

DN Sales Development & Implementation Steering Group Minutes

Meeting 39

05 April 2005, 10:00 am – 11:30 am

Ofgem's office, 9 Millbank

Attendees

Mark Feather	Ofgem (chair)	Julian Bagwell	Macquarie
Jessica Hunt	Ofgem	Tory Hunter	SSE
Amit Pathare	Ofgem	Alex Wiseman	CKI/UU
Tim Dewhurst	Ofgem	Christiane Sykes	E.on UK
Sue Higgins	NGT	John Costa	EDF Energy
Peter Bingham	NGT	Rekha Patel	ConocoPhillips

Review of items from DISG meeting 38 (held 22 March 2005)

Since the minutes of DISG 38 were pending internal Ofgem review and had not been circulated prior to DISG 39, their discussion was carried forward to the next DISG meeting. Mark Feather therefore suggested that the next item on the agenda be discussed – Tim Dewhurst's presentation on interim incentives.

Interim Incentives – licence drafting (Ofgem)

The key points that Tim Dewhurst covered included the derivation of DN interruption cost targets, ensuring consistency with existing interruption targets, and the derivation of interruption targets for the period 2007-09. Tim pointed out that the presentation would be available on the Ofgem website.

Tim stated that interruption cost targets for the first two years of the interim period were derived from the aggregate LDZ interruption cost included in the licence. The DN interruption targets were disaggregated from the aggregate total in proportion to the combined SOQ volume of NSL and TNIs in each DN. There was a slight discrepancy between the aggregate DN target and the LDZ licence targets due to a rounding error. This has been corrected in the latest licence drafting.

Moving to the next slide, Tim stated that the interruption targets for 2007-08 and 2008-09 had been calculated by applying the forecast growth in interruptible demand for each LDZ to the updated 2006-07 target data, adding that these growth forecasts were consistent with firm demand growth data in Transco's current ten year statement. Tim also stated that this data on forecast growth in interruptible demand had been included in the transaction data room.

Tim next highlighted areas where Transco had made changes to the base allocation of offtake rights, stating that these changes were a result of the rectification of a number of minor spreadsheet errors and errors in the planning process. He also listed the other typographical changes to the relevant licence conditions, and requested respondents to check these changes on the documents posted on the Ofgem website and revert with their comments. Tim added that at the next DISG, scheduled to be held on 19 April, he would go through any further licence changes to interim incentives, including house-keeping changes.

Julian Bagwell asked if these changes were in addition to changes on the interim incentive scheme, which Tim confirmed. Tim asked attendees to read through the updated licence drafting posted on Ofgem's website, and send through any additional comments within a week. Tory Hunter enquired about the specific location on the Ofgem website where the updated licence drafting could be found. Tim replied that he would check and get back to her.

John Costa asked what baseline for offtake capacity had been used for the interim period. Tim replied that the baseline used was the same as that in the licence (by LDZ).

Mark Feather asked if there were any further questions. As there were none, the discussion moved to the next point on the agenda – Transco's discussion of the issues raised by respondents and the subsequent changes leading to the updated UNC, which was presented by Peter Bingham.

Stage 2 of UNC consultation – (Transco)

Key issues arising

Peter Bingham started by stating that the first stage of the UNC consultation was now closed, and that around 900 points had been raised by respondents. He stated that all these responses had been input into a matrix structure, which also detailed how these points had been addressed by Transco, and any resulting changes to the UNC. Peter added that the updated UNC had been sent to Ofgem for the second stage of consultation.

Peter stated that he would go through the high level points from the first round.

In terms of consultation process timescales, some respondents had expressed the view that a two stage ("2/1/2") consultation would not be adequate, and that they would have preferred it to be a full four week consultation. Peter stated that he expected representations to be made at the end of second stage following a five week consultation period. He added that Transco had found the consultation process to be very useful in terms of creating a network code to support a divested industry structure.

Some respondents had sought clarification on whether the UNC could be created with a modification to the existing network code. Peter explained that this was not feasible as there would be a different industry structure going forward, and hence it was necessary to establish a new process to develop the UNC.

