Enduring Offtake Arrangements Working Group

Meeting 9

3 May 2006, 10:00 - 13:00

Ofgem's office, 9 Millbank

Attendees:

Mark Feather	Ofgem (chair)	Gareth Evans	Total
Matteo Guarnerio	Ofgem	Shelley Rouse	Statoil
Jason Mann	PA Consulting	Mike Young	Centrica
Suzanne Turner	PA Consulting	Julie Cox	AEP
Matthew Snowdon	PA Consulting	Peter Bolitho	EON
Steve Rose	RWE npower	Angus Paxton	Ilex
Mark Freeman	NGD	Steve Fisher	NG NTS
Tory Hunter	SGN	Nigel Sisman	NG NTS
Bethan Winter	NGD	Mick Curtis	$E=mc^2$
Liz Spierling	WWU	John Bradley	Joint Office
Nick Wye	WWA		

Introduction – review of minutes and actions

Mark Feather welcomed the group and asked whether anyone had comments on the minutes of EOWG 8. Nigel Sisman noted a mistake in the second paragraph of page 2. He requested that the second sentence is changed to "Nigel noted that as the notice period for capacity reductions increases, there is a trade-off between a lesser user ability…". Julie Cox suggested that the second sentence in the seventh paragraph on page 2 should be modified as follows: "Nigel Sisman replied that for exit projects this appears to be a reasonable timescale for investments of a larger scale".

Mark noted that there was an outstanding action (EOWG participants to ask questions regarding baseline determination). Mark noted that this action would be discharged during the meeting.

NTS Exit capacity flexibility product – System capability assessment (National Grid NTS presentation)

Nigel Sisman gave a presentation outlining National Grid's assessment to date of system capability in relation to the flow flexibility product.

Nigel explained that Graphical Falcon was used to assess the capability of the network, and noted that the network runs were labour intensive (the work up to date required 45-50 man-days).

Nigel noted that in the available time NGG could only undertake limited scenario analysis. Nigel explained that the analysis was undertaken on:

- three supply scenarios;
- three demand days;
- five maximisation scenarios (national and sub-zonal – north, midlands, east and west).

Steve asked why there was not a zone for South. Nigel explained that all national areas were covered by the zones, but he was not sure on how the zones were determined.

Nigel then explained that the supply side assumptions of the model were based on the three TBE 2005 scenarios: Transit UK, Global LNG, Auctions +.

Nigel then outlined the three demand levels investigated in the analysis: days 1, 50 and 150 on the average load duration curve. Nigel, in response to a question from Jason Mann, explained that the demand levels included potential exports. Nigel also clarified that day 1 of an average load duration curve is not a 1 in 20 peak day.

Nigel then outlined the differences in supply scenarios between the three models, and noted that in all scenarios a common network was assumed (i.e. all projects were assumed to be built on time). Nigel added that the analysis was based on an assumed network for 2010/11. He then listed a number of other key analysis and operational assumptions:

- flat supply entry profiles;
- national supply/demand balance;
- full pipeline and plant availability;
- base offtake profiles based on experienced coincident patterns (including a scaling process to generate credible profiles);
- current ANOPs and OCS assured pressures apply.

Nigel then explained that 4 categories of profiles were considered, based on historical usage observed on 21 and 22 November 2005. Nigel explained that these days were chosen as reflective of a reasonable utilisation of flex. Nigel then noted that, under the assumption that no demand could swing below zero flow, variations in offtake profiles were apportioned automatically across demands using a scaling spreadsheet until the system reached a constraint. Suzanne Turner questioned whether scaling is the right approach, as there may be different profiles at different levels of demand. Nigel replied that this would require a higher level of sophistication in the analysis.

Nigel then presented a summary table outlining the availability of flexibility (at a national level) at different demand levels (D1, D50 and D150 of the average load duration curve) and under the three different supply scenarios considered. Nigel, in response to a question from Tory Hunter, explained that under the TransitUK scenario, there is more flexibility available at higher demand levels. Mark Feather noted that this result appears to be counterintuitive, given previous explanations from the NTS that flex levels are greater at lower levels of demand.

Peter Bolitho noted that the assumption that all entry flows are flat seems unrealistic and stated that interactions between entry and exit should be considered. Nick Wye noted that the numbers presented should represent a minimum level of flexibility available, as they might increase (for instance if storage comes in). Nigel replied that there is an issue on where the gas comes from; he explained that whilst storage might ramp up rapidly, the gas may be several hours away. Peter Bolitho questioned whether this analysis systematically underestimates available flexibility on the system.

Nigel explained that the zonal analysis of Transit UK may be completed by the end of this week, and noted that other scenarios would be ready shortly.

