

Enduring Offtake Arrangements Working Group

Meeting 4

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

Ofgem's office, 9 Millbank

Attendees:

Colin Sausman	Ofgem (Chair)	Steve Rose	RWE Npower
Matteo Guarnerio	Ofgem	Mike Young	Centrica/BGT
Suzanne Turner	PA Consulting	Tory Hunter	SGN
Jason Mann	PA Consulting	Julie Cox	AEP
Elaine Calvert	NG NTS	James Lawson	Centrica Storage
Nigel Sisman	NG NTS	Roddy Monroe	Centrica Storage
Paul Roberts	NG NTS	Nick Wye	Waters Wye Assoc.
Christiane Skyes	E.ON UK	Bethan Winter	NG Distr.
Conor Purcell	ESB PG	Agnes Petersen	ILEX
Mark Freeman	NG Distr	Phil Broom	Gaz de France
Shelley Rouse	Statoil	Sharif Islam	Total
Derek Russell	Viridian	John Bradley	Joint Office
Eddie Profitt	MEUC	Avian Egan	BGT
Brian Stoneman	NGN	Mick Curtis	E=mc ²
Liz Spierling	WWU		

Introduction

Jason Mann welcomed the group and asked whether anyone had comments on the minutes of EOWG3. Derek Russell noted that he was not included among the attendees.

Action: Ofgem to amend EOWG 3 minutes to include Derek Russell in the attendees list

NTS exit capacity product – options for refinement

Nigel Sisman gave a presentation outlining potential options for refinement of the NTS Exit capacity (and flexibility) product. Nigel noted that this presentation builds on previous presentations given to the EOWG and the Transmission Workstream. Nigel explained that under the current definition of the bundled product for direct connects, an envelope showing the maximum theoretical substitutability between transmission throughput and flexibility utilisation can be derived. However, Nigel noted that unfettered access would not be guaranteed in the future, and some transmission/flexibility substitution ratio may need to be calculated. In the presentation a potential substitution ratio of 4.5:1 was proposed.

Nigel then provided some examples of DC transmission/flexibility utilisation between June and November 2005 and showed their consistency with the proposed transmission/flexibility substitution ratio.

Nigel, asked by James Lawson, confirmed that this analysis relates only to firm exit points. James also asked what the physical effects on the system of the outliers (i.e. the points above the transmission/flexibility substitution line) are. Nigel explained that, to date, NGG have not taken any within day balancing actions, and all requests could be accommodated. However, Nigel noted that the

system would not cope with the simultaneous use of large amounts of flexibility, given that NGG does not have the control of the use of flexibility by DNs anymore. Nick Wye noted that there may be interactions between entry and exit which could influence the level of flexibility available on the system.

Asked by some participants, Nigel explained that NGG are still trying to understand the variability of transmission/flexibility substitution between different points on the system.

Nigel stated that NGG would be keen to have an agreed way forward in time for the publication of the Ofgem TPCR document. Tory Hunter noted that these options discussed at EOWG were not included among the four options in the Ofgem December 2005 TPCR consultation document. Jason Mann noted that in order to provide indicative baselines in the March document, the relevant product needs to be defined. Suzanne Turner added that product definition is a very important issue as it has effects on other issues, such as pricing and revenue drivers.

Some participants noted that they would need to know in more detail what the slope of the transmission/flexibility substitution line is and they would need to do some analysis to understand the impact on their businesses of a different product definition.

Some participants questioned the need to develop a new capacity product and noted that the SO has tools available if they cannot accommodate flexibility requests, such as within day balancing actions. Jason Mann noted that it was a working assumption of the gas market's design that the role of the SO should be minimised. Nigel added that under such a model parties would not signal their long term flexibility requirements, and therefore constraint issues would only become apparent when it was too late to invest to address them. Nigel reiterated that NG NTS does not have control on DN usage of flex (which has increased following DN sales) and the system may not be capable of coping with the simultaneous use of flexibility. Jason Mann noted that the approach to the allocation of additional flexibility in the short term may address most participants' concerns. Nigel further noted that the gradient of the line only indicated flexibility capacity that NG NTS could guarantee in the long term and that it was likely that non-coincident flex requirements could be met within investment lead times.

Derek Russell asked, if enduring offtake reform was introduced, in whatever form, whether Ofgem would consider removing the obligation on DCs to book 24 times their MHQ.

