Enduring Offtake Arrangements Working Group

Meeting 3

1 February 2006, 10:00 am-1:00pm

Ofgem's office, 9 Millbank

Attendees:

Mark Feather	Ofgem (Chair)	Steve Rose	RWE Npower
Robert Hull	Ofgem	Paul Roberts	NG NTS
Matteo Guarnerio	Ofgem	Elaine Calvert	NG NTS
Suzanne Turner	PA Consulting	Nigel Sisman	NG NTS
Jason Mann	PA Consulting	Shelley Rouse	Statoil
Robert Cameron- Higgs	NGN	Christiane Sykes	Eon
Julie Cox	AEP	Sharif Islam	Total
Avian Egan	Bord Gais Transportation	Julie Cox	AEP
Beverley Grubb	SGN	Helen Bray	CIA
Liz Spierling	WWU	Stuart Waudby	Centrica Storage
Mark Freeman	NG Distribution	Roddy Monroe	Centrica Storage
Bethan Winter	NG Distribution	Mike Young	Centrica/ BGT
Iain Ward	NG Distribution (DNCC)	Ed Proffitt	MEUC
Agnes Petersen	ILEX	Derek Russell	Viridian

Review of EOWG 2 minutes

Mark Feather asked whether anyone had any comments on the minutes for EOWG 2. No-one had any comments.

Action: Ofgem to publish minutes of EOWG 2 meeting on its website

Flexibility product

Nigel Sisman gave a presentation, which considered the implications of adopting an "expanding flexibility" product definition, with either two separate products, or a combined product. Nigel requested views from all stakeholders so that early policy decisions could be reached with respect to product definition. Nigel emphasised that there were no "right" answers but that an appropriate trade-off needed to be reached regarding the degree of complexity of the solution.

Nigel outlined that the TANIF model required users to book sufficient flat and flexible capacity to meet all requirements and therefore needed to represent the highest throughput and the highest flexibility requirement. However, Nigel noted that peak flat and flexible requirements were unlikely to be coincident and this may therefore lead to over-booking / mis-leading investment signals. Nigel noted that the "expanding" flexibility product, as described at EOWG 2 would help to address such issues.

Mark Freeman noted that an assumption of a straight line relationship between flat and flexible capacity may break down for low levels of demand. Nigel agreed and noted that this was an issue that would need to be considered.

Beverley Grubb asked if flat capacity could be substituted for flexible capacity rather than vice versa. Nigel agreed that it could and noted that this was akin to the single expanding product model. Jason Mann questioned why a DN would not book enough flat, and Nigel noted that, under a two product model, booking of the two products may depend on their relative prices.

Steve Rose questioned what the implications of the expanding model equation were with respect to the TANIF model. Nigel explained that the expanding model diagram could capture most alternative models with them varying according to the slope of the line assumed. Nigel stated that the slope of the line assumed was therefore fundamental.

Robert Cameron-Higgs asked if the same linear relationship would be assumed for all offtakes. Nigel responded that it could be common or vary by class or node, and this would be a trade-off between simplicity and practicality. Jason Mann noted that you might expect different prices to be associated with different gradient assumptions.

Beverley Grubb stated that the main question was whether the product would provide appropriate signals to NG NTS. Nigel noted that there were already problems with the model currently on the table (i.e. the TANIF model).

Nigel presented some charts with data points taken from June to November and stated that he had endeavoured to preserve confidentiality.

In a number of the charts for DN offtakes, Nigel noted that the actual use of flexible capacity exceeded the OCS booking. In a smaller number of cases, the actual use of flexible capacity exceeded the line representing the “expanding” model. Mark Feather asked how common it was for the “expanding” product definition to still result in potential breaches based upon historical data. Nigel said that he estimated that the “expanding” model would remove two thirds of the problem. Elaine said that NG NTS could find out and let the group know.

Beverley Grubb noted that, whilst the graphs indicated that the DNs concerned were in breach, they were not in breach but were operating in accordance with UNC rules. Nigel stated that it was merely identifying a notional breach in relation to the OCS. Beverley noted that use of the OPN process meant that DNs were legitimately accessing additional flex on the day if it was available. Nigel noted that such flexibility was not guaranteed and Beverley agreed. Nigel stated a concern that failure to guarantee access to the flexibility required may cause issues for DNs with respect to safety case compliance. Nigel noted that they hadn’t hit a constraint yet, but that it was unclear what would happen if the system was more constrained.

In the final graph, Nigel illustrated that in a number of incidents, one DN had exceeded both flat and flex OCS requirements. Mike Young noted that the majority of incidents where there was an over-run for flex also involved a flat over-run and concluded that, had the offtake booked more flat capacity, the issues for flex would largely disappear.

Steve Rose raised concerns with the “expanding” model and asked whether we could be confident that it would work given issues of data quality. Nigel noted that all sites were metered.

Beverley Grubb asked whether a zonal model could work, or whether it would lead to too high a level of inaccuracy. Nigel agreed that there would be a trade-off here and that it was therefore necessary to ask how important / useful a zonal model would be.

The group also queried whether the data shown distinguished between diurnal storage and end of day transits.

Nigel stated that it was difficult to say what graphs for the winter period would look like.

Liz Spierling noted that the framework would also need to give signals to DNs as to whether it was appropriate for them to invest in their own networks.