Peter stated that the main issue raised in connection with the mod rules was a question of why the current panel structure was being changed to a 5:5 configuration, and whether there was a need for wider shipper representation. Peter reaffirmed Transco's view that a 5:5 panel configuration would be better suited for the new industry structure.

Some respondents had also stated that by suggesting a specific panel configuration, Transco seemed to pre-judge the appeals process. Peter replied to this point by explaining that the suggested panel structure was simply a likely starting point in a multi-transporter environment, and that mod rules could be updated as necessary once the appeals process is established. He added that this was a continuation of the strong theme of "equality of representation" expressed in previous DISG meetings.

Regarding the exit regime, Peter explained that Transco was taking the proposals forward because of the Authority's decision that exit changes were required in a multi-transporter environment. He added however that it would not be part of the Day 1 process.

Peter also stated that Transco had picked up concerns about the signing arrangements for the short form code, adding that Dentons had sent out arrangements for the signing process to the industry, following Chris Train's original letter, and that Transco are also following up with counterparties in shipper organisations to ensure that they are up to speed on requirements.

Rekha Patel stated that the signing process documents had been very useful. John Costa asked if sign-off was required on transportation arrangements for each network. Peter replied that framework agreements would be required for each of the four IDNs, and that the current framework agreement would remain in force between shippers and Transco plc.

Peter stated that ancillary documents had been made available to the UNC Development Forum, and that other required documents would be made available on the Transco website. Peter stated that the majority of changes to the UNC were corrections of typographical errors, cross referencing errors, and clarifications sought by respondents. Peter added that it would be useful to highlight some of the more significant changes to the UNC as a result of responses received, and proceeded to discuss the same.

Key differences between the draft UNC issued on 4 March & the draft UNC issued on 29 March

Regarding the General Terms document, Peter Bingham explained that some respondents were confused by the reference to a single network code, and clarified that Transco would be seeking consent from the Authority to have just a single short form code in respect of their two licences.

Peter then stated that Transco had introduced references to the Communications Document which would set out the information flows between gas transporters. He also noted that the assignment terms had been moved from Section V of the Transportation Principal Document to Section B of the General Terms document.

John Costa asked if the short form codes for the IDNs had been sent out. Peter clarified that they would be identical to the Transco short form code except for the company name. Christiane Sykes asked when they would be issued, to which Peter replied that the short form codes would be issued once Transco issue the Final modification Report to Ofgem, as they would be impacted by comments on 0745.

John asked if individual short form codes could be modified. Peter answered that they could be modified through the mod rules, and would be subject to Ofgem approval, i.e. changes would only be made if they better facilitate the requirements of the divested industry structure. Tory Hunter added that mod rules for each short form code would be fully contained in the UNC.

Peter then described changes to the Transportation Principal Document (TPD), stating that it had 103 changes, which were again mostly typographical errors, cross references, etc. He then outlined the material changes as follows:

Section A – Transco has clarified the meaning of the word “total” as meaning “total system”. Inter LDZ definitions has been moved from section A to the Offtake Arrangements Document (OAD).

Section B – The only material change that has been effected is to allow DNs to ask for reductions as well as increases in allocation, which allows the NTS more flexibility. There have also been a few amendments to clarify the position of SIUs.

Section C – The provision which requires the notification of nominations to be shared with DNs has been moved to the OAD.

Section D – An error relating to the manner in which the NTS determines its balancing requirements has been fixed such that the NTS no longer needs to take account of LDZ line-pack.

Section E – Provisions relating to the quantity of gas at inter-system offtakes have been deleted as it is already dealt with in Section N. In addition, the Interruptible Firm Allowance (IFA) charge has been clarified in terms of the split between the NTS and the DNs.