In addition, Derek Russell suggested that, in the same way there is an obligation placed on DCs to book 24 times their MHQ, a cap could be enforced in the rules limiting the ability of DNs to book over [x] times their MHQ – [x] being decided by NGG.

Derek also noted that the regime proposed for flexibility incentivises DNs to backload their usage after 10pm so as to avoid excessive charges between 6 am and 10 pm but in doing so would make the NTS stability worse. Derek noted that the model as proposed appears to suggest that the NTS is in its worse state at 10 pm when in fact if back loading were to take place it could get worse after 10 pm.

Finally, Derek suggested that a different level of flexibility could be offered to each type of user (DNs, DCs, ICs storage users) and leave the product as a bundled capacity and flexibility product. Derek noted that this would then

appropriately reflect the differences between types of users, and their unique needs, and yet avoid undue discrimination and as importantly avoid undue complexity and cost of changing from the current regime.

Action: NGG to undertake more work on the transmission/flexibility substitution ratio.

Action: NGG to consider methods for allocating additional flexibility in the short term.

Nigel also stated that, if companies are interested in knowing their historical offtake profile at specific sites, they can send an application and NGG will consider it. However, Nigel noted that there would be data validation issues.

Action: EOWG participants to consider their individual offtake profiles.

Enduring offtake arrangements – firm capacity booking

Paul Roberts gave a presentation summarising the potential options for “long/medium term” firm capacity bookings that were previously presented in EOWG 3. Paul then provided a number of worked examples of how the constrained allocation of capacity could work under option 1 (pro-rata) and under option 2/3 (pay as bid allocation).

Given time constraints, Colin Sausman suggested to move to Julie Cox’s presentation on undue discrimination. Paul Roberts agreed to finish his presentation at EOWG 5 on 24 February.

Action: NGG to finish presentation on firm capacity booking at EOWG 5.

Undue discrimination

Julie Cox gave a presentation outlining some issues regarding undue discrimination. Firstly, Julie outlined NG obligations relating to discrimination under the Gas Act and its GT licence. Julie then provided the example of communications, where Ofcom, in June 2005, undertook a consultation on undue discrimination by SMP providers. Julie noted that Ofcom stated that “undue discrimination describes when an SMP provider does not reflect relevant differences between (or does not reflect similarities in) the circumstances of customers in the transaction conditions it offers, and where such behaviour could harm competition.

Julie then suggested that it may be reasonable to apply for gas offtake principles similar to those outlined by Ofcom and, if it is reasonable, what seems to matter is customer circumstances and whether any differences in product offered could harm competition. Colin Sausman said that importance of the robustness of investment signals should be recognised.

Avian Egan stated that the issue of what undue discrimination is needs to be clarified. Tory Hunter noted that DNs and direct connects are different in nature, as DNs are regulated monopolies and as such have a statutory requirement for capacity. Suzanne Turner responded that DNs would book capacity in the long term allocations, consistent with statutory obligations and as such would be allocated capacity on an unconstrained basis. Avian Egan added that interconnectors are also different in nature from DNs and direct connects. Jason Mann replied that the cost of meeting incremental investment would not, in and of itself, be dependent on the type of party intending to offtake. . Suzanne

Turner explained that, whilst customers are different, all should book capacity on the same basis in order to provide signals to NGG. Some participants noted that it is important to define the relevant market.

Some participants noted that long term user commitment requires a long term contracting model, which does not seem to fit well with a short term supply relationship and competition in supply. Nigel Sisman noted that there is an issue about registration, but there is no reason why a shipper cannot buy capacity on behalf of the end user under a contractual arrangement.

Tory Hunter noted that the objective of providing investment signals to NGG can be achieved in different ways. Jason Mann noted that it is important that the signals are backed by financial commitments from users. Tory explained that, even among the options presented by NGG, different options may be more suitable for different types of users. Julie Cox added that Ofgem should not close down the option of treating different users in a different manner.

Action: NGG to consider whether different types of users impose different costs to the system

Action: NGG to present at EOWG 5 on shipper/customer interactions in long term.

Ofgem's presentation on baselines was moved to EOWG 5

Action: Ofgem to present on baselines at EOWG 5

Next meeting

Suzanne Turner explained that the next meeting will be held on the 24th February. She said that Ofgem is intending to hold the industry seminar dealing with more high level issues in the morning, and EOWG 5 in the afternoon, dealing with more detailed issues.