

Appendix 2 DISG minutes

DN Sales Development & Implementation Steering Group Minutes

Meeting 37

8 March 2005, 10:00 am – 1:00 pm

Ofgem's office, 9 Millbank

Attendees

Sonia Brown	Ofgem (chair)	Julian Bagwell	Macquarie
Hannah Cook	Ofgem	Tory Hunter	SSE
Carolyn Waddell	Ofgem	Charles Ruffell	RWE npower
Helen Connolly	Ofgem	Alison Russell	Centrica
Amit Pathare	Ofgem	Steve Adcock	NGT (xoserve)
Tim Robinson	Ofgem	Tim Davis	NGT
Samanta Padalino	Ofgem	Sharif Islam	Total Gas & Power
Peter Bingham	NGT	Rob Cross	Statoil
Peter Bolitho	Eon	John Costa	EDF Energy
Stephen Parker	CKI	Sue Higgins	NGT
Frank Roper	NGT		

Review of items from DISG meeting 36 (held 24 February 2005)

Review of minutes

Sonia started the meeting by asking if anyone had any comments on the minutes of the previous DISG meeting (DISG 36). As there were none, she proceeded to discuss outstanding actions from DISG 36.

Actions from previous meetings

The first action discussed was that on Transco to consider all the proposals made by attendees at DISG 36 in relation to the five options outlined for panel composition. Peter Bingham proceeded to give an update.

Peter stated that the previous DISG meeting was very useful in terms of understanding industry preferences, and that after internal discussions, Transco had proposed to adopt the provisions of Option C – 5 + 5 panel constitution, with a UNC provision in the Transition Rules to review the composition of governance arrangements once there was

clarity on the appeals regime. He confirmed that the panel would be required to give a recommendation under these proposals, and that the transitional rule requiring review was currently with a view to introducing an independent voting member to the panel.

Peter added that at the current stage, without the DTI decision on the appeals process, it would be premature to codify arrangements. He recognised the preference of some parties for a hard-coded panel member.

Tory Hunter asked what the outcome would be in the event of a 5-5 draw in the vote under the current proposed arrangements. Tim Davis replied that the deadlock would not be resolved in this event, and so the recommendation would fail, i.e. the proposal would not be recommended.

Charles Ruffell asked Peter Bingham how many shippers had attended the UNC forum that Transco had organised. Peter replied that it had not been well attended, but that minutes had been recorded.

Peter Bolitho stated that he was open minded about Options B & D, as he would have preferred the arrangements to have incorporated a provision to address instances in which deadlock was reached. Peter Bingham stated that while he recognised Peter Bolitho's preference, he was also mindful that this was not a consensus view. Sonia stated that Ofgem had released a consultation regarding the UNC on Friday 4 March, which would give a further opportunity to interested parties to state their views. She added that because it was Transco's UNC, it was their responsibility to take all expressed views into account.

Sharif Islam stated that there was a lack of clarity about how an appeals mechanism would work in the future, but asked why there needed to be a panel recommendation in respect of the same.

Peter Bingham replied that given that Transco is the only GT in the current scenario, it had been easy to operate without an appeals mechanism. Sonia explained that, while currently only one GT makes recommendations and is responsible for the whole system, this would not be the case in the future. She added that it would therefore be necessary to move to a structure which recognised that responsibilities would be shared by several players, and, as such, enabled all players to make recommendations.

Sharif stated that he was not sure whether this structural change was necessary.

Sonia replied that it would be counterintuitive, in a multi-transporter environment, to have one GT make recommendations, which was why Ofgem had indicated in the various governance arrangements and at DISG that it was of the view that it was necessary to have the panel make recommendations. She affirmed that as the governance arrangements were under consideration, if any party had any recommendations or responses, it would be the responsibility of consulters to make their views known in the consultation process. Sonia stated that given the uncertainty regarding DTI's appeals process; it would be best to proceed on a "base case" as to how it might best work.

Peter Bolitho agreed that Sonia had a point, stating that there might be an argument in favour of joint recommendations. Sonia stressed the ongoing nature of the consultation process.

The next action discussed was on DISG members to review Transco's paper regarding modifications in flight and raise any issues that they might have with Transco. Tim Davis confirmed that Ofgem concerns had been incorporated into the Transition Rules and that Centrica had commented in the document. He added that no mods had been affected in the process.

Tim also confirmed that Transco had published a table outlining the modifications that would fall into the categories identified in the paper distributed by Transco in relation to transitional arrangements for modifications, which was the second action for Transco from DISG 36.

The DISG then proceeded to a discussion of the Agency Services Agreement.

Agency Services Agreement

Peter Bingham stated that the contract had been published on Transco's website, and that Steve Adcock would now present an overview of the Agency Services Agreement.

Steve began by stating that he was responsible for putting the contract together, and would be presenting an overview of the key terms, and the contract structure and schedules. He confirmed that following DN Sales, the parties to the contract, which would be structured as a bilateral contract, would be xoserve and the network operators. Peter Bingham stated that the contract also bound the GTs under Standard Special Licence Condition A15, which was confirmed by Steve. Steve also explained that change management would be governed by an all-party change process, which he would describe shortly.

Steve then proceeded to the slide describing the "Key terms" (slide 4). Highlighting the key points from the slide, he explained that the Network Operator Representative is appointed and authorised through an all-party mechanism. He also explained that contract charges reflect the actual usage of service, as they are based on existing transactional model allocation to Transmission, and then charges by Supply Point category and Supply Point share.

Moving to subsequent slides, Steve described the categorisation of the schedules, which was as follows:

- **Schedule 1** – Interpretation and Definitions
Summary of all definitions within the ASA, with terms not defined here taking their meaning as per the UNC
- **Schedule 2** – Service Requirements
Detailed description of services provided on behalf of the Network Operator in conjunction with the Network Code and the Gas Transporters' licence
- **Schedule 3** – Security and Business Continuity
Process and arrangements for Business Continuity and Information Security

- **Schedule 4** – Performance Indicators and Monitoring
Performance indicators based on which xoserve will be measured
- **Schedule 5** – Parties
Providing details of parties to the contract
- **Schedule 6** – Reporting and Access to Information
Terms under which Network Operators can request or access data relating to the services provided by xoserve, including audit rights and reporting of performance against UNC liabilities
- **Schedule 7** – Charges
Arrangements for charging Network Operators for service provision, publication of pricing statements, and charging schedules
- **Schedule 8** – Network Operator Responsibilities
Responsibilities and obligations of Network Operators to xoserve
- **Schedule 9** – Contract Management
Contract management roles and responsibilities (including the role of the Change Manager), and the role of the IS Service Manager
- **Schedule 10** – Change Management
Change Management procedure, enabling the delivery of change in support of the GT licence and the UNC
- **Schedule 11** – Exit Arrangements
Process between xoserve and Network Operators in the event of exit from the contract

Steve asked if there were any comments on the categorisation, but none were received. He then proceeded to provide some more detail on Schedule 2 and Schedule 4.

Observing that Schedule 2 (Service Requirements) set out very similar terms to the current Network Code, Steve elaborated on the categories of services provided as follows (slide 8):

- Network Code services
- GT Licence services
- Other Network services
- AT Link and RGTA System services

Steve also highlighted some examples of existing standards that xoserve would be operating to as per Schedule 4, and stated that the contract included 46 performance measures (slide 9). He explained the examples in the context of services described in Schedule 2.

Peter Bolitho thanked Steve and xoserve for making the ASA document available. He expressed his concern as a shipper as to how these services were to be provided, his primary concern being to ensure that the Network Code sits at the top of the hierarchy. Peter Bingham affirmed that any change to the UNC would affect services provided by xoserve. Sonia Brown stated that the licence drafting was being designed to achieve

and reflect this contractual hierarchy. She added that Ofgem was interested in ensuring the transparency of any changes to the UNC, with subsequent impact on xoserve services. She asked whether comments on the ASA would be received by Transco or by xoserve. Peter Bingham replied that they could come to Transco in the first instance.

Sonia asked if there were any further questions. Tory Hunter confirmed that the “licensee” meant the signatory to the licence i.e. Scotia, rather than SSE.

John Costa asked whether the cost of project Gemini and the exit requirements would be included within the current budget, or if DNs would have to pay more in this respect. Peter Bingham confirmed that exit reform formed part of the overall “cost of sale”, and thus would be a cost borne by NGT while the costs associated with the implementation of Gemini had been accommodated through allowed revenue in Transco’s price control. Sonia reiterated this view.

John replied that shippers had been told that they would need to pay further costs in respect of the additional services provided as part of the Gemini project.