Section J – A number of changes were made to Section J in response to buyer concerns. Peter said that the changes relate to the NTS-DN interface, and therefore don't impact shippers. The changes are:

- ◆ The maximum flow rate provisions were relaxed to enable users to keep within contractual limits at the pressure controlled offtake points. |
- ◆ Where the NTS has asked a DN to change its OPN (or the DN has received permission from the NTS to change its OPN), revisions have been made to prevent the DNs from incurring inappropriate overruns.
- ◆ Liabilities for excursions outside of flexibility tolerances have also been removed so that this now only amounts to a contractual breach. In effect, the rules have been relaxed to match the physical reality. Peter added that a similar logic should apply for enduring arrangements (but could not confirm the same).

- ◆ Regarding the liabilities for NTS' failure to make gas available, it has now been clarified that this issue is associated with the delivery of non-compliant gas or 'liquid drop-out'.

Section L – In terms of maintenance planning, clarification has been provided that the information provided is in respect of the NTS. John Costa asked whether there was any obligation to coordinate maintenance periods between the NTS and the DNs. Peter replied that this would be addressed in the section on maintenance planning in the OAD, and that Section L of the TPD was only concerned with the users of the NTS communicating with the NTS. John stated that it seemed that there was no incentive to align maintenance periods across the system, to which Peter replied that there was indeed the intent to optimise maintenance across the system and that this was set out in the OAD.

Section M – A payment reference error ("week" rather than "month") had been corrected.

Section N - The section regarding payments associated with meter reading failures has been moved to section V, and the provisions has been amended to allow DNs to carry out their shrinkage procurement activities.

Section S – DNs will be billed for energy imbalances resulting from their shrinkage requirements.

Section U – DNs have been given UK Link status to provide shrinkage activities.

Section V – There is now a provision for GTs to appoint their agents to manage operational activities (to address "licensee & operator" business models). Peter added that this model is used by several water and electricity companies. John Costa asked if this was the existing provision in relation to SOMSAs. Peter replied that this was a new provision to allow a 24-7 type approach.

Peter concluded by stating that on the whole, these changes did not amount to any substantive changes in what was a huge document.

Moving to the **Mod Rules** section, Peter again stated that the changes reflected clarifications and tidying up of the existing drafting. He said that the following changes had been made in response to issues raised in responses to Stage 1 of the network code arrangements consultation:

- ◆ Terminal representative cannot be affiliated to User representatives;
- ◆ Parties can adopt or raise alternatives to withdrawn third party mods;
- ◆ Parties can vary adopted modification proposals;
- ◆ Subject Matter Expert (SME) code of conduct is now within governance of panel, and must be agreed by the panel. Peter stated that the SME code of conduct had been released for comment. He added that while currently the SMEs were supplied by Transco, he would expect DNs to also provide them going forward. He also clarified that shippers could also do so if they so wished;

- ◆ The timing of the appointment of an SME for User- and Third Party-proposed urgent modifications was brought forward to an earlier stage in the modification process, with transporters being responsible for their appointment; and
- ◆ In the case of multiple proposals on a particular matter, the panel, not transporters, would be responsible for expressing an opinion in the Final Modification Report as to whether the relevant objectives are furthered by the proposal.

Peter said that further changes to the drafting of the modification rules have been made to clarify the following:

- ◆ Transporters are responsible for preparing legal text (this function is processed by the Joint Office);
- ◆ A 5-5 panel split in a vote is a recommendation not to implement the motion being discussed, as a panel majority is required to make a positive proposal; and
- ◆ The Deputy Chairman of the panel will be appointed by the transporters.

Moving to the **OAD** related changes, Peter Bingham explained that the OAD effectively establishes contractual agreements between transporters, but that in Transco's view, it did not impact shippers' activities. He however asked shippers to form their own conclusions regarding this view.

Peter stated that as the OAD was a new document, buyers had provided a number of comments, the large majority of which related to typographical errors, cross references and clarifications sought. He gave a high level view of the changes made by section:

Section B – Peter said that a number of changes had been made to the provisions relating to connection facilities which sought to commercialise the relationship between the parties at NTS/DN offtake points, including in relation to:

- ◆ building new equipment at an offtake site;
- ◆ disposing of land; and
- ◆ removing decommissioned plant.

