

## Enduring Offtake Arrangements Working Group

### Meeting 13

26 July 2006, 14:00 - 17:00

Ofgem's office, 9 Millbank

#### Attendees:

Jason Mann	PA Consulting/ Ofgem (chair)	Julie Cox	AEP
Andrew Pester	Ofgem	Angela Love	Pöyry Energy
Suzanne Turner	PA Consulting/ Ofgem	Eddie Proffitt	MEUC
Beverley Grubb	SGN	Iain Ward	
Mark Freeman	NG Gas Distribution	Bethan Winter	NGG
John Costa	EDF Energy	Nigel Sisman	NG NTS
Phil Broom	Gaz de France	Paul Roberts	NG NTS
Nick Wye	WWA	Sharif Islam	Total Gas and Power
Mike Young	Centrica/ BGT	Gareth Evans	Total Gas and Power
Steve Rose	RWE npower	Shelley Rouse	Statoil
Christiane Sykes	E.ON UK	John Bradley	Joint Office
Robert Cameron- Higgs	NGN		

#### Introduction – review of minutes and actions

Jason Mann (Chair) welcomed the group and noted the key issues to be considered:

- Update from NGG NTS on the trading of flexibility capacity
- Discussion of short term flex release
  - NGG NTS paper entitled 'Day Ahead / Within Day Flexibility Release Models Examples'
  - Steve Rose paper on flow flexibility

Jason asked whether anyone had comments on the minutes of EOWG 12. Julie Cox asked that the first sentence on page three is amended to "Julie Cox asked whether maintenance outages would reduce flexibility capacity below the 22mcm". Sharif Islam asked that the fourth paragraph (first sentence) on page 4 is amended to "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". Nigel asked that the fifth paragraph (second sentence) on page 4 is amended to "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".

#### Update from NGG NTS on the trading of flexibility capacity

Nigel Sisman said at the last EOWG meeting, NGG NTS agreed to further consider the transfer of flexibility rights between zones. Nigel said the long-term trading of flexibility capacity could be achieved through annual auctions across areas and zones. Nigel added that beyond the last annual auction and closer to the gas flow, the community could trade capacity across areas and zones subject to the maxima applied in the long-

term allocation process. Nigel said the opportunity to trade between zones would continue up to and including noon on D-1.

Suzanne Turner asked whether DNs would be willing to release capacity booked through long term auctions at the day ahead stage. Beverley Grubb said their primary concern is to ensure sufficient flexibility capacity, but would be willing to sell unwanted capacity provided appropriate commercial conditions existed.

### **Day Ahead / Within Day Flexibility Release Models Examples**

Nigel said that at the 12<sup>th</sup> EOWG meeting, NGG NTS were asked to further articulate the potential framework and issues associated with short term flexibility release associated with the OPN based processes.

Nigel noted that following the 12<sup>th</sup> EOWG meeting, NGG NTS met with a group of stakeholders (including Ofgem) on 19 July to discuss the potential short term release processes. Nigel presented a paper entitled 'Day Ahead / Within Day Flexibility Release Models Examples' which was largely based on discussions at the 19 July (with some additions). Nigel described three options for short term flexibility capacity release:

- **Option 1** – Full auction based release

Auction based releases, conferring rights to utilise flexibility capacity, apply for every Gas Day where users directly apply and where flexibility is available NGG NTS will allocate such capability

- **Option 2** – No short term rights conferred until constraint identified and auctions invoked

Users can access flexibility without holding short term rights. If imminent constraint identified then auctions invoked to confer incremental rights (over those long term rights held)

- **Option 3** – OPN based flexibility requests

OPNs are used to derive users implied flexibility requirements and flexibility capacity rights are automatically conferred.

Nigel noted that option 1 had been discussed in detail at previous EOWG meetings, so proposed not to present a detailed overview of option 1 but rather to focus on options 2 and 3. Jason said that a key distinction between option 2 and 3 was that option 2 does not confer explicit capacity rights, whereas option 3 does confer capacity rights.

#### *Option 2 (auctions when constraint)*

Nigel provided a summary of option 2 which enables users to request flexibility capacity via annual auctions. Nigel said close to the gas day users would submit OPNs and NGG NTS will accept the OPN submission provided there is sufficient system capability. Nigel noted that if the OPN submissions go beyond the capability of the system (in a locality) then OPNs would be rejected. Nigel added that NGG NTS will allow OPNs to be re-submitted, which may be accepted depending on whether the revised implied flexibility can be accommodated. Nigel said if these are still rejected then an auction is invoked and users will be expected to buy flexibility. Nigel added that potentially this

will require the user to procure flexibility capacity to satisfy their requirements which are, at least partly a function of the flows that might already have occurred. It was also noted that an auction of flexibility capacity within day could lead to perverse outcomes with users increasing flows to maintain flat profiles which could exacerbate potential issues.