Sonia explained that in Ofgem’s understanding, the scope of project Gemini was included in SO internal price control. If shippers however required additional services that could result in increased costs, NGT would apply for more funds through the price review, which would be recovered from shippers (and ultimately, from customers). Interim and enduring exit costs would however be borne by NGT. Peter Bingham confirmed that this was the case. Sonia outlined three cost components:

- Costs in respect of the initial list of services
- Additional NGT requirements
- DN sales related costs

Peter Bingham sought to confirm if there had been any specific requests by independent shippers for additional services.

Tim Davis stated that there was a general provision in the UNC for shippers to pay for additional services.

Sonia stated that if increased costs were a consequence of Network Code issues, then these could be ascribed directly back to shippers, rather than through the price review process. She again confirmed that costs associated with the exit system would not be passed to customers, but would have to be borne by NGT. A question was raised as to whether these costs were indeed substantial. Peter Bingham replied that he did not know for sure if they were substantial.

On that note, the discussion proceeded to the Joint Office Governance Agreement.

Joint Office Governance Arrangements Agreement

Tim Davis stated that he would go through the JGAA document and highlight areas of focus.

Beginning with the composition of the Committee, Tim explained that as per Schedule 3, Transco would have two representatives (one each in respect of the NTS and the RDN licence), and the purchasers would have one each in respect of their licences in conformity with the principles of equitability and non discrimination. So although the SSE consortium would have two licences, they would only be entitled to one Committee member.

Tim detailed that the provisions under section 8, regarding the resources and budget were related to the way in which the costs of the joint office would be determined. In this regard, he explained that the relevant expenses would be divided by 9, in view of the fact that the joint office would administer the mod process for 9 gas transporters, and would be allocated to these transporters through the provisions of the UNC. Peter Bingham stated that concerns about the distribution of costs between the NTS and the RDN licence had been addressed, to some degree, by the inclusion of the offtake arrangements in the UNC. He stated that DNs could expect to be more active in modifications going forward. Sonia Brown added that it was for Transco to set the base case or starting point and that it would be possible for this to evolve over time through the UNC mod process.

Sharif Islam asked whether Subject Matter Experts (SMEs) form part of the resource plan. Tim Davis replied that the resource plan only covered support staff, facilities, equipment and applications. Stephen Parker asked if this would facilitate the nominations process by non-GTs. Tim answered that it would not but that Transco would invite users to put forward nominations for SMEs as soon as possible, and well in advance of implementation of the UNC.

To Sharif's enquiry into the rationale for the SMEs, Tim replied that they were required as an independent administrator function. He clarified that, as such, these representatives would not be permitted to incorporate any biases within their reports. Sharif expressed an opinion that this could be achieved by other means, and stated that, in particular, the Chairman of the joint office could be required to undertake the role envisaged for the SMEs. Tim Davis responded that there was no reason why alternatives to the current proposed SMEs should not be put forward by interested parties and suggested that any proposals of this nature should be included within responses to the UNC consultation.

Sharif considered that the implementation of provisions for SMEs would not be efficient in terms of costs. Sonia stated that the option of SMEs had previously been proposed by parties other than Network Operators to ensure that they had an opportunity to have their SMEs in competitive markets involved in the process, and put in a different perspective from that of the "monopoly" network view. If however no party nominates any SME, then the default situation is for Network Operators to provide these SMEs.

Sharif stated that it was not clear that there was a consensus amongst the shipper / supplier community for SMEs. Sue Higgins countered this view, stating that six weeks of arguments had gone into this, and that the need had been stated clearly. Peter Bolitho stated that while the idea had been discussed and Transco had taken it forward, it was not clear if there had been a consensus on the issue. Sharif questioned whether there could be a cheaper alternative.

Sonia stated that if there were any concerns, they should be raised in the consultation process.

Peter Bolitho considered that it was a late stage for this to be the first time that shippers had been presented with a copy of the JGAA. He set out that this was especially apparent given the concerns that shippers had expressed regarding the UNC mod rules and the fact that they had not had a chance to look at them. He emphasised that shippers had worked hard to incorporate modification rules as part of the UNC. However as some of those procedures had been drawn back into the JGA arrangements, which shippers cannot amend, he posed a question as to what would take precedence – the modification rules or the UNC, and added that he would like to study areas where rules might fit better with the modification rules. Tim Davis stated however that there was nothing in the JGAA that affected the modification rules and clarified that the JGAA related only to the way in which the joint office would be implemented. Sonia affirmed that shippers could raise modifications to the UNC if required, and that the JGAA was secondary in hierarchy to the UNC.

Peter Bolitho stated that he thought they landed on governance arrangements in the summer and stated his disappointment that the JGAA document had been released quite late. Peter stated that he had not had a chance to look at the detail of the JGAA and therefore, reserved his right to make comments at a later date. Peter Bingham replied that Tim had presented a draft of this document two months back. Tim confirmed that he had presented high-level principles in December, as it was difficult to get legally watertight provisions at that stage.

Rob Cross enquired about the appointment process of SMEs. Tim explained that the GTs would have an obligation under the modification rules to nominate a minimum of nine SMEs, and that the JGAA would provide the process by which they would be selected. Sonia added that volunteers would get added to the nomination list, and then the panel would decide who to appoint. She outlined that if SMEs were not nominated by shippers, the default position would be that GTs would decide who to appoint as SMEs.

Sonia stated that in the event of further questions or comments, Tim Davis would take them directly.

SME code of conduct

Tim Davis stated that SMEs would be required to write the Draft and Final Modification Report, and added that they would work remotely, although these provisions were not contained within the draft JGAA. The “Termination of SME Appointment” would occur twenty business days after the submission to the Authority of the Final Modification Report, or at publication of an Authority determination on the relevant Modification proposal, whichever would be earlier.

Tim outlined that SMEs would be required to avoid undue discrimination in the undertaking of its duties and that this would be especially relevant where the SME had been nominated by a gas transporter. Stressing the objective nature of the role, Tim stated that the SME would be operating as an individual, and not as an employee of the company that substantively employed him/her. Clause 3.2.3 was seen as especially important in this regard, as it prevents the SME from undertaking any work for his/her

substantive employer that relates to the specific area of work covered by the relevant Modification Proposal. Tim clarified in other words that the SME would be permitted to work in the energy sector but that it would not be appropriate for an SME to be assigned to a mod which related to the specific area in which the SME was employed. Tim also stated that in accordance with clause 3.2.4, the SME should refrain from seeking to influence any parties' views with respect to any aspect of the consultation process of the relevant Modification Proposal. As such, Tim highlighted that all decisions would have to be reached with consideration to the relevant objectives of the UNC.

He also highlighted that employees of the organisation at which the SME was based would not be permitted to influence the mod report.

Tim also explained that in the event of non-compliance, the SME would be removed from the SME Register, would be required to tender an explanation to the Panel, and in addition, the SME's substantive employer would also be required to set out an action plan to ensure no such recurrence.

Peter Bolitho asked where the code of conduct was incorporated. Tim replied that it is required to be produced under the Network Code.

Peter remarked that the previous summer, when governance arrangements were being discussed, the focus was on trying to put in place checks and balances, by ensuring a proper recording of shipper and transporter proposals.

Sonia however differed in her recollection of the discussion, stating that it focussed on how no party, whether shipper or GT, should be able to influence how the modification goes through the process, even though the funds for the purpose would be within the GTs' price control. In other words, the discussion pertained to maintaining the independence of the process. Sue Higgins agreed with this view.

Peter Bolitho stated that the discussion featured separate issues about changing the rules, and equivalence between shippers and transporters. However, he did not remember any discussion on the Code of Conduct.

Sonia reminded Peter that these issues were indeed discussed, and that Transco had come forward with UNC proposals, taken on board arguments, and come back with discussions in detail.

Peter Bolitho expressed the view that shippers did not want to recreate a bureaucratic process in the BSC. Tory Hunter replied that the avoidance of a bureaucratic process was indeed what had been achieved through the opportunity for shippers to put forward their SMEs.

Sonia mentioned that further comments and concerns could be taken by Tim. Peter Bingham added that ultimately, shippers had an option not to put forward an SME. Sonia reiterated that ultimately, the modification rules would sit at the top of the hierarchy. In response to a question from John Costa, Tim replied that the Modification Panel would oversee the conduct of the SME. Stephen Parker added that while the issue of the prescriptive nature of clause 3.2.3 had been raised, they were less concerned about somebody wearing two hats than about finding the right person.

Sharif asked whether the SME code of conduct had any employer obligations provisions, of the nature detailed in Schedule 11d of the JGAA. Tim replied that there were none.