The section had also been amended such that disconnection of facilities by the NTS is only permitted during emergencies.

Section C – Clarification of role of NTS.

Section D – Introduction of "reasonable request" requirement for validation by upstream party of metering equipment installed by the downstream party

Section E – Transco picks up costs in relation to telemetry equipment if the equipment is NTS related. Mutual collaboration would be required for commissioning of maintenance of telemetry equipment.

Section F – Calorific Value shrinkage liabilities of DN's have been removed (the NTS already has CV incentives).

Section G – This section had undergone a number of revisions which sought to make the maintenance process more balanced and cooperative. In particular, a maximum limit

(of 8) had been imposed on the number of Flow Relevant Maintenance Days at an individual offtake point.

Section I – A number of changes had been made to section I, including:

- ◆ Where the NTS requires a DN to change flows, or a DN applies for flexible capacity, this will not result in a breach of the original Offtake Profile Notice (OPN);
- ◆ The threshold for point at which the NTS can require the DN to run flat has been set at 50% of peak demand rather than 60%. Mark Feather asked how this interacted with the flex product, to which Peter replied that the flex product is subject to this rule;
- ◆ Ramp rate provisions at offtake points have been removed because if a DN exceeds the ramp rates it will damage its own equipment not another party's equipment;
- ◆ The provision which requires the notification of nominations to be shared with DNs has been moved from Section C of the TPD into Section I of the OAD;
- ◆ The provision for notification of nominations has been taken out of Section C of the TPD, and has been inserted into Section I of the OAD;
- ◆ The provision to recognise requests for pressure increases within-day; and
- ◆ The provision to allow Transco to take into account demand forecast errors.

In closing, Peter stated that most of the changes are of low materiality, and reflected a tidying up of the document. Overall, Peter thanked the respondents for their responses, questions and comments, and stated that as a result, Transco had a better product.

Mark Feather asked if there were any more questions. Peter Bingham reminded the attendees that all these revised documents were on the Ofgem DN Sales website under the "+" sign beneath the Open Letter for Stage 2 of the UNC consultation. Jessica Hunt added that the UNC had been provided in a variety of different formats, including marked-up from the existing Network Code, marked-up from the previous version and clean.

Julian Bagwell sought to confirm if the deadline for responses to the UNC Stage 2 consultation was 12 April. Peter Bingham confirmed the same, and added that 12 April was also the deadline for responses to the Urgent Modification Proposal 0745.

Mark Feather stated that Ofgem would take on board responses to Stage 2, and that the UNC consultation will inform Authority decisions on conditions to consent (likely on 25th April, depending on the nature of the responses).

Rekha Patel asked what the implications for the signing window would be in the event that Ofgem were not to be in a position to make any decision by 25 April. Mark replied that if the licence arrangements or network code arrangements were not satisfactory (in terms of the conditions to consent), then hive-down would not occur in accordance with Transco's commercial timetable. Julian Bagwell commented that if the UNC arrangements were not agreed, the industry could sign-off the short form code on a contingency basis.

Mark noted that if responses to stage 2 of the network code arrangements consultation raised issues that required further consideration, but which were not so material as to prevent the Authority's conditions of consent from being met, then it might be possible

to develop alternative solutions (e.g. through modification proposals to the UNC) to ensure that these issues were addressed post hive-down.

Julian asked if the Authority meeting was scheduled for the 25th, and also asked how the decision would be made. Jessica Hunt confirmed that a meeting was scheduled for 25 April. She also clarified that at the January Authority meeting, the Authority had delegated its decision-making powers in relation to the conditions to consent to the Ofgem Executive in consultation with Sir John Mogg (and that Sir John had subsequently delegated his powers to Michael Brocklehurst). She said that therefore the decision in relation to hive-down would be made by the Exec plus Michael Brocklehurst acting in its capacity as delegated Authority.

Before the close, Peter Bingham reminded the attendees that the other modified ancillary documents – JGAA, ASA, etc – had been posted on the Ofgem website.

Mark then thanked the attendees, and declared the DISG meeting closed.