Enduring Offtake Arrangements Working Group

Meeting 10

17 May 2006, 10:00 - 13:00

Ofgem's office, 9 Millbank

Attendees:

Mark Feather	Ofgem (chair)	Phil Broom	GDF
Matteo Guarnerio	Ofgem	Avian Egan	BGT
Suzanne Turner	PA Consulting	Connor Purcell	ESB
John Costa	EDF	Eddie Profitt	MEUC
Amrik Bal	Shell	Julie Cox	AEP
Nick Wye	WWA	Angus Paxton	Ilex
Peter Bolitho	EON	Liz Spierling	WWU
Tory Hunter	SGN	Roddy Monroe	Centrica Storage
Sharif Islam	Total	Iain Ward	NGD
Mike Young	Centrica	Mark Freeman	NGD
Steve Rose	RWE npower	Nigel Sisman	NG NTS
Gareth Evans	Total	John Bradley	Joint Office
Joanna Whittington	Ofgem	Angela Love	ILEX
Paul Smith	Cambridge Economic Policy Associates	Shelley Rouse	Statoil
Lewis Hodgart	Ofgem		
Nigel Sisman	NG NTS		

Introduction – review of minutes and actions

Mark Feather welcomed the group and asked whether anyone had comments on the minutes of EOWG 9. Liz Spierling asked that the second sentence in the fifth paragraph on page 3 is changed to "Liz Spierling noted that DNOs in the past operated quite comfortably with the flexibility available but noted that DNs may wish to adjust their flexibility bookings going forward under the enduring arrangements. Liz added that a distinction could be made between diurnal storage and operational flex.".

Nigel Sisman, asked by Julie Cox, explained that the average load duration curve adopted in the flexibility analysis by NGG NTS refers to an average day.

Suzanne Turner, in response to a question from Tory Hunter, noted that even if separate flat and flexibility products are specified, there would not necessarily be separate flat and flexibility baselines in the licence, but there may be a single capability number.

Mark noted that the action arising from the previous meeting (Ofgem to send an email to participants to clarify which costs should be included in the pro-forma) had been discharged.

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

Nigel Sisman gave a presentation providing an update on the system capability assessment that NGG NTS are undertaking to inform the flexibility product definition.

Nigel explained that the set of slides provided were an updated version of the NGG NTS presentation on flexibility at the previous EOWG to include a second table to inform interpretation of results.

Nigel's presentation focused on the results tables outlining national and maximum sub-zonal availability and national availabilities associated with sub zonal maximisation. Nigel explained that the first table presented national and zonal availabilities under different supply-demand scenarios. Nigel then explained that in each zonal column availability was calculated with coincident flexibility usage in the other three zones at base levels. Nigel explained that the zonal numbers for each zone represent the first level when a constraint is hit. However, Nigel noted that this analysis does not explain the aggregate level of flexibility, but only the level at which a constraint is hit keeping other zones constant.

Nigel then presented the second table outlining national availability associated with sub-zonal maximisation. In this table, each zonal column availability indicates national availability in the context of starting from "base" utilisation but with increased utilisation only in the designated zone.

Nigel explained that the results under some scenarios represented a limited amount of flexibility available. Nick Wye asked whether the modelling takes into account the effect of storage. Nigel replied that he considered the model to be an accurate representation of capability on the system in 2010/11.

Nigel, in response to a question from John Costa, explained that the supply scenarios presented were consistent with the assumptions in the ten year statement. Nigel also noted that NGG NTS is not in a position to say that flexibility is diminishing going forward, and explained that the analysis is based on a number of assumptions.

Nigel, in response to a question from Tory Hunter, explained that the key message arising from the analysis is that there is only a limited amount of flexibility that NGG NTS can release on a long term basis. Suzanne Turner questioned how this reconciles with the information provided by NGG NTS on availability of spare capacity. Nigel replied that this is mainly an off peak issue.

Peter Bolitho suggested that these conclusions (i.e. more flexibility could be released closer to the gas day) may reflect the operational reality of a power station. Nigel replied that the main difficulty is the commercial release of the product and added that different classes of users may have different appetite for risk. Peter added that nothing in the analysis is showing that there is a shortage of flexibility in the short term. Nigel noted that the main question is whether industry participants want assurance of availability.

Peter Bolitho questioned the relevance of commercial signals and suggested that there may be an agreement between NG NTS and Ofgem on what level of strategic investment there should be going forward. Suzanne Turner noted that if NG NTS cannot guarantee flexibility for the DNs there may be effects on the tradeoffs faced by the DNs. Peter reiterated that there should be some level of strategic investment. Nigel replied that there would still be an issue of what the right level of investment is. Suzanne stated that NGG NTS needs to receive meaningful signals which capture the interactions between flat capacity and flexibility.

