonia Brown stated that Transco should be talking to Ofgem about this document to ensure that Ofgem fully understands how the proposals fit into the licence timetable.

Action – Transco need to look a way to join up what is in the licence to what they are proposing to ensure that licence conditions are finalised by 14 February with particular attention to A4. As a result, Transco will need to inform Ofgem of the revenue flows that will be in place. Further, Transco should ensure that they explain consultation document to Ofgem before publication.

5. Income to be excluded from the de-minimis limit (Transco)

Sue Higgins presented a paper on the income to be excluded from the de-minimis limit.

Steve Rose asked what FOMSA stands for. Sue stated that it was Front Office Management Service Agreements.

Sonia Brown asked how long the duration of the SOMSA would run for. Sue Higgins stated that they would run up until March '08 but past '08 they will be recorded as zero cost.

Suzanne Turner asked what IGSA stood for. Sue Higgins stated that she was unsure and would have to get back to Suzie on that point.

In relation to the SOMSA Steve Rose asked whether the 8 million presented at 1.ii was on top of the 16 m presented at 1.i. Sue Higgins stated that was an additional cost. Steve also asked why there a big difference between iDN and RDN SOMSA costs. Sue stated that these costs were based on what has been previously agreed with DNs.

Steve Rose asked for clarification as to the treatment of the costs in relation to 2.iii , was it the case that there are no contracts for these services as the costs are too low? Sue confirm that this was correct.

Sonia Brown asked, in relation to transmission services, why there appears to be a difference in cost between RDN and iDN transmission services, £1.9 million against £3.4 million. Sue Higgins responded that this is the same issue as SOMSAs, the costs were based on what has been previously agreed.

Sue Higgins clarified for DISG that the term PEMS stands for Post Emergency Metering Services. Sue concluded that the purpose of the income to be excluded from the de-minimis limit is to preserve the status quo and not to make any money.

Sonia Brown requested that DISG members should go way and have a look in detail at the paper presented by Sue with views invited at next weeks meeting

Alison Russell asked whether Transco are earning any more than what was present by Sue, Alison stated that reallocation of costs should effectively be zero. The sum of all the costs should be zero for customers. Peter Bingham confirmed that this was correct for customer - the NTS and DNs should not be collecting any more money from shippers.

Steve Rose asked, in terms of staying within the 2.5% limit, do these costs presently fall within the 2.5% limit? Sue Higgins stated that Transco is presently within the limit but that these costs are disaggregated across all networks. Sue confirmed that a change to way the de minimis business was allocated was needed as there was a risk that one of the businesses may be outside the limit.

Stephen Parker asked whether metering revenue is included. Stephen stated that metering work is being done for other networks as well as other customers. Sue Higgins responded that if the DNs work force works for 3rd parties this will fall within the de minimis limit, not all metering costs are price controlled. Therefore, metering revenue needs to be split to ensure whoever the metering customer is, is recorded in order to see where the revenue should sit.

Action - Sue Higgins to report back to DISG what IGSA stands for.

Action - DISG members to provide any comments on income to be excluded from the de-minimis limit for the next DISG meeting.

6. Establishment of agency agreement (Transco).

Peter Bingham stated that sub contracting of the DN and the agency agreement are not public agreements but will be agreements that Ofgem will be able to have sight of.

Sonia Brown asked for shippers views on this statement. Peter Bolitho stated that it was one of those things that unless you know what is in it, you know you don't need to see it. Peter Bingham stated that the service definition document has been provided.

Sonia Brown stated that as a monopoly it is important for Transco to ensure that it to be transparent, particularly as the costs that it imposes are on shippers and ultimately customers. Sonia highlighted that services provided to shippers are not set out in the UNC as Peter had stated. Section Y, of the UNC, was not what the industry was expecting to see, Sonia asked when there be a new section Y? Peter Bingham admitted that Transco recognise that section Y fell short of what was expected, but stated that section Y will include JO process and how the panel will be constituted, for example.

Peter Bolitho stated that it is the activities undertaken what need referenced in the UNC rather than how Transco provide them. Sonia Brown also highlighted that Authority wanted the scope of agency functions set out in UNC. Peter Bolitho highlighted that the activities are fundamental day to day activities that have the potential to have a significant impact upon shippers' costs if the provision of these activities were to fragment.

Sue Higgins stated that the scope of the services can be changed via a modification.

Peter Bolitho noted that the Ofgem decision document went further than what is being proposed by Transco. Sonia Brown stated that it was a key part of the Authority decision, and the desire to have the scope of the agency within the UNC was to explicitly allow flexibility for change if issues arose as the arrangements bedded in. Sue Higgins stated that a modification could change that. Sonia noted that not if the scope is not defined. Sonia Brown said that what was requested by Ofgem was for who is providing the services and the scope of the services the agency is conducting to be clearly defined in the UNC

Peter Bingham said that the scope of the agency would be embodied within the Common Systems Arrangements agreement which lists what the services and common systems are. Sonia Brown stated that this was not acceptable from an Ofgem point of

view. Alison Russell stated that so far as the licence drafting dealt with the provisions of the CSA, it did not cover the scope of the services as well as the systems. Peter Bolitho stated that agency services were the glue that holds everything together, and that the cost benefit case for DN Sales would be jeopardised if these arrangements were to fragment. Peter stated that the potential costs of fragmentation were highlighted within the Oxera report commissioned by the Gas Forum.

Sonia stated that she felt that it was extremely important the Authority's decision that the scope of the Agency was contained within the UNC was implemented. Peter Bingham stated that he clearly now understood the importance of this issue and Transco would go away and reflect further on its position.

Action - Transco to reflect on this discussion and report back by next meeting.