Interim exit capacity release methodology statement

Peter Bingham presented the Interim Exit Capacity Release (IExCR) methodology statement. He stated that in respect of the interim arrangements, i.e. from 1st May 2005 until September 2008, the Authority decision would partly be based on the IExCR statement. He added that this methodology statement would apply in relation to new connections or interruptible party increasing firm capacity requirements.

Peter stated that the IExCR statement would apply to the release of all forms of NTS Exit Capacity by the NTS SO, and would include:

- Offtake Capacity – between NTS and DNs
- Exit Capacity – at direct connect supply points
- Flow Flexibility – between NTS and DNs

He added that this statement would cease in September 2008, when market mechanisms would come into play. Sonia Brown explained further that the enduring arrangements would not involve the same structure for interruptible capacity in the same way as the interim period, and that only short-term capacity would be traded.

Peter Bingham next stated the objectives of the IExCR statement, the first objective being that the release of NTS Exit Capacity must be on a non-discriminatory (and hence unconstrained) basis. The second objective would be that the release must be conducted on an efficient and economical basis. Peter illustrated this principle by means of a diagram (Figure 1 on page 3 of the handout) that detailed the decision flow-chart. He explained that any party needing capacity would, in the first instance, assess whether it would be economical to build it if sufficient capacity were not available. Peter added that other mitigating actions might include demand management and other storage options, and that if the associated costs would be deemed to be economical, Transco NTS would release capacity.

Charles Ruffell asked if the “economic” test would be the same as that applied at connection. Peter Bingham replied that in the event of a marginal decision, Transco NTS would refer the matter to Ofgem.

Sonia added that Ofgem would look at the revenues associated with firm connection, versus any costs incurred in buyback from other users, and check whether an economical decision had been made. She stressed that in some circumstances, Transco NTS would not be able to release capacity. Adding that Ofgem did not want to micro-manage the process of determining what would be economical, Sonia explained that only in the event of receiving complaints would Ofgem investigate.

Peter Bolitho asked whether this policy was consistent with the “shallow reinforcements policy” (Langage determination) – i.e. whether the party needing capacity had to have a contribution to costs of reinforcement. Peter Bingham confirmed that it would be in line with the Langage determination. He explained that the determination had stated that there should not be any such system other than UoS charges, and that it would assess

the efficiency of the costs of reinforcing, i.e. whether these costs would be incorporated in the price review. Sonia added that this policy was also about ensuring that Transco proactively work at demand side options. For example, there might be a particular part of the system with a turn-down contract for specific time of the year, in respect of which reinforcement would not be an efficient option in the short term, and demand side management would be more appropriate.

Charles Ruffell asked if the structure of mitigating options was in the UNC. Peter Bingham replied that it was in separate bilateral contracts. Sonia added that this was a licence issue, not a UNC issue, and that the mechanism to ensure that demand side management contracts could be utilised was in the UNC.

Alison Russell asked whether the presented draft was for consultation. Peter Bingham replied that this draft formed part of a suite of documents that had been put out for consultation. Sonia reminded that Transco were not obliged to consult when introducing the IExCR methodology statement, but only when changing it.

Charles Ruffell asked how incremental capacity would be treated going forward. Peter Bingham replied that it would endure for three years and would then be wiped clean. Sonia confirmed it was her understanding that any capacity rights beyond three years would be based on the actual baseline of the system.

Sonia stated that while there was no obligation to consult any further comments should be directed to Peter Bingham.

Consents, directions, derogations etc. (Transco)

Sue Higgins stated that Transco had identified all issues related to consents, determinations, derogations, notifications, approvals, etc in the licence (collectively termed as “Licence Related Instruments (LRI)”) and had categorised them as follows:

- Category 1 – New LRI required on day 1 of hive-down
- Category 2 – New LRI required at some date after day 1 of hive-down
- Category 3 – Grant required based on existing LRI with material (i.e. more than technical) changes; existing LRI to be revoked
- Category 4 – Grant required based on existing LRI with technical changes; existing LRI to be revoked
- Category 5 – Existing LRI continues unchanged in respect of NTS; new LRI required for RDN and/or IDN
- Category 6 – Existing LRI continues unchanged in respect of NTS
- Category 7 – No LRI required

Sue then stated that the table itself contained an exhaustive list of all identified LRI issues, and welcomed comments.

Amit Pathare explained that Transco’s list had been forwarded to the potential purchasers to give them a running start in identifying their own required LRIs.

Sonia Brown made the point that it is the licensees’ responsibility to ensure that all the required LRIs are granted by the required date, failing which they would be in breach of

the licence. Sonia added that Ofgem would take a strong view on late submission of LRI requirements, and that all questions and issues in this regard be directed to Amit. Sonia further stated that Ofgem was interested in maintaining a transparent process, in line with its policy.

Peter Bolitho stated that he would like to see a consolidated form of LRIs, which would include requirements of all licensees. Sonia replied that such a consolidated list would be compiled, and the consents would be kept available in the public register.

Price control reporting (Special Condition C14 and Special Condition E6)

Tim Robinson presented the price control conditions, starting with an explanation of how the price control conditions have evolved, and future changes required by the DN Sales process.

Tim stated that under the proposed licence restructuring that is currently under consultation, Special Condition 33 of Transco's existing licence (which contains details of price control parameters) will be switched off, and replaced by Special Condition C14 for the NTS, and Special Condition E6 for the DNs. He added that in light of respondents' views on the Next Steps licence consultation, Ofgem had committed to reviewing the price control reporting requirements as part of subsequent Section 23 consultations, and had now performed that review.

Sonia stated that this was not a licence change that was necessary for splitting transmission and distribution, but more related to price control to have common arrangements and a common understanding of the issues, and was hence more forward looking, and not part of DN sales.

Tim next elaborated on future guidelines, stating that all basic data items will in future be explicitly reported, and that selected higher level calculation results will also be explicitly reported. Tim stated that parameters would be added to C14 and E6 in order to make current reporting consistent with these guidelines. He added that changes to formulae in price control conditions C8B (NTS) and E2B (DNs) would be reflected in C14 and E6 as required.

Having distributed copies of the provisional drafting of C14 and E6 for review, Tim indicated that subsequent drafts associated with the interim incentive regime would be returned to DISG for further review, and that changes to the licence drafting would be formally consulted upon during the May 23 licence consultation.

In reference to a response received that one item added to the DN reporting condition referenced the NTS charges, Sonia stated that as it was an RDN licence, this may be appropriate.

Stephen Parker asked if there was a template for reporting this information. Peter Bingham replied that it was reported separately for separate activities.

Stephen also pointed to a possible error in the drafting of E6, as it included business rates that were specific to the NTS (DNExCC_i and DNExFFC_i). Sonia replied that it

might not be a typo they related to costs of DNs purchasing NTS offtake flexibility, but would check and get back to him on this issue

Action on Ofgem: To check correctness of terms in E6 that relate to the NTS.

Sonia then stated that any comments in respect of price control reporting conditions were to be forwarded to Tim Robinson.

Long Term Development Statements

In her brief update, Samanta Padalino stated that Ofgem had published a letter on LTDS earlier that morning (8th March) that outlined initial thoughts on the scope of these statements, and seeking views from interested parties about the form, scope and timing of these statements. She added that these views would inform Ofgem's recommendations to the Authority.

Sonia gave a brief outline of the background to concerns, and stated that in the licence conditions, it had been stated that the LTDS would be dormant until directed. For the NTS, the key issue was about the timing of the statements, while for the DNs, it was about their scope, as the ten year statement only applied to high-pressure distribution networks. Sonia asked for comments and issues to be forwarded to Samanta at 0207 901 7033 (Samanta.Padalino@ofgem.gov.uk).

Peter Bolitho asked why the status quo (i.e. only high pressure) could not be maintained. Sonia replied that Ofgem was trying to strike a balance in the spectrum of choices from "high level" to "detailed" information requirements; the status quo would of course be one of the choices if all parties were satisfied that there was no reason to change. Sonia also added that Ofgem was also assessing whether there were any useful practices from electricity distribution that could be drawn on in this regard.

Stephen Parker stated his view that it would be very expensive to provide lots of detail proactively.

Any other business (Transco)

Sonia asked if there were any other issues that needed to be discussed. She then informed the attendees that Ofgem was organising a workshop on incentives, including the enduring incentives, on Tuesday 15th March from 10:30 am to 1:00 pm. She stated that since Ofgem had received feedback from various parties on the issue, they thought it necessary to organise an open discussion. She added that an agenda would be circulated on Friday afternoon.