Beverley Grubb noted that pricing signals were key. Jason Mann noted that the pricing outcome shouldn't drive the product. Paul Roberts agreed that this was the aspiration rather than to develop pricing for several product options. Nigel stated that he expected prices to be linked to forward investment costs.

Nigel stated that they were keen to push progress forwards and asked what steps were necessary to achieve this.

Julie Cox stated that the ball was in NG NTS's court to understand the implications for NTS investment. Julie stated that it was also necessary to consider how users would book such products. The group discussed appropriate next steps and concluded that NG NTS should come back to the next EOWG with some charts to illustrate data at a selection of DC nodes. Furthermore, it was agreed that NTS users should consider how their booking behaviour might change in the future and what the implications of an "expanding" model would be for them.

Action:

1. National Grid NTS to report what % of offtakes would have historically breached the "expanding" product definition.
2. National Grid NTS to come back to the next EOWG with some graphs illustrating non-DN offtakes
3. NTS users to consider the implications for them of an "expanding" flexibility product definition.

Development of the enduring NTS offtake arrangements

Paul Roberts gave a presentation outlining a number of strawmen proposals for the capacity registration process that could be developed as part of the enduring offtake arrangements.

Paul gave first an overview of the current exit arrangements at NTS daily metered supply points, CSEPs, interconnectors, storage sites and NTS/LDZ offtakes. Steve Rose asked whether any trading currently takes place at at NTS CSEPs (where it is facilitated). Paul Roberts replied he did not have this information available, but Steve Rose noted that it would be useful information to obtain if favouring trading is one of the aspirations of exit reform.

Paul, asked by Julie Cox, explained that the overrun rules at CSEPs and supply points are based on the same principles, although the numbers are different. He also confirmed that if a supply point breaches its SOQ requirements, it incurs an overrun charge. Paul also explained that other categories have OPN arrangements similar to NTS/LDZ offtakes.

Paul then explained that, in NGG's view the current arrangements present a number of issues that need to be addressed. In particular, he noted that any arrangements that could be developed should provide the NTS with information to inform efficient and economic NTS investment and should ensure that capacity within the constrained period is released in a non-discriminatory manner. Paul then outlined the key questions that NGG considers should be addressed to inform the development of the exit regime.

Christiane Sykes noted that shippers already provide planning information and have a licence obligation not to be misleading and as such a financial commitment wasn't necessary. Jason Mann stated that users would perhaps reflect more carefully if there was an associated financial commitment. Julie Cox stated that if required to book ahead, most participants would simply rollover their current rights. Nigel Sisman noted it was an issue of where the risk should lie. Mark Feather noted that Ofgem would be uncomfortable with investment undertaken which is not backed by financial commitment.

Paul explained that NGG developed three potential options with increasing amount of change from the current arrangements. Paul noted that part of these options could be interchanged and different options could be developed, but NGG intended to use these three options as a starting point for discussion.

Paul presented the first option, which seeks to introduce consistent arrangements across all offtakes with "enhanced" user commitment. Under this model, users would be able to request capacity rights for the following gas year during the "application window". In addition, existing capacity rights would be maintained in absence of a request to increase or decrease of capacity. Increases would be accepted if they were previously reserved (subject to "x" years notice) of if they were physically available (and there is no competition – otherwise they would be pro rated). To obtain increases in capacity the party would need to make a commitment to ensure that a number of years of use of system charges are paid. Decreases would be obtained subject to "y" years notice.

Paul Roberts, asked by Julie Cox, confirmed that in all the options presented, capacity would be offtake point specific. Eddie Profitt noted that initially ARCAs required a long commitment but subsequently this was reduced. Paul replied that the length of user commitment required under this model is still to be determined. Mark noted that currently ARCAs are "bespoke" agreements between NGG and the relevant party, while the options in the presentation aim to provide a common approach.

Beverley Grubb noted that, in absence of a release mechanism, there is still a stranded asset risk. However, Jason Mann noted that there would be a lower risk of no one paying. Paul, asked by Mike Young, explained that NGG, if there was a request for increase capacity and this was available without investment, this would be allocated.

Paul then presented the second option. This would be similar to option one, but would allow users greater choice in respect of capacity registration. In particular, users would be able to request the required level of capacity for any gas year up to "n" years. Another difference is that under this model price rationing is introduced within the constrained period to ensure a non-discriminatory release of capacity, and within the unconstrained period charges could be "locked in" or set at prevailing rates.

Paul clarified that under this option, if participants do not secure long term capacity, they will not have guaranteed capacity allocations. However, Paul noted that this option is not radically different from option 1, but it requires participants to be more active (as capacity allocations are not automatically confirmed).

Paul then explained that Option 3 would build on Option 2, but would introduce financially firm access arrangements via long term auctions. Paul invited members to provide any comments or suggestions on the options presented and on possible alternative approaches.

Eddie Proffitt expressed concern over potential price risk exposure. However, it was noted that such price risk was, to an extent, an element of the current arrangements.

The group agreed that members would consider the options presented over the coming week, and would revisit Paul's presentation at the next EOWG.

Future EOWGs

Mark noted that the session had been timed out and therefore that Julie's presentation would be given at the next EOWG. Mark also noted that Ofgem would give its baseline presentation at that time.

The group expressed concern at the planned EOWG schedule for February and it was agreed that an EOWG would be held on the afternoon of the 24th February following the planned industry seminar.