

MEETING NOTES

Venue: Ofgem, 9 Millbank, London
Date: 19 August 2005 10:00 – 12:45

Attendees

Chairperson:	Sonia Brown (SB)	Ofgem
Jo Witters	Ofgem	
Claire Rozyn	Ofgem	
Helen Connolly	Ofgem	
Olaf Islei	Ofgem	
Alan Rankin	National Grid (NG)	
Chris Logue	National Grid (NG)	
Barbara Vest	Gaz de France	
Helen Bray	Chemical Industries Assoc (CIA)	
Nigel Cornwall	Cornwall Energy Assoc	
James Lawson	Centrica Storage	
Alison Meldrum	Corus	
Christiane Sykes	E.ON UK	
Tanya Morrison	Shell Energy	

1. Comments on minutes from last meeting

Helen Bray (HB) commented that the minutes from the last meeting stated that chemical plants require at least a week's notice in order to make any necessary arrangements for demand turndown. It was agreed that this should be changed to chemical plants require some notice for demand turndown. Sonia Brown (SB) confirmed that the minutes will be published on Ofgem's website.

2. Comments on the Terms of Reference

Tanya Morrison (TM) commented that the reference to residual balancing issues in the terms of reference did not provide a precise definition of the issues the group would consider. It was agreed that the current reference to residual balancing should be replaced with 'discussion of the role and responsibility of National Grid (NG) in its residual balancing including any limitations on NG in performing this role'.

3. National Grid update and presentation

Alan Rankin (AR) from NG provided a presentation and update on NG's progress in improving the reliability, transparency and accessibility of its information exchange platform. The presentation will be made available on the Ofgem Website: www.ofgem.gov.uk.

IE3 Resilience Project

Chris Logue (CL) noted that reliability issues were a concern which NG had identified and was taking very seriously. AR commented that NGs currently use a system (IE3) originally designed for monthly reporting and after the day data under NCORM to publish most of its system data on the internet. He stated that over time further data requirements had been placed on the system and that the system workload had increased such that, while NG had made some improvements, significant reliability concerns remained.

However NG had put in place an IE3 resilience project to improve reliability which consisted of a number of phases: 24/7 system support has already been put in place; as of Dec 2005 NG would spread the workload more evenly between their two web servers improving system resilience and speed and put in place the 1st stage of disaster recovery functionality; as of March 2006 the level of resilience would be increased to 'industry standards', the 2nd stage of disaster recovery functionality put in place and a separate server added for the database that would remove the requirement to take the system offline to do backups; as of June 2006 a system monitoring alarm system would be installed.

Barbara Vest (BV) asked whether NGT had looked at other markets where similar information was made available to market participants and how those information systems were maintained.

SB asked whether system unreliability was the reason that information had not always been updated in a timely fashion or easily accessible in the past. AR confirmed that system unreliability was one reason behind this.

TM asked whether the fact that a system monitoring alarm system would not be in place until June 2006 meant that system users would have to keep NG updated with regard to any system problems. AR confirmed that this was the case.

The group discussed further the lead time between completion of this project and noted that while the project was itself important, there were concerns that the information systems may not be resilient in their current form over a period of system stress, and notably not over this coming winter.

The group discussed whether Logica would be best placed to provide information system support for both the electricity and gas sides of NG. The group was of the view that given the differing obligations on NGC and NGT regarding data provision, and obligations on those companies that provide market information to them, that Logica may not be best placed to provide information system support to both.

SB asked whether NGT had considered a prolonged period of system stress, such as toward the end of last winter, to form a view on whether their IS can cope this winter given the enhanced data provision requirements due to the implementation of phase 3 of the DTI information initiative. SB stated a concern that if NGT's information system was unable to cope with system demands this winter, adequate back up arrangements had not been put in place.

Action: AR agreed that NGT would assess whether its information systems would be able to cope with the data demands of the coming winter.

BV asked how large NGT's budget was for their IE3 resilience project. AR stated that £250,000 had been allocated to the project, a figure which did not include the cost of 24/7 system support.

Market Information Provision

AR acknowledged that information isn't presented in a clear and transparent way on NGT's website. AR stated that this was due to, among other things, the lack of a legislative approach to data provision in gas and the resulting incremental nature of the information requirement developments.

