

## **Enduring Offtake Arrangements Working Group**

### **Meeting 12**

**12 July 2006, 14:00 - 16:15**

**Ofgem's office, 9 Millbank**

#### **Attendees:**

Mark Feather	Ofgem (chair)	Julie Cox	AEP
Matteo Guarnerio	Ofgem	Angela Love	Prory Energy
Andrew Pester	Ofgem	Conor Purcell	ESB
Suzanne Turner	PA Consulting	Roddy Monroe	Centrica Storage
Peter Dickinson	Ofgem	Bethan Winter	NGD
John Costa	EDF	Nigel Sisman	NG NTS
Steven Sherwood	SGN	Paul Roberts	NG NTS
Derek Russell	Viridian	Sharif Islam	Total
Mike Young	Centrica	Gareth Evans	Total
Steve Rose	RWE npower	Shelley Rouse	Statoil
Christiane Sykes	E.ON UK	John Bradley	Joint Office

#### **Introduction – review of minutes and actions**

Mark Feather welcomed the group and noted the key issues to be considered:

- Update on flow flexibility zonal capacity attribution (NGG NTS)
- NGG NTS development of the 'AEP workgroup' alternative proposition

Mark noted that two NGG NTS papers were circulated in advance of the meeting concerning the above issues.

Mark asked whether anyone had comments on the minutes of EOWG 11. Angela Love noted that Angus Paxton represents Prory Energy and not Ilex as stated on the attendees list.

#### **Update on flow flexibility zonal capacity attribution (NGG NTS)**

Nigel Sisman provided an update on the flow flexibility zonal capacity attribution. Nigel said that NGG NTS has proposed that the 2010/11 'Physically Firm' flow flexibility release should be limited to 22mcm.

Nigel said that at the last EOWG meeting on 28 June, NGG NTS proposed that the EOWG should consider the basis under which the 22mcm might be released on a zonal basis with a view that the sum of the zonal maxima should be no greater than the national availability limit. However, Nigel said that EOWG participants requested an alternative approach, which involved developing an approach that would allow potentially higher zonal maxima but with aggregate release constrained to the national availability of 22mcm.

Following the last EOWG meeting and further discussions with Ofgem, Nigel said that NGG NTS have sought to permit, subject to physical system limitations, 'migration' of

the 2010/11 22mcm of physically firm flexibility capacity. Nigel explained the proposed approach involves:

- seeking to define zonal maximum for each of the 17 zones
- taking account of potential maximum area utilisation
- taking account of potential maximum national availability

Nigel explained the theoretical approach for developing zonal maxima. Nigel said the three tiers associated with the allocation (i.e. a national limit, a limit for the areas and a zonal limit) could allow for the allocation of flexibility across various areas subject to specific limits. Nigel said that the high utilisation of zonal capacity could generate offtake flow patterns that could not be accommodated by the NTS. However, Nigel added that recent network analysis has indicated, under certain assumptions, the ability of the system to accommodate “area” maxima.

Nigel said that provided the sum of the zonal holdings within each area (North, Central, West and East) is within the physical maxima derived from that analysis and the national aggregated release is limited to the national maximum of 22mcm derived from previous network analysis, simultaneous utilisation of all holdings could be accommodated (subject to a number of caveats). Nigel said that given inter-LDZ diversity and provided that DNs secure sufficient flexibility capacity to at least satisfy their NTS diurnal support requirements determined in accordance with current planning processes, and in the context of Standard Special Condition A17, then the NTS could support the release of physically firm flexibility capacity. Consequently, the NTS could support the release of flexibility in each zone up to the zonal maxima, and in each area up to the area maxima (provided that the national aggregate physically firm flexibility is limited to 22mcm).

Mike Young said it is important not to underestimate the true capability of the system. Suzanne said that Ofgem has been concerned about the 22mcm figure and asked NGG to explore the possibilities for releasing additional capacity. Nigel said that the 22mcm figure is not a conservative amount and is required to avoid over investment and to overcome the DN diversity issue. Nigel said that the proposed long-term physically firm flexibility release would allow for some migration to where it is valued the most, although it is not clear whether all demands would be met.

Mark asked how the pay as bid auction process works with the concept of regional and zonal maxima. In response, Nigel confirmed that it would essentially involve stacking the bids against the price order and applying the zonal and area maxima as constraining factors.

Nigel said, in the context of longer term release, that the NTS will not oversell without system management assurances, such as a financially firm concept. Nigel noted that this would require a mandatory requirement to offer back flexibility. Nigel said that EOWG participants did not appear to support this concept.

Nigel said there was greater opportunity for additional release of flexibility closer to the gas day as a result of less uncertainty about supply patterns. However, Nigel added that uncertainty about flexibility utilisation would still persist in the short term. Nigel said that EOWG participants indicated support for an OPN based release process as it avoids the need for new processes (unlike the release of fully firm capacity holdings) unless within day constraints are envisaged. Nigel noted that in the absence of system management tools it was not credible to contemplate overselling.

Julie Cox asked whether maintenance outages would reduce flexibility capacity below the 22mcm. Nigel confirmed that maintenance was not included within the 22mcm calculation. Suzanne Turner noted that the DNs would be subject to UNC penalties if they exceed their agreed maintenance outages. Julie said that if a particular site is suffering maintenance problems, then NGG NTS would have the option to claw back exit capacity from the other exit sites.