#### *Option 3 (OPN based capacity)*

Nigel said close to the gas day under option 3 users submit OPNs and NGG NTS would accept OPNs based upon an assessment of capability as compared with OPN submission implied flexibility utilisations and longer term holdings. Nigel said that if OPN implied flexibility (having regard to long term flexibility capacity) is less than or equal to the capability of the system then the OPN is accepted and a flexibility capacity right conferred. Nigel added that if the OPN implied flexibility (having regard to long term flexibility capacity) was greater than the capability of the system the OPNs are rejected, but previous OPNs and implied flexibility holdings remain. Nigel said that NGG NTS will allow OPNs to be re-submitted which may be accepted if the revised implied flexibility utilisation is within the system capability. Nigel said if these are still rejected then an auction is invoked and users will have to buy flexibility via an auction. Nigel said the user may not have to purchase any additional flexibility as their previously accepted OPN and implied flexibility rights remain in place.

Nigel said option 3 raises the issue of how NGG NTS assess OPNs versus existing holdings (i.e. if they are unutilised) Nigel added that if there was a single user at an exit point or some sort of attribution of flexibility to users in place NGG NTS would be able to make a more informed decision.

Suzanne noted that additional flexibility capacity available under option 2 and option 3 would depend on the discretionary release of capacity by NGG NTS under option 2 and the release of access rights by the DNs through trading. Beverley said that once DNs and DCs have booked flexibility, the challenge for DNs and DCs is to know under option 2 what flexibility they will require within day. Julie Cox said that DNs could potentially construct an argument not to release flexibility capacity because of their obligations under the relevant safety case. Julie Cox said that appropriate incentives are required in order to encourage the DNs to release unused capacity. Suzanne noted that DNs and NGG NTS are driven by their relevant safety case, but that an incentive on the DNs to release capacity they don't require may be appropriate.

#### **Steve Rose presentation on flow flexibility**

Steve Rose presented an alternative option (option 2\*) to NGG NTS's option 2. Steve said that option 2\* builds on discussions between Ofgem, NGG NTS and a number of AEP shippers held on the 19 July. Steve noted that the model has not yet got wider industry "buy in" and does not yet represent an official RWE view. Steve said that this initial review aims to prompt discussion at EOWG in the hope that it might form the basis for a workable enduring solution. Steve noted that in the absence of further progress NGG NTS are shortly expected to raise a modification proposal based on option 1 which they did not support.

Steve noted that the model aims to promote transparency as far as possible. Steve highlighted the key aspects of option 2\*, which includes for example:

- NGG NTS would be obligated to publish the amount of flow flex they anticipate will be available within a zone/region day ahead and at various times within day
- These figures would be based on the latest OPN information provided to them by shippers and DNOs and on latest entry flow information
- NGG NTS would be obligated to publish the quantity of physically firm capacity sold in any long term auction by zone, along with the average price paid
- This information would allow shippers/DNOs to gauge the impact of not buying firm capacity and the likelihood of being exposed to overrun charges on a day by day basis

*Day ahead – option 2\**

Steve noted that the above information should be made available regardless of which option is adopted. Steve said at the day ahead stage the shippers/ DNOs submit their OPNs and NGG NTS evaluates whether this is likely to result in a zonal/ regional constraint. Steve added that if a constraint is considered unlikely OPNs are deemed to be accepted but this does not confer rights to firm flexibility. Steve noted that if a constraint is considered likely NGG NTS will reject all OPNs within the affected zone/region if they are greater than a users firm flexibility holdings and declares the day an overrun chargeable day.

Steve said that a pay as bid auction would then be held for unsold firm flexibility within the affected zone/region. Steve added that at this point firm flexibility holders can offer back into the auction at prices they choose. NGG NTS would then allocate bids economically and consequently provides a system for registration of secondary trades. Steve noted that once the auction is complete OPNs would be re-submitted and NGG NTS can reject any that exceed a users firm flexibility holding

*Within day – option 2\**

Steve said that if a constraint develops in a zone/region within the gas day, NGG NTS would declare the day an overrun chargeable day. Steve noted that NGG NTS could declare a constraint effective from any hour between 06:00 and 21:00. Steve said that users can revise OPNs following a declaration of a constraint but NGG NTS can reject any OPN submitted after the constraint effective time if, in a constrained zone, its effect to increase a users flexibility usage above their firm holding. Steve said NGG NTS cannot reject any OPNs submitted prior to the constraint effective time except at the day ahead stage.