Sonia also stated that the interim incentive arrangements would be published later that day, or later in the week, and asked attendees to revert with any issues for further discussion.

As there were no further issues to be discussed, the meeting was declared closed.

DN Sales Development & Implementation Steering Group Minutes

Meeting 38

22 March 2005, 10:00 am – 1:00 pm

Ofgem's office, 9 Millbank

Attendees

Sonia Brown	Ofgem (chair)	Julian Bagwell	Macquarie
Helen Connolly	Ofgem	Tory Hunter	SSE
Jason Mann	Ofgem	Charles Ruffell	RWE npower
Amit Pathare	Ofgem	Mike Young	Centrica BGT
Matteo Guarnerio	Ofgem	Richard Court	NGT
Matthew Young	Ofgem	Peter Bingham	NGT
Philippa Pickford	Ofgem	Mike Thorne	NGT
Suzanne Turner	Ofgem	Sam Parmar	Statoil
Peter Bingham	NGT	Sue Higgins	NGT
Stephen Parker	CKI		

Review of items from DISG meeting 37 (held 8 March 2005)

Sonia Brown asked if anyone had any comments in relation to DISG 37 that had been held on 8th March.

Review of minutes

Peter Bingham stated that one of the statements on page 2 in relation to voting scenarios under Option C of the panel composition had been wrongly attributed to Stephen Parker, whereas it had actually been Tim Davis. He also suggested that the phrase "the proposal would not be implemented" be replaced by "the proposal would not be recommended" in the same sentence.

Apart from this, there were no other comments.

Actions from previous meetings

In relation to the action on Ofgem to check the correctness of terms in Special Condition E6 that relate to the NTS, Sonia stated that it was being handled by the licence workstream. Since there were no further actions from the previous DISG, the next point on the agenda was Transco's presentation on the pricing consultation.

Pricing Consultation (Transco)

Richard Court presented on pricing issues for the mature regime. Richard stated that he would start with an overview of pricing issues, and then explain the implications for NTS pricing by discussing possible options for the enduring pricing regime that would be ushered into effect in 2008. The main issue for Transco thus involved setting out the long-term capacity options to enable the establishment of reserve prices and promote efficiency without undue favour to parties. A print-out of the slides for this presentation was distributed at DISG.

Richard began by giving a brief overview of three pricing discussion papers:

- NTS Exit Flat Capacity Pricing
- NTS Exit TO and SO Commodity Charging
- NTS Exit Flexibility Charging

On “NTS Exit TO and SO Commodity Charging”, the kinds of questions covered, amongst others, were whether it would be possible to achieve an exact revenue recovery with a TO exit commodity charge as an exit revenue recovery mechanism, or about whether the NTS SO commodity charge should be levied symmetrically on NTS direct connects/DNOs or shippers.

On “NTS Exit Flexibility Charging”, key questions covered whether a commodity charge for flexibility was required, and how it was to be calculated.

Richard then moved to a discussion of the divergence between Long Run Marginal Costs (LRMC) and the administered prices. He explained that there had been several pricing consultations over the years, and that the last major one (PC76) had covered both entry capacity and exit charges. Richard added that this pricing consultation had noted a significant variation between administered prices and LRMCs.

Richard further noted that the LRMCs had moved away from universal charges, and that a ten-year forward looking model that tracked changing supply and demand patterns had identified a range of factors that would affect LRMCs.

In response to a question from Stephen Parker, Richard clarified UCAs as meaning “Unit Cost Allowances”. He then moved to discussing UCA calculation assumptions, illustrated the range of potential UCA/LRMC values in various LDZs, and compared them against existing exit prices, which were on an LDZ basis. The comparison showed potentially large changes for some LDZs, e.g. Wales and West.

Richard then outlined the key questions to be addressed in the pricing consultation. He stated that as the “cake was being recut”, it would possibly result in winners and losers, and hence it would be necessary to assess the impact on all parties. The questions therefore included:

- Should entry follow exit – should reserve prices be set to equal UCA?
This measure would thus cover not just NTS charges, but also how shippers pass them on to customers.
- Is there a case for de-coupling reserve prices from UCA?

This opposing view was also discussed at previous pricing consultations. Options considered involve installing a constraint on any effective charge change, and introducing this de-coupling as a transitional measure to change in 2007 to align with an entry price update. Richard emphasised that Transco would like to get views on this issue.

- How much alignment is needed with entry auction pricing?
The basic question here was whether to target a specific revenue split, e.g. 50% entry/ 50% exit.
- The other question was whether to use a 6mcm increment to calculate marginal costs.

Richard asked if there were any further questions that merited discussion in the pricing consultation. Nick Wye suggested that Transco could assess the impact of changing the increment on prices. Richard replied that he did not expect it to be significant, but would explore whether it could be included in the Discussion Paper.

Julian Bagwell asked whether the model enabled a long-term assessment of the balancing of supply and demand, given the expected changes in supply/demand patterns. Richard replied that the model calculated investment costs.

Richard then discussed further questions for the pricing consultation as relating to:

- Pricing of Daily NTS exit flat capacity & day-ahead interruptible NTS exit flat capacity – current proposed business rules suggest that unsold base-line capacity be sold as interruptible capacity
- Incremental pricing – whether it should be based on entry model
- Removal of interruptible transportation credits
- Removal of constrained LNG credits – whether it would be part of the commodity transaction for capacity

Richard then asked if there were any further questions from his presentation.

Charles Ruffell asked how one obtained the UCA from the LRMC. Richard replied that while a simple explanation would be difficult, the LRMC was in units of pence per kilowatt-hour (p/kwh), while the UCA was a revenue driver. The conversion to UCA thus involved moving from a volume based measure to a capacity based measure.

Tory Hunter had a question on how UCAs could be calculated without a constraining balance between entry and exit. Richard replied that the answer to this would be quite technical. He stated the approach involved first calculating the marginal costs on entry and exit of the expected capacity. If these marginal costs did not match, then they would be scaled to get 50% of revenues from locational signals. He added that Transco's analysis had been to let them run naturally, which would result in a 65:35 split between exit and entry respectively.

Tory replied that Transco had still not shown what the knock-on effect on entry costs would be. Richard agreed, and stated that Transco could include a question in the Discussion Paper on how to update entry.

Nick Wye stated that the Discussion Paper could discuss the outputs from these different options. Tory asked whether the status quo involved a 50:50 split between exit and

entry. Richard confirmed this, and Mike Young too stated that his understanding was similar.

Julian Bagwell revisited the issue of rebalancing supply and demand, and asked if it was expected to lead to an increase in prices. Richard replied that it would not. Mike Young stated that this would come back to the issue of price control. Richard added that while capacity charges were expected to rise, the commodity charges were expected to fall; so overall, price control was expected to be achieved.

Nick Wye asked if positive and negative charges would be discussed. Richard replied that they would.

No further questions were raised. Sonia Brown stated that if people had any further questions on this issue, Richard Court would be the point of contact at Transco. Richard affirmed this, and stated that he would be setting up a meeting on 8th April to take up issues and questions.

The discussion then moved to the presentation on interim incentives by Ofgem.

Interim Incentives – licence drafting (Ofgem)

Jason Mann delivered the presentation on interim incentives. Jason started by highlighting the agenda for his presentation as providing an overview of interim NTS & DN incentive proposals published in the March document (for which responses are due on 8th April – to go into the formal section 23 consultation planned for May, and a run-through of licence modifications. He indicated that comments on these modifications would be discussed at a subsequent session.

Jason then presented an overview of current NTS incentives (defined up to 2006/07), and stated that the interim incentives proposed two significant changes from current incentives. Firstly, parameters would be set to 2008/09 (i.e. to cover the interim period, ending on 30 September 2008). Secondly, Ofgem proposed establishing a “buy back” mechanism, to cover the cost of any buy-backs the NTS may need to undertake as part of the interim offtake arrangements. Jason noted that Transco had indicated that the expected level of necessary buy-backs under the interim arrangements was zero (hence this was the “target” level adopted in the proposals).

Jason also described the options for buy-back parameters included in the Initial Proposals. In particular, he described that one option presented a deep collar, combined with a 50% sharing factor (and that this was consistent with the maximum annual level of buy-back Ofgem considered Transco may be required to undertake in the interim period).

Nick Wye asked why the “> 15 days” interruption target increases through 2007/08 and then decreases for 2008/09. Jason replied that he thought that this was consistent with the expected changes in the load pattern of interruption.

Jason then discussed the incentives in relation to CLNG, stating that they had not changed in form or scope, but had only been extended for two years from 2007 to 2009. He added that the incentive targets for these two years were lower than historical

targets, and were consistent with Transco's recent significant outperformance of their target in recent years.