Nigel then presented a possible explanation of why under one scenario there was a reduced linepack capability at reduced demand levels. Nigel noted that on day 1 of the average load duration curve there are large flows from Milford Haven, St. Fergus and Easington, with a high local and national demand. However, Nigel noted that on day 150 the assumption is that, whilst local demand reduces

significantly, flows from Milford Haven and St. Fergus do not reduce noticeably; therefore system capacity must be used for transmission of large volumes of gas further into the system. Nigel noted that under this scenario lower demands can generate higher transmission utilisation of some sectors of the system. Jason Mann suggested that it could be useful to analyse what the effect of a greater reduction in demand at St. Fergus rather than Easington would be.

Peter Bolitho noted that in order to provide greater flexibility, it may be worth considering system flexibility investments that benefit the generality of the system rather than specific users. Nigel, in response to a question by Steve Rose, noted that the supply assumptions are consistent with the assumptions in the ten year statement. Tory Hunter noted that it is strange that the amount of flexibility available depends on supply assumptions.

Nigel explained that he would give a further presentation on flex at EOWG 10, and that NG NTS were aiming to reach a conclusion on the flex product definition by the end of May.

Julie Cox argued that disaggregating flexibility into nodal allocations may create a scarcity that in reality does not exist. She questioned whether there is an issue with flexibility and suggested that it may be sufficient to introduce a simpler mechanism to address only instances when flexibility is scarce. Nick Wye noted that the analysis is based on a number of assumptions. Jason Mann explained that the numbers provided are the amounts that NG NTS can guarantee, but there may be more flexibility available on the system on a given day.

Liz Spierling noted that DNOs in the past operated quite comfortably with the flexibility available. Liz added that a distinction could be made between diurnal storage and operational flex but noted that DNs may wish to adjust their flexibility bookings going forward under the enduring arrangements. In addition, Liz noted that the system is capable of delivering peak flat and flex capacity.

Suzanne Turner noted that the DNs have booked a large amount of flexibility via the OPN process. Liz Sperling replied that this was for operational flexibility purposes rather than diurnal storage. Suzanne noted that it would be reasonable to assume that any flex requirements for which DNs require a long term guarantee consistent with their 1 in 20 obligation should be booked long term.

Nigel explained that the critical issue is to what extent users require a guaranteed right to flow flexibility. Julie Cox noted that all investment that has taken place at entry would be expected to have created additional flexibility on the system. Nigel explained that this does not appear to emerge from the analysis. Julie replied that the analysis crucially depends on a number of assumptions made.

Peter Bolitho noted that the TransitUK scenario appears to suggest that entry users are using flow flexibility for free. He questioned how available flow flexibility can be apportioned between entry and exit. Mick Curtis noted that the assumptions made by NG NTS do not necessarily reflect reality.

Julie Cox noted that there are already NExA limitations in place. Peter Bolitho added that the introduction of limitations on flexibility of offtake would create a differential treatment between users on the NTS and DNs. Jason Mann replied that users on DNs need also to pay distribution charges, therefore the two are not necessarily comparable.

Mark Freeman asked what the levels of flexibility available in days between those analysed on the load duration curve are. Nigel Sisman replied that the analysis

was undertaken on the three single days. Several participants noted that the numbers derived are based on a number of assumptions.

Julie Cox asked what was the way forward and how would baselines be developed for flex. Suzanne Turner replied that it is not necessarily the case that NGG will have a separate baseline for flexibility, even if two separate products are developed.

Several participants stated that they would like additional information on the numbers derived. Nigel agreed that NGG would present at the next EOWG on the analysis, providing additional data at a zonal level.

Action: NGG to provide an update on flexibility analysis at EOWG 10

TPCR Third consultation exit transitional baselines (National Grid NTS presentation)

Nigel Sisman gave a presentation on the exit transitional baselines included in the Ofgem March TPCR consultation document. Nigel noted that some participants had asked a number of questions on the derivation of these baselines, and stated that NG would respond to these questions in the week commencing on 15 May.

Nigel explained that in the third consultation document Ofgem presented offtake specific data sourced from the NTS comprising:

- GDN baseline data for flat capacity
- TCC data for NTS exit capacity
- 1 in 20 data.

Nigel noted that the data was based on the 2006 plan assumptions. Nigel, asked by some participants, explained that the baselines included in the March document were consistent with NGG's ten year statement, but do not take into account the latest OCS numbers.

Nigel then explained the major differences between this data set and the one included in the document outlining Ofgem's initial thoughts on enduring offtake (February 2005). The main differences are based on assumptions about interruptible sites, potential new exit points and base plan assumptions about distribution of exit capacity over offtakes.

Nigel then explained the main assumptions and implications of the baseline numbers included in the third consultation document. Nigel noted that revenue drivers are only expected to apply in the South West Quadrant and for large discrete exit points. Nigel added that, as baselines are set in general above the current 1 in 20 firm levels, a way to allocate (spare) capacity needs to be established. He noted that the current figures are based on providing any available spare capacity to current interruptible customers.