Steve highlighted that under option 2\*:

- No auctions would be held within day but users can trade flex between themselves and register this on NGs system
- If users continue to submit OPNs and flow gas such that the system is placed under stress NGG NTS will take operational balancing actions to balance the system
- If NGG NTS cannot redress system imbalance through operational balancing actions this indicates commercial arrangements have failed. NGG NTS can then declare a Critical Transportation Constraint Emergency and interrupt users who continue to exceed their firm flex holdings after declaration of a constraint

Suzanne said this approach protects any physically firm flexibility rights that have been bought long-term. Suzanne added that if holders of the flexibility rights were not prepared to sell these rights in the event of a constraint on the system then NGG NTS

could be forced to declare a Critical Transportation Constraint Emergency. Beverley said that the OPN issue is only a problem once a constraint emerges on the system and questioned the frequency of such events. Julie said that the definition of flexibility remains an issue for all of the proposed approaches.

#### *Overruns – option 2\**

Steve highlighted the key aspects of the overrun process under option 2\*. Steve noted that on any day where NGG NTS declared an overrun is chargeable (either day ahead or within day) if users exceed their firm flex holding they will be subject to an overrun charge. Steve said that overruns will only be charged in zones/regions that have been declared constrained. Steve noted that the overrun charge will be a factor of SMP Buy as NGG NTS are likely to have to take energy actions to resolve constraints. Sharif and Nigel questioned whether linking the overrun charge to the SMP Buy factor was appropriate. Steve noted that this issue would need to be further considered.

Mike Young noted that the overrun process will result in the holders of capacity selling their rights, which leads to the issue of who pays for this mechanism. Beverley noted that if operational balancing actions could be attributed to relevant parties (“tagging”) this could be used to resolve constraints on the system.

Suzanne said that if incentives were placed on the holders of capacity to release capacity then the option 2\* approach is very similar to the option 3 approach. Steve noted that this was another issue which may warrant further consideration.

#### *Benefits – option 2\**

Steve highlighted a range of benefits resulting from option 2\*, including for example:

- Avoids the administrative burden of daily flex auctions
- Avoids NGG NTS having to decide how much flex to make available each day
- Allows NGG NTS to avoid constraints that can be identified at the day ahead stage by rejecting OPNs greater than a users flexibility holding
- Allows NG to reject OPNs that exacerbate constraints that arise within day
- Creates an incentive for shippers to modify flows once a constraint has been identified by linking overrun charge to SMP Buy
- Does not penalise users for gas they have already flowed (and cannot alter) prior to a constraint being identified
- Protects firm flex holders rights
- Information release allows users to anticipate potential constraints and react accordingly

Steve also highlighted the potential advantages of option 2\* against NGG NTS’s option 2, which includes for example: avoids need for within day auctions; avoids need for separate flex system management tools (e.g. buybacks, forwards/options, flow swaps); recognises the reality that within day uncertainties exist and creates an incentive for users to respond to these occurrences without penalising them and without forcing them to overbook. Steve added that option 2\* recognises that existing operational balancing tools may need to be used to resolve constraints but targets these costs to users who do not assist in solving the constraint.

### Concluding Remarks

Jason provided a summary of options 2 and 3. Jason highlighted that option 3 confers clearly defined flexibility capacity rights which can be released through trading. Jason said that option 2 confers fewer rights than option 3 and could therefore require within day curtailment of flows.

Jason asked the meeting participants to indicate an initial preference for the various options concerning the day ahead and within day flexibility release models.

Name	Initial Preference
Beverley Grubb	3
Mark Freeman	3
Steve Rose	2*
Phil Broom	2*
John Costa	2*/ 3
Paul Roberts	1
Julie Cox	2*/ 3
Shelley Rouse	2
Angela Love	2*
Sharif Islam	2*
Gareth Evans	2*
Iain Ward	-
Bethan Winter	-
Christiane Sykes	2*/3
Robert Cameron-Higgs	-
Nick Wye	3
Nigel Sisman	1
Mike Young	2*
John Bradley	-
Jason Mann	3

The majority of participants noted that the initial preference indicated above is subject to a further consideration of relevant issues. Beverley said that option 3 appeared to provide clarity and simplicity, although concerns remain with how the system deals with constraints. Shelley Rouse said that the likelihood of constraints occurring was low and consequently option 2 was sufficient. Nigel said that while NGG NTS prefer option 1, he acknowledges that option 3 is closer to what EOWG participants appear to want from the proposed scheme. Suzanne noted that it would be useful to further understand whether option 2\* or option 3 would release more capacity. Most participants that had expressed a preference for option 2/ 2\* noted that this was on the assumption that more capacity would be released. Iain Ward noted that the HSE will not favour a mechanism which increases the incidents of critical transportation constraint emergencies.

Paul Roberts said that in order for NGG NTS to draft the relevant business rules it is important that the EOWG establishes a preferred way forward for inclusion in the envisaged NTS Exit Reform UNC Modification Proposal.

**Other business and date of next meeting**

Jason noted that the date of the next EOWG meeting will be confirmed by email in the near future.

The next EOWG meeting will be held at Ofgem.