Moving to the next slide, Jason explained that the incentives in respect of foregone charges and exit investment had also been extended by two years. This concluded the discussion of NTS incentives.

Jason then moved to DN incentives, which he described as being newly designed and based around the interim offtake arrangements. He added that these had been discussed several times at DISG. Jason outlined the objectives of the DN incentives and proceeded to describe the licence modifications required to support their introduction. The key objective is to ensure that DNs request an efficient level of incremental offtake rights each year (to mitigate the potential rational tendency for DNs to over-request offtake rights in the event that they bear no cost for doing so). He stated that the key part of licence drafting enabling the introduction of the incentives is a new formula defined for interim incentive payments (DNExCIR_t).

Jason stated that DN incentive targets have three components; a target for flat capacity, a target for flexible capacity and a target for expected level of cost of interrupting connectees for greater than 15 days. He added on the following slide that performance measures would be based upon actual volumes allocated, and at actual (outturn) prices.

Charles Ruffell questioned on what basis target costs for > 15 day interruption had been allocated to the DNs, given that they had been taken out of the current price control. Jason replied that they had been allocated on a standard pro-rata basis, but would check on the exact methodology used and report back to DISG.

Suzanne Turner noted that the > 15 day interruption target that had previously been within Transco's GT licence had been a single aggregate target for all 8 DNs.

Tory Hunter noted that the disaggregated targets for the > 15 day incentive stated within the consultation document did not add up to the aggregate target that was previously within the licence. Jason replied that he would look into this and get back to DISG.

Nick Wye asked, in relation to the allocation of the > 15 day incentive target across DNs, if some networks would have more stretching incentive targets than others. Mike Young supported Nick's view, stating that if it were a straight read across different DNs, then that would result in the different levels of incentives for all networks. Jason stated that he would come back to DISG on the allocation method employed.

Peter Bingham added that the costs of > 15 day interruption were not significant. Suzanne Turner added that it was her recollection that, in the previous financial year, this number had been zero, while for the prior year, it had been in the region of £100,000, which would not be significant when considered across 8 networks.

Jason stated that the other point to note was that future review of interruptions at the DN level was scheduled for 2006.

Action on Ofgem: to respond to questions from Charles Ruffell, Nick Wye and Tory Hunter.

The next slide Jason presented outlined how targets would be determined for flat capacity and flexibility. Jason outlined that the proposed price to be used for both flat and flexible capacity was the same; outturn exit charges. Sonia Brown stated that this was in order to ensure that the reference price would not be discriminatory (i.e. designed to ensure that the price paid by DNs and direct connects for flexibility would be the same in the interim period). The next slide listed two changes – to the statement of interruption, and the determination of adjustment.

Jason then passed over to Suzanne Turner to list the additional changes proposed to the price control conditions as part of the May section 23 licence consultation.

Suzanne stated that there had been a few typos and minor clarifications planned to the price control licence drafting, which had been picked up as part of the review, and which she would flag. She noted that all revision marking was relative to the 14 February licence consultation drafting and that, whilst the majority of the changes would be proposed as part of the May section 23 consultation, a couple of the typos may be corrected as part of the section 8AA/section 23 direction scheduled for 25 April. Going through the list of proposed changes:

- Special Condition E2A – Suzanne noted that where new terms have been introduced as a result of the interim incentives licence drafting, new definitions had been introduced as appropriate
- Special Condition E2B (Page 22) – Suzanne noted that there were a number of instances in both the DN and NTS price control drafting where definitions of sigma terms were incorrectly phrased as there was an imbalance between definitions and what was being defined, and that whilst this was an issue with pre-existing licence drafting, Ofgem was proposing to correct this within the May section 23 licence consultation
- Special Condition E2B (Page 23) – Suzanne pointed out a number of typographical areas or formatting changes and particularly highlighted a proposed tidy up of the definition of DNK_t. Suzanne explained that there was some superfluous text caveating the application of the formula for t=1 that was not necessary given that a number had already been specified for t=1 in 4(a)(i) (i.e. the year commencing 1 April 2004). Suzanne stated that Ofgem proposed to delete this superfluous text as part of the May section 23 licence consultation.

Suzanne stated that many of the other changes to Special Condition E2B related to the interim incentives that Jason had already mentioned.

- Special Condition E3 (page 47) – Suzanne stated that a previous reference to “Transco plc”, whilst appropriate within the IDN licences for the period between hive-down and share sale, would not be appropriate beyond share sale, and that, as such, it was Ofgem’s intention to change this to “the licensee” as part of the May section 23 consultation
- Special Condition E6 (page 60) – Suzanne noted that, in addition to the changes that had been outlined at the last DISG meeting to ensure consistency of approach of the existing licence reporting requirements, that this drafting had been further modified to reflect the proposed interim incentives drafting.

Sonia Brown stated that for NTS and DN incentives, Ofgem was looking for comments as soon as possible – she warned of the possible time/resource crunch in the last two

weeks of April. Suzanne also stated that the May section 23 was the “mop up” and therefore that the opportunity to correct further issues ex post would be limited.

Suzanne continued with proposed changes to the NTS licence conditions:

- Special Condition C8B (page 12) – small typo that will be picked up (t greater than 4 should say t greater than or equal to 4)
- Special Condition C8B (page 35) – Suzanne noted that the formula shown in revision marking had been reformatted and had not changed in content
- Special Condition C8B (page 44 & 54) – Suzanne noted that there were three cross-reference errors where references to Standard Special Condition A5 stated the title of Standard special Condition A4
- Special Condition C8B (page 97) – Suzanne noted that a modification to the definition of the term $BBC_{d,t}$ was proposed to reflect payments made by the DNs to the NTS regarding buy back costs for embedded entry points
- Special Condition C8B (page 105) – Suzanne noted that minor change were proposed to introduce Isle of Grain and Milford Haven (she noted that these changes were not DN sales related, but given the change of status of the terminals that this change was thought appropriate)
- Special Condition C8B (page 108) – Suzanne noted a small modification to the definition of GC_t to reflect payments from the s to the NTS regarding CV shrinkage incurred by the NTS due to DN actions

Special Condition C15 (page 168)

Suzanne explained that certain clarifications were proposed to the drafting of Special Condition C15. Suzanne explained that an exit equivalent of C15 was proposed to be introduced and it was Ofgem’s intention that, as far as possible, the wording of these two conditions should be consistent. Furthermore, in the process of developing this new condition, it had become apparent that certain clarifications to C15 would be helpful. Suzanne noted that these clarifications were in revision marking in particular noted that wording introduced to clarify the interaction between paragraphs 5, 6 and 7.

The equivalent condition for exit would be proposed as a new condition (Special Condition C18 (page 180)) which would mirror the text of revised C15, now dealing with “exit” instead of “entry”, with further modifications as follows:

- paragraph 2 will refer to a new date (1st June)
- number of earlier references to gas shippers will now also refer to DN operators
- paragraph 3 includes a provision for an ex-ante audit and this would be modified such that the that Authority could consent that such an ex ante audit should not apply to the interim arrangements
- paragraph 7b(ii) – introduces a requirement for an ex post audit such that an audit is still conducted for the interim arrangements, and that such a requirement could continue to apply for the enduring arrangements

Sonia asked the shippers to revert with comments in accordance with the time-table of the interim incentives document. She asked if there were any more questions or comments for Jason or Suzanne. As there were none, she declared a break, after which the meeting would continue with a discussion of responses to Transco’s UNC consultation.

Overview of Stage 1 responses to UNC consultation (Transco)

After the break, Peter Bingham gave an overview of the Stage 1 responses to the UNC consultation conducted by Transco. Peter stated that Transco had had a good response (about 10 respondents had come back with their views), given the two week timescale. He added that they had received several comments that were extremely useful. Peter stated that it would be worth stepping through each document to give an overview.

Starting with the Agency Services Agreement (ASA), some respondents had sought clarity on how it would work. But the industry generally appeared to be comfortable that it includes all the relevant service lines.

On the Joint Office Governance Arrangement Agreement (JGAA), Transco had received numerous comments from shippers and buyers. Buyers recognised that the JGAA imposes obligations on each of them. There were therefore a few remarks on who picks up liabilities, etc.

Peter indicated that Transco was proposing to log each comment made, and expand on this template on every point raised, adding that where a change would be required to be made in the UNC, they would flag how that specific comment has led to the change. Referring to a specific comment made by a potential purchaser in connection with the JGAA, Peter stated that as this purchaser is planning to adopt a “sub-contracting” business model, it would have to be accommodated.