### ***NTS development of the 'AEP workgroup' alternative proposition***

Nigel noted that NGG NTS has proposed a “financially firm release” of flexibility, however at this stage many EOWG participants have indicated that this is not an appropriate way forward. Nigel highlighted the NGG NTS paper entitled ‘*NTS development of the 'AEP workgroup' alternative proposition*’ which aims to inform EOWG of the NGG NTS high level assessment of the proposal. Nigel said the preferred AEP workgroup proposal is not to introduce explicit day ahead or within day flexibility capacity application and allocation processes but rather to build upon current OPN based application processes for gaining access to “flexibility”. Nigel explained that the AEP proposes 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 a pay as bid auction mechanism to allocate capacity to those who value it most.

### ***Assessment of capability against OPN submission***

Nigel said under the AEP workgroup proposal users would hold “physically firm flexibility” obtained in the longer term auctions. At day ahead users would submit OPNs and if the NTS is confident all requests can be accommodated it would then accept the “requests” and all users should be capable of flowing in line with OPNs. Nigel noted that the OPNs will imply an estimate of expected flexibility utilisation. However, Nigel added that the OPNs are not submitted at an individual user level and so the OPNs will not enable an assessment of specific user flexibility requirements. Nigel said it may be essential to “hold back” the release of additional flexibility capacity to accommodate the potential scope for long term flexibility capacity holders to nominate up into their holdings. Nigel highlighted that this may limit the release of flexibility unless incremental flexibility capacity holdings can be recalled (i.e. they are not fully firm). Nigel noted that this “recall” was the key feature of the financially firm flexibility capacity concept designed to facilitate commercial release of capability that might exceed physical availability.

### ***Rationing***

Nigel said under the AEP workgroup proposal rationing would only be required in the event of risks of imminent within day constraints. Nigel said the proposal is based on preserving today’s regime as far as possible and delivering minimal change for DCs. Nigel stated that DCs might elect to do nothing in respect of IT systems development until constraints start to become evident and rationing is invoked. Nigel said if constraints emerge then there is a requirement to develop a process for the release of capacity to users. Nigel explained this process would need to establish individual user requirements because OPNs are provided in aggregate at multi user sites and do not reveal individual user flexibility requirements. Nigel said this would suggest that individual users at each node would need a within day attribution of the expected

aggregate OPN profile and would need to reflect the value of the desired profile in the allocation process.

Nigel noted that the rationing process would require further development. Nigel noted that the rationing process seems to be very close to a short term forward release of flow flexibility on a “pay as bid” basis. Nigel asked for views on what principles should underpin the rationing process.

There was general agreement amongst shipper representatives that NGG NTS should not withhold any long term rights that have not been nominated at the day ahead stage in case they are needed on the day by those holding these rights.

Julie Cox said that the likelihood of a constraint on the system resulting in a pay as bid auction appears rare. Julie noted that at the day ahead stage if booked capacity exceeded network demand the issue of the incremental capacity could be resolved through energy actions. Nigel noted that the OPNs, by virtue of aggregation at multi-user sites, do not reveal individual user flexibility requirements. Sharif said that the attribution at exit points is a wider problem (and not specific to the AEP model). Sharif said that some interconnector operators already have a lead party submitting operational flows. Sharif questioned whether the current operational flow procedure allows NGG NTS to know what flows take place in aggregate.

Sharif noted that the rationing process for unused capacity rights which are not released could be resolved through a Use It or Lose It (UIOLI) mechanism. Mark noted that that a UIOLI interruptible flexibility product appears not to be credible within day. Julie added that such a product would impose too much complexity on the system.

#### *Within day constraints*

Nigel said it is possible that events will unfold so that although OPNs implying incremental flexibility requirements have been accepted at day ahead, further requests might not be capable of acceptance within-day. Nigel noted that this generates two possible outcomes; either all on the day applications are rejected (which effectively grants first-come, first served access to capability) or a rationing approach is invoked that effectively nullifies incremental capacity conferred via earlier accepted OPNs. The latter option would result in a pay-as-bid flexibility capacity rationing process in that area. Nigel noted that the issue of the release of unused “physically firm” needed to be further considered. Nigel added that a “TFA” type instruction process would be required if OPNs breach their holdings.

Nigel asked for views about how the capacity allocation process should operate in the context of within day constraint. Sharif noted that DNs should be incentivised to release flexibility on the day, therefore enabling DCs to gain access to flexibility. Steve Rose noted that DNs are required to book long-term capacity for their obligations under the relevant safety case. Steve asked how these obligations should be interpreted. Suzanne said that it is for the DNs to interpret what is required in order to meet their respective safety case. Steve said it would be important to understand how the DNs approach/interpret their respective safety cases and the relevant issues they take in to account. Steve Rose asked whether it would be possible to gain access to the DNs OCS bookings. Paul Roberts indicated that NGG NTS were giving this consideration.

Julie Cox indicated that the DN incentives are critical to understanding how much capacity the DNs would book. Mark responded that DN behaviour will ultimately be driven by their licence and safety case obligations and that the incentives are intended to ensure efficient trade-offs between pipeline build, interruption and purchases of DN capacity.

**Other business and date of next meeting**

Mark noted that the next EOWG meetings will be held on 26 July (14.00 - 17.00) subject to confirmation.

The above meeting will be held at Ofgem.