7. Review of Licence drafting.

a. Storage provisions.

Suzanne Turner presented an amended draft, from the November document, of the relevant conditions. Suzanne highlighted that changes in blue reflect changes from 21 December DISG meeting. Suzanne stated that the two documents circulated included (1) a revision of C1, which is the NTS Special Condition that augments NTS and DN Standard Special Conditions by introducing LNG related provisions, and (2) early drafts of the NTS and DN Standard Special Conditions which are augmented by C1.

Suzanne emphasised that these additional conditions provided were merely for reference to aid understanding of C1, and show the treatment of storage related provisions. Suzanne emphasised that the drafting of these conditions had moved on significantly and, as such, that these conditions should not be reviewed or commented on in and of themselves.

Suzanne Turner stated that improvements had been made to drafting to C1 which is a NTs only condition. Suzanne highlighted that following concerns raised at the DISG 29 meeting, the designated standard wording had been removed from the NTS and DN Standard Special Conditions within Part A, and as such, C1 was now more of a true augmenter. Suzanne stated that the changes to C1 were to (1) make the condition easier to navigate by flagging the conditions being augmented more clearly (2) to clarify

definitional issues (3) to minimise the augmentation text and hence reduce the extent of the text that may be outside the scope of the private CLM procedure as well as making it clearer what the extent of the changes were. Suzanne noted that in any event some complexity would be required to manage the differential treatment of the DNs and the NTS. However, Suzanne noted that a decision had been reached, in conjunction with Transco, that the burden of this complexity should rest with the NTS rather than the DNs.

Suzanne Turner stated that there were previously two definitions of transportation business which had been tidied up to make it clearer to the user. The definitions in A3 will make this clearer this will be brought to DISG in the coming weeks. A26 changes highlight the recent amendments based on comments received to the November licence document. A respondent highlighted that the definition being augmented by C1 was not used in the A26 condition – as such, the definition and the associated augmentation provisions have been deleted. Suzanne requested comments on condition C1 and emphasised that many of the conditions C1 is augmenting will likely to change over time so C1 will need to evolve as and when the conditions it arguments changes.

Action - Comments requested by Transco and potential buyers by next DISG, everyone else comments are needed by 14 January .

b. Switch on/switch off condition & Private CLM condition

Karen Gribben presented the switch on and off condition and private CLM A1 and A2. Karen highlighted that respondents' comments have been included and stated that there seemed to have been some confusion in relation to how A1 and A2 interacted. Concern had been expressed that if a new condition was introduced via private CLM then you would need to switch that condition on via A1 before the new condition could become operative placing another hurdle in the way which is not the intention and text has been amended to take into consideration this issue.

Karen Gribben stated that other parts of the conditions have also been changed, namely Paragraphs 3 and 5. The requirement for the licence to consent to the use of the switch or a variation had been removed. As the draft stood, Paragraph 5 could have been interpreted as meaning that additional consent may be needed from licence holder where a condition has been varied and this could mean that private CLM would not

work properly; therefore, this consent provision has been changed to reconsider this issue.

Karen explained the switch on and off condition and how it would be used via the direction to be issued under section 23 and section 8AA in the event the Authority gave its consent. Karen explained there are three stages to the process. Firstly, stage 1 will be to introduce the new conditions (such as A1, A2 etc), stage 2 will be switching on the new conditions by exercising the direction under A1, B1 and D1 and stage 3 will involve switching off conditions which are no longer required.

Stephen Parker asked in relation to paragraph 5 changes it appears that it appeared to give Ofgem the right to change the whole licence. Karen Gribben stated that this was not the case. Sonia Brown agreed with this. It only gives Ofgem the right to make consequential changes.

In relation to condition A2 Karen Gribben highlighted the changes to the relevant licence holders, to clarify drafting changes when it comes to voting. Alison Russell asked whether there are 6 licence holders? Karen confirmed that there are 6 categories of licence holders.

Sonia Brown highlighted that Ofgem is being as open and transparent as possible which is why drafting changes are being presented at DISG as and when the conditions are being amended.

Action - Comments requested by Transco and potential buyers by next DISG, everyone else comments are needed by 14 January .

c. Section 23 responses.

Suzanne Turner presented a paper on respondent's views.

Suzanne summarised respondents' views to the Section 23 consultation. She stated that none of the respondents raised any objections to the Section 23 changes proposed, but described some of the points raised in relation to the Section 8AA changes required, and comments raised in other areas.

Suzanne highlighted that one respondent had requested an audit trail particularly in relation to the derivation of the DNZt-1 term for the year commencing 1 April 2004 for each DN. Peter Bingham stated that he had already provided something to Ofgem.

Sonia Brown highlighted that something was needed to be placed in the public domain for the benefit of buyers

Sonia Brown highlighted that Ofgem colleagues in markets will be directing changes on 26 January and the DN Sales team will be directing on the 27 January should the Authority have consented to DN Sales on 20 January.

Action - Transco to compile a definition of derivation of the DNZ term to be placed in the public domain.

8. Any other business

Sonia Brown stated that Ofgem is still waiting responses to final IA summaries and urged DISG members to respond to Ofgem's e-mail on summaries of response as soon as possible.

Peter Bolitho asked for confirmation that the full responses would be made available for the Authority. Sonia confirmed that the full responses to the Final IA will be made available to the Authority.

Sam Parmar asked, in terms of the Authority decision, how will it be notified? Sonia Brown stated it is price sensitive and therefore there will be a stock exchange announcement. Peter Bolitho asked how quickly the decision will be publicised. Sonia stated as soon as possible following the meeting but the Authority may wish to consider issues further so it is therefore difficult to predict.