On the Interim capacity statement, Peter stated that there had been several comments on the detailed legal text, typos, etc, adding that general comments on the UNC itself were of that nature.

Peter further stated that shippers had shown the greatest amount of interest in making specific comments on mod rules, and that these comments involved a high level of technical details. He added that Tim Davis was working through all comments and editing rules accordingly.

Peter identified the big issue for respondents as being the move away from the 9:2 to 5:5 panel.

On the Offtake Arrangements document, Peter stated that most of the comments were received from potential purchasers, and that some key concerns were about agreements being NTS specific, e.g. maintenance. Peter affirmed that this would be addressed by coordinating the maintenance plan.

Sonia Brown emphasised that one this was a mid-point in the 5 week consultation period on the UNC. She reiterated that it was very important that people understand this point, and that further comments could be received by Transco at any point in the period. The other important point was that there were clearly some outstanding issues – e.g. signing arrangements for the short form code. She requested Transco to say a few words on how they intended to manage this process.

Sam Parmar had raised a concern regarding the signing arrangements for the short form code. Peter Bingham replied that Chris Train had in the first instance sent a letter to the industry indicating that the arrangements for the short form code would need signing,

and would subsequently write to all shippers individually. Peter explained that the purpose of the first letter was to identify the right people for the second tranche of individual letters, and that Denton Wilde Sapte would now write individually.

Stephen Parker asked what would happen in the event that signatures could not be provided, to which Peter replied that effectively there would be no transportation arrangements until then. Sue Higgins suggested that delegates with “powers of attorney” to sign these documents be identified as a back-up.

Mike Young raised the issue that in Centrica, the open letter had gone to the corporate centre, and not to the network code team, which had created problems, and emphasised Peter’s earlier point about finding the right person in each organisation. The other issue he sought clarification was on the understanding that while Centrica had effectively signed up to the NTS and RDN codes (by reason of having signed the old Network Code), they would have to sign up to the IDN short form code.

Stephen Parker asked Transco which third party agreements they were referring to. Sonia conjectured that it could possibly mean metering. Peter Bingham stated that the metering organisation was approaching suppliers, but added that he would get back with definite answers to this question. Sonia suggested that it would be helpful for NGT to put together a table on website.

Action on Transco: Table to be published on website for shippers to obtain clarity on what they need to sign to, what they have to sign to, and what they may choose to sign to, and clarity on when they’ll be expected to sign.

Sonia asked if there were any other concerns on the UNC consultation. Stephen Parker had an issue on whether Transco would be actually able to incorporate these changes. Sonia replied that the five week consultation process was the equivalent of the Section 23 notices, and thus there would be a degree to which all responses would be incorporated. For example, while some changes would not be material, others would be important but perhaps not for day 1 – thus Transco would need to distinguish between these categories. Sonia noted that this would be the only consultation that gives opportunity for responses. Peter Bingham agreed, and welcomed responses.

As there were no further comments, Sonia asked Philippa to lead the discussion of the statements required to be submitted by Transco under the GT licence.

Statements required under the GT licence (Transco)

Business separation statement (SC C20)

Philippa started this section of the meeting by outlining to members that there was an error on the agenda and that A33 would be discussed at the next DISG meeting. Philippa began with the discussion of the Business separation statement prepared pursuant to paragraph 2 of Special Condition C20, which Sue Higgins was to prepare and present to DISG.

Sue Higgins introduced this statement as one that set out within NGT separation between the NTS and the RDN licensee to ensure that licence requirements are met.

In a quick run-through of the document, Sue explained the items covered in the various sections.

Action on Transco: In respect of the organisational structure set out in Appendix 1, Transco has to publish this diagram on its website.

Philippa stated that Ofgem would appreciate feedback on this statement as there was no equivalent statement in electricity. She then moved the discussion to the statements that would need to be reproduced by Transco in respect of the NTS and the RDN licence, and which Mike Thorne would present.

Mike Thorne stated that while he was not a business expert on these statements, he would focus on giving an overview on the same. He added that Transco had spent a considerable amount of time and effort in preparing these statements, and that where these statements had been produced for the distribution business, Transco would clone them in respect of each licensee (5 versions). He further stated that prices would also be cloned, and left for buyers to change.

Charging related statements (SSC A4, SSC A5 etc.)

The charging related statements presented included the transmission charging statement, transportation charging methodology and distribution charging statement (that also incorporates methodology)

Steve Parker asked when the 4B Metering statement would be presented. Mike Thorne stated that this would be ready shortly.

Stephen Parker asked if the corresponding documents submitted by the purchasers would also require Ofgem approval. Philippa replied that if they were to be similar in form, then no re-approval would be needed, but if however their content were to change, then re-approval would be required. Philippa added that the licence also had provisions in certain areas for consent not to require re-approval, in which case the licensee, if it so desired, could apply to the Authority for its consent. Sue Higgins asked if this could be done on the back of the LRI identification and application exercise currently underway between Transco and Ofgem. Philippa confirmed that they could go into the required LRI register.

Sue further stated that if the IDN company number were to be put in the application that Transco file, then the consent/approval would get carried across with change in ownership, as it would relate to the company number which would stay the same. Philippa agreed that all that would be needed in this case would be to let the Authority know that the company names pertaining to the company numbers were being changed.

**Social obligations statements (SSC A20, SSC A22, SSC A23)
Emergency services related statements (SSC A8)**

Mike Thorne stated that this requirement could be satisfied by providing a single document, which had already been signed off by energywatch about 3 weeks prior to DISG, thus leaving only Ofgem approval to be acquired. Mike added that this statement covered all the generic information that was required, and that Transco had been advised by several bodies on its language, formats, etc.

Mike stated that this document would be a generic one for both the NTS and the DNs (even though DNs did not have domestic customers).

Peter Bingham stated that the idea was for new owners to brand, format and publish this for their customers, as it would be confusing for this document to be issued by Blackwater and then by the new owners. Mike Thorne added that this was a transporter requirement.

Philippa asked if Transco had a letter from Energywatch confirming their approval of this approach. Mike Thorne replied that he would check, but in his understanding, the interaction with Energywatch was more on the lines of an informal dialogue.

Action on Transco: To confirm if they had secured formal approval of approach from Energywatch.

System management related statements (SC C5, SSC D5)

Mike Thorne stated that the NTS versions of the SMPS had already been submitted to Ofgem. He added that the DN version distributed at DISG 38 was being presented for the first time, and that it would be sent formally by the end of the week after Easter. He further stated that the DN SMPS would be slimmed down versions of the NTS SMPS, as a limited number of system management services would be bought by the DNs until exit reform. Mike stated that barring a few tweaks, they were almost ready, and hoped that Transco would not need to go through the normal 28 day consultation in respect of these statements.

Philippa replied that internal Ofgem colleagues might have a slightly different view on procurement guidelines.

Mike Thorne stated that the current version that Transco produces is solely for the NTS, and that there was an understanding between Transco and Ofgem that it would not cover the DN side, which meant that in its current form, it would address little of the new system management services that DNs would need in 2008.

Allocation / attribution statement (SC C9, SC E3)

Mike Thorne presented a copy of the current allocation/attribution statement, and added that since the new one would not be due until the end of June, it would not constitute an issue for hive-down.

Philippa asked for any comments to be forwarded to Mike Thorne.

Any other issues

Philippa added that other outstanding statements included the meter charging statements, the SSC A33 statement (describing practices, procedures and systems), and the condition 4B connection charging methodology and principles statements for each network. She stated that these could be tabled for the next DISG, but requested for them to be forwarded to Ofgem sooner rather than later.

As there was no further business, the DISG meeting was declared closed.

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. I
- ◆ 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.

DN Sales Development & Implementation Steering Group Draft Minutes

Meeting 40

19 April 2005, 10:00 am – 11:30 am

Ofgem's office, 9 Millbank

Attendees

Mark Feather	Ofgem (chair)	Charles Ruffell	RWE npower
Jessica Hunt	Ofgem	John Costa	EDF
Suzanne Turner	Ofgem	Alex Wiseman	CKI
Tim Dewhurst	Ofgem	Tory Hunter	SSE
Matteo Guarnerio	Ofgem	Julian Bagwell	Macquarie
Peter Bingham	NGT	Alison Russell	Centrica
Mike Ashworth	NGT	Sam Parmar	Statoil
Alan Raper	NGT	Christiane Sykes	E.ON UK
Sue Higgins	NGT	David Tennant	Denton Wilde Sapte

Please note that these minutes are in draft form, and have not been subject to industry review or comment. The final version of these minutes will be posted on the Ofgem website (www.ofgem.gov.uk)

Review of items from DISG meeting 38 (held 22 March 2005) and DISG meeting 39 (held 5 April)

Mark Feather asked whether there were any comments on the minutes from DISG 38 and 39. Mark apologised for the delay in making them available (as they were sent out on Monday 18 April). Some participants noted that they did not have the chance to review the minutes. Acknowledging this, Mark asked participants to send any comments by close of business on 20 April.