Julie Cox questioned how interactions between entry and exit capacity at storage sites would be addressed (ie whether the exit baseline at a storage site would be reset as a consequence of an increase in entry capacity available). Some participants noted that this was an outstanding issue to be resolved.

Liz Spierling noted that under the proposed approach DC interruptibles would get firm rights ahead of downstream DN interruptibles.

Julie Cox requested that, in the future, when baseline numbers are published, more information about the assumptions is published. Suzanne Turner explained that in the March document Ofgem included as much information as possible, consistent with information provided by NGG.

Management of statutory maintenance at exit (National Grid NTS presentation)

Nigel Sisman gave a presentation on the management of statutory maintenance at exit. Nigel outlined the key regulations relating to Statutory Maintenance (Pressure Systems Safety Regulations 2000, Pipeline Safety Regulations 1996, Health and Safety at Work Act). Nigel then explained that, in order to comply with statutory obligations, there is a requirement for regular maintenance on pipelines (involving many end users) and for site specific maintenance (involving one end user).

Nigel then provided a typical timetable for maintenance planning and then outlined the transporters' maintenance entitlements. In particular, he noted that the transporter is relieved of its obligations to make gas available for offtake for a maximum number of days in any planned maintenance period. Beyond these days, the transporter incurs a "failure to make gas available" liability.

Nigel noted that for entry points, NG NTS are required to buy back capacity if it needs to undertake maintenance. However Nigel noted that at exit there is a greater requirement for cessation (rather than partial reduction), given that the impacts are typically unavoidable. Nigel also noted that there is lack of competition at exit points. Nigel added that any change to the current arrangements at exit would require support from the HSE.

Nigel then explained that there are a number of issues in setting a buy-back incentive at exit, in particular due to the limited competition. Nigel suggested that the current regime is maintained (with duties to cooperate and regulatory intervention only in case of disputes).

Nick Wye stated that it would be sensible to continue with the current arrangements. Julie Cox noted that the number of maintenance days available was agreed on a bilateral basis as part of NExAs. Some participants noted that no specific methodology was adopted in determining the number of allowed days for maintenance.

Julie Cox suggested that some participants would like to see more efforts from NG NTS to align their maintenance with planned maintenance.

Mark Feather suggested that there could be benefits in introducing a competitive buy back mechanism for maintenance that is not node specific which would enable the NTS to buy back capacity from the cheapest source. Julie Cox questioned the extent of competition for buy back at exit. Nigel explained that in some instances, NG NTS only has a limited choice on where to undertake its maintenance.

Julie Cox stated that it seems reasonable that maintenance is aligned with the maintenance programme, and noted that UNC modification proposals 60 and 66 were raised in this context. Nick Wye suggested that if NGG NTS provides a plan but subsequently deviates from that plan, users should be compensated. Tory Hunter noted that this issue could be addressed with a UNC modification proposal. Peter Bolitho noted that it would be necessary to ensure the consistency of such a charge with licence drafting to ensure that NG was

appropriately incentivised in this regard. Suzanne Turner noted that it should be taken into account whether maintenance is planned or unplanned.

A number of EOWG participants stated their preference for maintaining the current administrative arrangements for maintenance, potentially with some compensation for users if NGG deviates from its planned maintenance.

Questions on cost survey assumptions document

Julie Cox noted that in the assumptions document for the cost survey that was sent out by Ofgem many IT costs were excluded. Julie questioned why this was the case. Suzanne Turner explained that Ofgem intends to include in the cost assessment those costs that are efficient and necessary. Some participants noted that this is difficult, given that system costs are a result of discrete investments (ie either you have a system in place, or not).

Some participants also commented that the enduring offtake arrangements may necessitate systems changes that would assist shippers or customers in forecasting their capacity requirements. In response, Mark Feather reiterated that Ofgem would consider including such costs if they are efficient or necessary. Peter Bolitho questioned the need to do this analysis at this point in time. Mark recognised that there were some elements of the regime where uncertainty has remained but indicated that based on the experience of the DN sales process it was preferable to conduct an iterative Impact Assessment process that is informed by the details of the arrangements as they develop. Mark clarified that in the June document there would be a draft impact assessment, but there would be other opportunities for participants to submit cost data in response to later Impact Assessments.

Action: Mark Feather stated that Ofgem would send an email to participants to clarify which costs should be included in the pro-forma.

Way forward

Mark noted that the next EOWG session would be held on 17 May. Mark explained that the DNs have requested a slot to discuss DN interruption. Mark noted that Joanna Whittington, Director of Distribution at Ofgem, would attend the meeting.