SB stated that Ofgem considered that it would be useful if NGT did receive data through legislative channels, however noted that this was an adequate explanation in itself for the lack of transparency.

Christiane Sykes (CS) stated that E.ON UK would prefer that more high grade data rather than low grade data is made available, and that this be made available in a format which is easier to download.

TM noted that the reason NGT was having problems with the workload of the website was because they didn't consult with market participants regarding their data requirements at the start of the project. AR stated that NGT definitely would be consulting with market participants on the issue of information provision.

AR commented that NGT were currently in the process of reviewing all the data that NGT currently produces; designing some form of overview sheet; exploring the feasibility of providing new information such as supply/demand forecasts; storage forecasts and the potential for producing some form of gas NISM.

AR stated that NGT had not produced a straw man for the meeting because it did not want to agree to making any changes to current information provision that may in practice not be possible to implement ahead of the winter.

SB stated that Ofgem was very disappointed with the lack of progress NGT had made on this issue. For example NGT's plan to consult on potential changes to their website on the 9th of September would not allow sufficient time to implement these changes ahead of the winter. Further, SB noted that as a minimum Ofgem considered that NGT should have been able to identify simple improvements they could make to their website ahead of the meeting.

CL noted that as part of going through a gas supply emergency NGT would send an INS to the shippers, and were looking at the possibility of replicating this for gas customers.

James Lawson (JL) noted that there were currently two ways of identifying system stress: NGT buying and selling actions and looking at linepack figures.

TM commented that transportation data wasn't kept up to date last year which acted as a barrier for shippers entering into demand side contracts with customers.

Action: It was agreed that National Grid should report back on this issue at next weeks meeting.

4. Straw People and presentation (Nigel Cornwall)

Nigel Cornwall (NC) talked the group through two draft straw, one representing normal system status and the other representing the system under stress. NC stated that the criteria against which the straw people had been designed were: to include only existing information, to keep their design as simple as possible and to use those key elements which large users would find helpful as the main building blocks. NC highlighted that the fundamental issue was to provide the market with simple system status information during periods of stress and not to create an idealised report.

The group agreed that NGT should produce a user guide for their website that provides guidance for users in their interpretation of the data that it provides. It was noted that some help files already exist on NGT's website, but it was agreed that these need to be thought through more carefully.

The group discussed issues related to NGT being able to produce supply/demand forecasts up to seven days ahead. TM noted that NGT do not have the right to publish the weather information they receive from the Met Office. SB commented that NGT do forecast internally for the suggested time periods but do not publish that information and that forecasts are provided for electricity. TM commented that it was impossible for NGT to produce a perfect forecast because the supply of gas on any day was determined by the commercial decisions of shippers and their nominations for gas flows on any given day. Further, NGT only begin to receive shipper nomination information on a day-ahead basis. NC commented that it should be possible for NGT to forecast supply and demand further out than day ahead using outage, weather forecast and historical data. It was agreed that if NGT did produce forecasts they should be accompanied by the appropriate caveats.

The group agreed that NGT should introduce some form of gas notice of insufficient margin (NISM) as used in the electricity market to forewarn the market of a potential supply deficit at some point in the future. TM noted that one of the key advantages of introducing a 'GISMO' would be to encourage customers who are normally unwilling to participate in demand side response. JL questioned whether price was not a sufficient signal for demand side response. TM stated that it was not just a price issue and many customers would be more likely to respond if they could independently validate that the system was genuinely under stress. CS commented that it would be important that the decision process behind issuing any 'GISMO' be clear and transparent. The group in general considered the development of a 'GISMO' would be a useful addition by NGT.

Action: NGT to consider the development of a Gas NISM and report back to the group on viability ahead of the next meeting.

The group agreed that key information needs to be presented in a clear and simple fashion. SB stated that the top part of NC's straw man represented the bare minimum of what NGT should be able to achieve ahead of the winter. HB commented that medium sized member of the Chemical Industries Association (CIA) found the simple format of the straw people very useful. However the larger CIA members were more concerned about gaining access to information at the same time as shippers than having the existing information presented in a more user friendly way.