Liz Spierling asked whether investment on DN network is considered to be less efficient for customers. Suzanne replied that this is not necessarily the case. Mark Feather noted that it should be ensured that NG NTS makes available as

much flexibility as possible and does not undersell flexibility rights. Mark noted that the NTS's concerns reflect uncertainties in being able to provide guarantees that flex rights sold in advance will be delivered physically on the gas day. Mark added that the debate is on how NG NTS should manage these risks indicating that it could be possible for the NTS to offer rights for sale in advance and buy back to manage any uncertainties in flows.

Suzanne noted that it is in NG NTS's interest to have a shallow flat capacity/flexibility substitution line, but stated that NG NTS should have the responsibility of managing the system. Nigel replied that there are not only commercial risks. Suzanne noted that the scenarios presented outline worst case scenarios and reiterated that it is important to understand the relationship between flat and flexibility capacity.

Julie Cox noted that in order to choose the flat capacity/flexibility slope one of the scenarios needs to be chosen, and this adds another level of uncertainty to the analysis, increasing the likelihood of unintended consequences occurring. Suzanne Turner noted that any slope would be an improvement from the current situation of a zero slope. Peter Bolitho stated that he was happy with the status quo. Suzanne noted that the status quo cannot be maintained, as there are issues with pricing and with DN incentives, which currently only incentivise long term flexibility bookings. Suzanne noted that once DN incentives are changed, then the amount of flexibility that DNs would book in the long term would change, and therefore the risk of NTS overinvestment in response to long term bookings would materialise. Suzanne, in response to a question from Peter Bolitho, noted that part of the cost benefit analysis consists of an attempt to quantify these potential costs.

John Costa asked for historical data on flexibility and that the uncertainties present at the moment are no worse than the dash for gas in the 90s. Nigel noted that the increase in swinging from CCGTs has happened only recently. Nick Wye noted that the analysis is based on questionable assumptions which need to be understood. Nigel, in response to a question from Peter Bolitho, noted that the analysis does not take into account entry flow profiles, and noted that there would only be a reduction in available flexibility if they were to be introduced in the analysis.

Flexibility – an alternative approach (AEP)

Julie Cox gave a presentation outlining a potential alternative approach to the allocation of flexibility in the short term. Julie explained the current issues with flexibility, and in particular that there are challenges in setting a slope of the line and baselines, the numbers are dependent on assumptions, and that the proposed approach risks losing benefits of diversity in system operation.

Julie Cox proposed an approach by which there are two types of flexibility:

- Obligated flexibility (which may not be curtailed but may be bought back); and
- Non-obligated flexibility (which is available unless curtailed).

Julie Cox then proposed an allocation mechanism by which everybody would submit their Offtake Profile Notices (OPNs) as they currently do. NGG NTS would then make an assessment of whether it can accommodate the requests. If it cannot accommodate all requests, then the OPNs would be rejected and participants would enter into an auction mechanism to allocate capacity to those who value it most. Julie noted that there may be allocation issues within day.

Julie noted that the proposed mechanism would ensure that that NGG makes available all flexibility. She also noted that this would be more a constraint management tool rather than an allocation. Julie noted that there is currently a project looking at electronic submission of OPNs.

Iain Ward asked what would happen in this model if DN requests are not accepted. Mark noted that participants, in order to have the certainty to obtain the requested flexibility, should book long term.

Nigel noted that the approach presented by Julie is very similar to the approach envisaged by NGG NTS. Mark Feather noted that under such a model it is crucial that NG NTS releases transparent information on available capacity in advance of flexibility allocations.

Peter Bolitho questioned whether the proposed approach gives DNs the opportunity to obtain non-obligated flexibility to the detriment of directly connected customers. Nick Wye stated that the model is very similar to the NG NTS model.

Paul Roberts asked how OPNs could be allocated by shipper (for instance in the case of a shared power station). Iain Ward noted that OPNs are submitted per individual offtake. Liz Spierling noted that following the move to an Option 2A payment model, the DN would pay and then allocate costs downstream. Peter Bolitho noted that the allocation could be made on the basis of primary capacity holdings.

Julie then explained some of the development issues. She noted that the slope of the line is still a key issue and that some clear arrangements for curtailment need to be in place. Julie also noted that the issue of the interaction of curtailment and daily firm sales needs to be understood, and the issues of overrun, buybacks and NG incentives need to be addressed.

The Julie noted the key benefits of her proposed approach. In particular, she explained that it would be compatible both with the single and two product model. She also added that NG NTS would have tools to manage flexibility utilisation. In addition, there would be a user commitment to increase obligated flexibility and operational diversity available to system users. Julie added that investment signals would be focused on long term requirements for obligated flexibility. Julie noted also that DNs would not be penalised when flowing according to the NTS requested profile, and explained that the proposed model may potentially have lower implementation costs than the NGG NTS model.