Peter Bingham had the following comments on the minutes of DISG 39:

- ◆ Page 5 (Section N): "meter reading failure" should read "payment associated with meter reading failure"
- ◆ Page 7 (Section I): "short term flex product" should read "flex product"

Actions from previous meetings

i) Actions from DISG 38

- ◆ Ofgem to respond to questions raised from Charles Ruffell, Nick Wye and Tory Hunter during the discussion of interim incentives at DISG 38. Mark Feather noted that this action had been discharged by Ofgem with a presentation at DISG 39
- ◆ Transco to publish table on website for shippers to obtain clarity on what they need to sign, what they have to sign to and what they may choose to sign to, and clarity

on when they will be expected to sign. Peter Bingham clarified that this table had been appended to a letter sent to shippers.

- ◆ Transco to publish diagram of its organisational structure (set out in Appendix 1 of the business separation compliance statement required under the provisions of Standard Special Condition C20) on website. Peter Bingham said that Transco has not published the diagram on their website yet. Sue Higgins asked Ofgem whether it would be more appropriate for Transco to send the diagram to Ofgem and publish it on Ofgem's website as part of the business separation statement. Mark Feather replied that Ofgem would clarify this with Transco.

Action (Transco/Ofgem): Diagram of organisational structure to be published on Transco / Ofgem website

- ◆ Transco to confirm they had secured formal approval of approach (regarding social obligations) from energywatch. Peter Bingham stated that he was confident that this approval had been received, but he would seek confirmation for this.

Action (Transco): Transco to confirm they had secured formal approval of approach (regarding social obligations) from energywatch

ii) Actions from DISG 39

No actions arose from DISG 39.

Licence drafting proposals for forthcoming section 23 process (Ofgem)

Suzanne Turner noted that Ofgem are still reviewing responses to the Section 23 and Section 8AA licence consultation, and explained that the modifications currently proposed for the planned forthcoming section 23 process (should this consultation proceed) are still provisional, but are likely to be the most substantive. Suzanne explained that her presentation would cover the main changes proposed rather than doing a page turn of the licence. She noted that a full version of the licence with marked-up changes would be put on Ofgem's website on 19 April. Suzanne said that comments on the licence drafting would be welcome, but they would need to be sent in a timely manner (ideally by 20 April), as the relevant documentation would need to be sent to Ofgem's Exec by 21 April lunchtime.

Suzanne then explained the main changes to the price control licence drafting since the last presentation (DISG 39)

Changes to Section C licence drafting

Suzanne explained that some minor drafting changes / clarifications were introduced (e.g. hyphenation of "buy-back" throughout)

Changes to Section E licence drafting

Suzanne explained that some minor drafting changes were introduced. In addition, she noted that the Income Adjusting Event threshold had been introduced at a level of £2m. Tory Hunter asked whether it was appropriate to introduce a threshold which would be "unreachable" for some DNs. Suzanne noted that a threshold was there to reflect, at

least to an extent, the fixed costs of administering income adjusting event arrangements. In addition, she explained that changing the threshold may not be consistent with a minimum change approach.

Alex Wiseman asked whether the threshold was £2 million for all DNs in Transco's original GT licence. Suzanne explained that there was no threshold specifically for DNs within Transco's existing licences, but the income adjusting event provisions related only to the NTS SO. Tory Hunter asked what threshold would result if this was in the same proportion to costs as the NTS SO threshold. Suzanne noted that under a proportional approach the resulting threshold would be lower than £2m, and she thought from memory that this would be closer to £200,000. Suzanne also noted that in other circumstances (i.e. electricity transmission price control) the same threshold was applied across different entities with differing costs. Suzanne also noted that it was Ofgem's intention to review the approach to income adjusting events for the enduring arrangements.

Mark Feather noted that such a low threshold would not be suitable in the interim as it would lead to an inefficient use of regulatory resources.

Suzanne also noted that caps, collars and targets for incentives within the drafting that would be circulated after the meeting would still include some options, and that the drafting in this regard would be finalised once the delegated Authority reached a decision on these matters.

Other licence condition drafting changes

Asked by some participants, Suzanne reiterated that the version of the licence drafting that would be published on Ofgem's website would show all proposed revisions relative to the February consultation drafting (with the exception of a few typographical errors which Ofgem was proposing to amend as part of the section 8AA/section 23 Direction (should it proceed) and as such, these were not shown in revision marking).

Suzanne explained that Standard Special Condition A38 would be changed in order to allow the Authority to accept a rating equivalent to a senior implied rating.

Participants were provided with marked-up versions of Standard Special Condition A3, Standard Special Condition A33, Special Condition C4, and Standard Special Condition D4.

As regards Special Condition A3, Suzanne explained that the most significant change was to the definition of "affiliate", where Ofgem proposes to revert to the Amended Standard Condition 1 definition, which is broader in scope than the standard condition definition proposed as part of the February document. Suzanne explained that the main change is in the wording of 1 (b), within this definition which broadens the scope beyond the standard condition definition proposed in the February document. She noted that buyers had raised some concerns over this definition, but stated that Ofgem proposes to look at any difficulties which may arise in relation to specific conditions and provide consent on a case by case basis. Suzanne added that Ofgem does not envisage that the broader definition of "affiliate" should create any problems in relation to Standard Special Conditions A6, A33, A34, and A35. Suzanne underlined that most of the conditions which are likely to raise issues (e.g. the financial conditions) contain consent provisions which could be invoked if necessary.

Suzanne explained that this condition would take effect before share sale, so it would be binding on buyers within the licences that they inherit. Alex Wiseman commented that the definition is potentially wider than it needs to be. Suzanne explained that Ofgem would not wish to treat any buyer differently from the others with respect to the scope of the affiliate definition within the licence.

Suzanne also noted that there had been other, more minor, changes to the drafting of Standard Special Condition A3 to clarify some of the definitions and the applicability of alternative definitions. Furthermore, Suzanne noted that the definition of “constraint management” had been modified to remove the reference to the network code, which was incorrect.

With respect to the drafting of Standard Special Condition A33, Suzanne explained that the most substantive change represented the inclusion of a definition of “relevant generator” and clarification throughout the condition that the transportation business should be separate from affiliated electricity generation businesses. However, Suzanne also noted that a number of other modifications were proposed to clarify the drafting, in particular in relation to the definition of “trading business”. Suzanne explained that this definition had been amended such that it referred to the acquisition/disposal and consumption of electricity as well as gas. Furthermore, the exclusions to this definition had been clarified in terms of applicability such that it was clear that they applied to sub-paragraphs (a) to (c) as appropriate and to make it clear where they were applicable to the licensee’s trading business and where they were applicable to trading businesses in general. Suzanne also noted that the drafting of the exclusion in sub-paragraph (i) of this definition had been modified to ensure consistency with the definitions used elsewhere in the licence. Suzanne also noted that a consent provision had been introduced into paragraph 6 to allow the Authority to consider applications for consent to limited exclusions to the requirements of this paragraph.

Suzanne then described the changes in Special Condition C4 and Standard Special Condition D4 (Prohibited Procurement Activities). She noted that the modifications to these conditions had been driven by the desire to clarify the general prohibition with respect to joint shrinkage procurement unless this is between DN operator affiliates or the licensee has the consent of the Authority. She said that Ofgem does not want to allow joint procurement of shrinkage by NTS and RDNs unless Transco applies for a consent to do so. She noted that the Authority was minded to grant Transco consent to the joint procurement of shrinkage gas across its NTS and RDN businesses until 31 March 2007. Furthermore, she noted that the Authority was minded to grant a similar consent to SSE to allow joint procurement by its DNs and its competitive shipping affiliate, for the period within which customers will remain unaffected. Suzanne noted that these consents would be reviewed in 2007.

Suzanne highlighted that the other main change to the drafting of these conditions was shown in sub-paragraph 2(a). Suzanne stated that this provision introduced an exclusion to the general prohibition such that competitive affiliates with a shipper licence would not need consent from the Authority under the GT licence to undertake activities consistent with their shipper licence.

Suzanne also explained that there have been some other revisions to clarify the drafting, which, in some cases, was difficult to follow. Suzanne also noted that the definitions of “transportation commodity” and “balancing trade” within Special Condition C4 had

been removed as, in Ofgem's view, they were not needed given that the general prohibition's reference to "gas and gas derivatives" would encompass balancing trades, and "balancing management" was explicitly referenced in the exclusions to the prohibition.