Alison Meldrum (MD) commented that 'independent' information was needed by many customers in order to justify, internally, any decision to reduce demand on a given day. As a result such information would reduce barriers to participating in demand side response. SB commented that such information enables individual companies internal processes to commercially justify that they will have to turn demand down at some point in the future.

Action: it was agreed that National Grid should update the group with their progress on producing a website, with NC straw people as a benchmark, before the 9th of September.

5. Centrica Storage presentation (James Lawson)

JL went through the publicly available information on the Centrica Storage website:

<http://www.centrica-sl.co.uk/index.html>

https://storit.centrica-sl.co.uk/storit/p_cust_security.process_logon

Publicly available information included shippers nominations, updated throughout the day, from which it was possible to determine the physical position of Rough. The maintenance schedule for Rough is also published, along with information on physical incidents. JL commented that they were the only offshore facility which published such information.

JL noted that more detailed information was available to parties that had signed two contracts at no extra cost.

JL commented that similar information, such as daily site nominations, was available for Hornsea but not for Transco LNG. JL suggested that NGT could raise a modification requiring the release of such information to the market.

HB noted that CIA were meeting with IUK discuss the transparency of within day interconnector flows.

It was noted that Centrica Storage had agreed to provide NGT with information regarding the quantity of gas in store on a daily basis throughout the entire winter period. This information would feed into storage monitor information and be published on their website. HB stated that their members would like access to a historic database of such information.

6. OCM Issues

It was agreed that this agenda item would be discussed at the next meeting.

Action: Letter to be sent to APX asking them to attend the meeting to discuss OCM issues

7. Residual balancing issues

SB compared NGT's role in system balancing to the role of NGC. In comparison to NGC, NGT take a narrow view in terms of their residual balancing function. The key

issue with NGT's interpretation of their role was that they restricted the time periods over which they could buy and sell gas to make balancing actions. SB asked the group whether they felt that NGT created a potential barrier to demand side response because of the narrow way NGT interpret their residual balancing role.

TM commented that if NGT were to buy gas from customers ahead of the day, customers would be better placed to prepare for demand turn down. It was noted that NGT are not able to contract directly with customers for their gas, but they could do so indirectly through shippers.

SB stated that Ofgem's perspective on this was that the obligations placed on NGT in terms of residual balancing were very similar to those placed on NGC, as much of the framework for gas had been based on that put in place for electricity. Therefore NGT were able to forward contract for gas if they wanted to. Further, NGT do take actions ahead of the day for capacity.

However, SB did note that NGT should be cautious of any potential knock on effects of actions taken outside the OCM feeding through to the OCM and affecting areas of the market such as cash out prices, which could result in unintended distortions and consequences. SB also commented that she was disappointed that NGT had not committed appropriate resources to attend this meeting in order that the full agenda could be discussed as a group.

JL asked whether customers would be happy to contract with NGT for demand turn down, or whether they would also be happy to contract with shippers. TM and SB commented that this was related to the amount of information customers had available to them regarding market fundamentals. Further customers may be more willing to enter into contracts enabling them to sell gas back to shippers if there was some form of gas NISM which enabled customers to independently verify that the system was under stress.

Action: it was agreed that Helen Bray would ask CIA members whether they would be more willing to contract for demand side response with shippers if there was some form as gas NISM system in place (a 'NISM contract'). In particular it would be useful to identify any commercial barriers which exist that prevented customers entering into such contracts.

SB commented that the potential for entering into such contracts represented a commercial opportunity for both customers and shippers. Customers could sell the gas to be interrupted to a shipper at profit while reducing the risk of being isolated from the system and shippers would be able to re-sell that gas to the market at a profit. The group discussed that customers would obviously have to factor their opportunity costs into these contracts and further, as with all market activities, in doing so would need to be mindful of all relevant and appropriate competition legislation.

HB asked whether anybody had spoken to the Environment Agency. SB stated that she had contacted Nicola Kirkup of the DTI regarding this issue as part of a wider issue to do with distillate back up fuel for power plants.

Ofgem noted that it would inform members of the sub-group of the date of the next meeting shortly, and that the meeting was likely to be within the next 10 working days.
(Action Point)

This meeting has now been confirmed for 2 September from 13.00-16.00 at Ofgem's offices, 9 Millbank, London.