Paul Roberts questioned whether there would be any reduction in implementation costs. Julie Cox replied that operational costs would be significantly lower as shippers would need to access systems within day only if there are constraints emerging. Sharif Islam noted that personnel costs may be lower.

DN interruption reform (National Grid Distribution)

Joanna Whittington, Director of Gas Distribution at Ofgem, introduced herself and noted that on 16 May Ofgem published an initial thoughts document on DN interruption reform. She noted that the document covers four main areas: background, principles of reform, a potential model developed by DNs and timing. Joanna noted that the gas distribution team is keen to meet industry participants in May and June to discuss these issues.

Mark Freeman then gave a presentation outlining a proposed model for DN interruption reform. Mark noted that DNs are required to undertake DN interruption reform under Standard Special Condition D8. He explained that under this condition, DNs have a reasonable endeavours obligation to bring forward revised interruption arrangements for implementation by 1 April 2006. He noted that Ofgem indicated that DNs were discharged from this paragraph. However, he explained that the second paragraph of the condition states that if DNs are not compliant with the above paragraph, then they have a reasonable obligations to ensure that such arrangements are implemented as soon as reasonably practicable (i.e. April 2007, as indicated by Ofgem). Mark also noted that there are interactions with the NTS capacity reform.

Mark then provided some background on the previous consultation on LDZ interruption reform and provided an overview of current DN interruption arrangements.

Mark then explained the key principles of the strawman. He explained that firm exit capacity booking arrangements would apply and firm to interruptible switching would only occur in the (annual) application process. Mark noted that there may be a need for tenders with shorter lead times if better information is obtained (for example updated demand forecasts). Mark then explained that interruption prices would be based on an option exercise scheme.

Mark explained that under the proposed strawman DNs would publish interruption requirements on a locational (zonal) basis. All DM sites (firm and interruptible) would be able to apply for interruptible capacity. Some interruptible volume would be offered by DNs for multiple year (5) terms and the transporter could reject an application for interruptible capacity is not required.

Mark then provided some examples of the option and exercise regime and on the broad principles of application acceptances. Mark then provided some illustrative examples on how discounts by location would work.

Mark then noted that interruptible rights would take effect three years out. Eddie Profitt stated that the NG NTS strawman envisages a four year lead time. Mark Freeman noted that this needs to be discussed more.

Mark then provided an outline of the potential process. He noted that DNs would publish interruption requirement by location. Then shippers would bid for interruption rights, which would be then allocated by DNs. DNs would then bid for NTS exit capacity rights and if a constraint emerges on the DN, DNs would call interruption based on least cost.

Mark then outlined some issues that would need to be addressed, such as the timetable, the trade off of DN interruption which other capacity products (with NTS exit capacity potentially bought at the prevailing price), the change to capacity/commodity split, simplification of process, the need for transitioning arrangements, the interactions with DN safety cases, the need for incentives schemes and system implications.

Nick Wye noted that DNs should receive efficient signals to decide what to do. Nick stated it is very difficult to see how incentive schemes could work around this and suggested that there should be a single incentive mechanism for all products available to DNs.

Joanna Whittington noted that there is an interaction between all the incentives and they would need to be set with this in mind. Joanna noted that there is also

a tradeoff with the simplicity of the mechanism(s) ultimately adopted (eg single or multiple incentives). Joanna indicated that Ofgem is considering these issues further for the July 2006 gas distribution price control document.

Phil Broom required some clarification on how the exercise fee would work in practice. Julie Cox noted that there may be more stability if some lock-in mechanism for prices is adopted.

Mark Freeman noted that he would be keen that some of these issues related to DN interruption are discussed at EOWG. He also noted that he would be willing to discuss these issues with industry participants and, at a later stage, these proposals would be developed through the UNC workstream (with the aim of issuing a modification proposal in the summer).

Mark Feather noted that the only caveat is that it is still to be decided whether EWOG will continue after June.

Phil Broom asked whether the strawman proposal assumes any substitution mechanism. Mark Freeman replied that he believed that interruptible rights would stay with the site, but he stated that it is something that should be discussed.

Eddie Profitt added that LDZ demand side contributed very little to demand side response this winter, and noted that under some of the scenarios outlined in the presentation, users may decide to say firm. Joanna replied that it would be up to the DNs to offer prices which are attractive and cost reflective. DNs would then be able to compare the costs of interruption with the costs of investment. Eddie indicated that the discounts offered to users would need to be very high. Joanna noted that a bigger concern is that complexity of arrangements would deter participants. Nick noted that Eddie was referring to system balancing and not constraint management.

Way forward

Mark noted that the following meeting would be on 31st May *[note that this was cancelled following the meeting]* and added that later EOWG meetings may occur on 14 and 28 June, subject to confirmation.