Suzanne reiterated that feedback needed to be provided by lunchtime on 20 April.

The group then discussed price control incentives. Mark Feather explained that there was not much to add beyond Ofgem's presentation at DISG 39. Tim Dewhurst explained that the Final Proposals will be drafted on that basis, and that the conclusions document on incentives will be part of the Section 23 consultation issued.

Conditions of consent (Transco)

Mark Feather explained that on 13 April 2005 Ofgem had sent an open letter to Transco requesting an assessment of the extent to which each of the conditions precedent set out in the Authority conditional consent to DN Sales issued in February 2005 have been met, and how this has been achieved. Peter Bingham noted that Transco had sent a response to Ofgem on 18 April 2005, and updated the group on Transco's progress on each condition precedent.

Peter explained that Transco provided written consent to the modifications to each of the six licences as largely set out in the Initial S23 Modification notice relating to the separation of price controls on 31 January 2005, with the Authority directing the modifications on 1 February 2005, to come into effect on that date.

Peter said that, given Transco's current understanding of the proposed S8AA and S23 modifications, Transco expects to be able to consent in writing to the proposed S8AA modifications to each of the four relevant Transco Licences (in respect of the four IDNs) and the second S23 modifications to the original Transco licence (in respect of the NTS) and the additional Transco licence (in respect of the RDNs) to become effective on a date specified by the Authority (currently envisaged to be 1 May 2005).

Peter noted that Transco expects to transfer the additional Transco licences (in respect of the four IDNs) to the relevant hive-down companies to take effect on the appointed day if the Authority consents to such transfer at the meeting on 25 April.

Peter then explained that in Transco's opinion the UNC, the Agency Services Agreement and the Joint Governance Agreement are sufficiently robust to support a divested industry framework post hive-down. Peter said that Transco considers that no material changes to the drafting are necessary before hive-down, and after that participants would have the chance to raise modification proposals to the UNC. In response to a question from Sam Parmar, Peter explained that the modification rules have not been developed to take into account the potential changes from the DTI on the appeals process, as these are not yet known. However, Peter noted that Transco had committed within the draft UNC to review the appeals process once the DTI process is known.

Peter explained that the final modification report on modification proposal 0745 was published on 18 April 2005. Peter added that Transco considers that the proposed modification proposal 0745 better facilitates the relevant objectives as set out in the original Transco licence. In particular, he noted that the benefits from comparative competition will deliver the efficiency savings as set out in Ofgem's Final IA, and would

better facilitate the relevant objectives with regard to the efficient and economic operation by the licensee of its pipeline system. Sam Parmar asked when the decision on modification proposal 0745 and the UNC would be taken. Mark Feather explained that a decision on modification proposal 0745 would be taken as part of a series of decisions to be made by the Authority on 25 April on the conditions precedent to hive down.

Peter added that some typos and wrong cross references were identified in the UNC drafting, but they would not be corrected before hive down, and Transco would seek consent to modify the UNC in relation to these mistakes following hive down. Tory Hunter asked whether interested parties would be notified of changes to the UNC made using the consent to modify process. Alan Raper explained that the consent to modify application would be published by the Joint Office. He added that the changes would be incorporated into the next update of the UNC if they were accepted by the Authority.

Peter Bingham said that the Safety Case version 4.1, comprising the Transco Safety Case and the four IDN safety cases, had been accepted by the HSE. In addition, Peter noted that acceptance of the SIU safety case is expected prior to 1 May 2005.

Peter explained that the Secretary of State had granted her consent to the proposed disposals on 27 January 2005, and published a written ministerial statement to this effect on 2 February 2005. In addition, Peter said that the Gas Act 1986 (Exemption) (No. 2) Order 2005 granting an exemption to certain gas transporters in respect of certain gas shipping arrangements was made on 5 February 2005 and laid before Parliament on 11 February 2005 and comes into full force and effect on 1 May 2005.

As regards the condition which requires Transco to obtain undertakings from its ultimate controller, NGT, among other things, to use its best endeavours to ensure that Transco and its subsidiaries take steps to implement enduring offtake arrangements by 1 September 2005, Peter noted that the required undertaking was provided by NGT to the Authority on 2 February 2005.

Peter explained that NGT similar undertakings from the purchasers following the Authority decision, and stated that Transco understands that the required undertakings were subsequently provided to the Authority within 28 days from the date of the Authority's consent direction being issued.

Peter then noted that Transco believes that the proposed hive-down of the IDNs is consistent with all applicable conditions contained in the Original Transco Licence.

Finally, Peter noted that Ofgem would revoke all existing consents and explained that Transco is currently in the process of requesting all the relevant consents identified as being necessary in respect of the Transco NTS licence, the Transco RDN licence and the four IDN licences, such that they become effective from the appointed day. Peter noted that there are a few outstanding issues, but stated that Transco is addressing these issues and believes that they would be resolved shortly.

Signing process (Transco)

Mike Ashworth explained that Chris Train wrote a letter to all shippers regarding the signing process, and this was followed by a letter from David Tennant of Denton Wilde

Sapte (DWS) on 30 March. Mike noted that DWS were appointed by NGT to manage the signing process of the new framework agreements.

David Tennant said that the purpose of the 30 March letter was to explain the mechanics of how the signing process would work. He added that the letter also provide details of an extranet site, established by DWS, which allows shippers to access the relevant forms.

David explained that, in the event that the Authority issued its approvals on 25 April, DWS proposed to make available the new framework agreements for signature by gas shippers between Tuesday 26 April and Friday 29 April. He said that the letter set out a proposed timetable for signing the framework agreements, and asked shippers to confirm whether they require transportation arrangements with one or more of the new distribution network operators. He noted that if a shipper wanted to enter into transportation arrangements with the IDNs they would need to provide certain information required for the signing.

David noted that to date DWS had received responses from around 70% of the shippers. David explained that throughout the signing window DWS will have available a copy of each new framework agreement which will be undated, will name the parties to the agreement as being the new distribution network operator and those gas shippers listed in the schedule to the agreement, will list in the schedule the names of all gas shippers currently a party to the existing framework agreement with Transco, and will have been signed on behalf of the distribution network operator. The shipper representative will be asked to sign the relevant page of the schedule, and the agreements will be held in escrow until the point of hive down.

David explained that prior to signing a framework agreement DWS will ask the person attending their offices on behalf of the shipper, among other things, to counter-sign an escrow and amendment letter addressed to the shipper from DWS. The escrow and amendment letter will authorise DWS to amend the schedule to each framework agreement following closure of the signing window and will set out the terms on which DWS will hold the signed framework agreement in the period between signature and hive down.

DWS would release the documents from escrow once it receives from Transco a certificate which confirms that all consents precedent to hive down have been met, including the transfer of licences and modification of Transco's network code into a short form code that references the UNC. At this point DWS will date the framework agreements with the hive down date and release them from escrow. DWS will provide shippers with a conformed copy of the framework agreement as soon as practicable.

David noted that, in the event that Transco has not provided the certificate to DWS by an (as yet unknown) backstop date, then DWS would not release the documents from escrow and instead the signed documents would be destroyed.

David added that he would expect the JGAA, ASA, SOMSAs to be signed in the same week, and that they would then be dated at the hive down date. It was noted that, given that at hive down the new DNs would be wholly Transco owned subsidiaries, these documents would be signed only by Transco representatives.

Mike Ashworth said that the contract management team at Transco are following up outstanding issues with various shippers. He added that it was Transco's view that shippers whose transportation arrangements are confined to the NTS (for example, those shippers that ship only to the NBP) would not need to sign the new framework agreements, however it was up to the shippers themselves to take a view on this issue.

In response to a question from John Costa, David explained that the DWS 30 March letter explains in detail the information required for signing the framework agreement, including the evidence required to demonstrate that the representative was a duly authorised signatory.

John Costa asked what would happen in the unlikely situation in which a shipper would not sign the agreement and continue its shipping activities. Mark replied that this would raise questions as to whether the shipper was complying with the terms of the shipper licence.

Peter invited shippers to contact Transco if they had any issue regarding the signing of the framework agreements.

In response to a question from Alex Wiseman, Mark Feather explained that, subject to the Authority's decision on 25 April, a further section 23 notice would be issued shortly thereafter. Mark highlighted that the timing of the release of the further section 23 document depends very much on the nature of the Authority's decision on 25 April.

Next meeting

The next DISG meeting will be held at Ofgem's offices on 3 May.