

Enduring Offtake Arrangements Working Group

Meeting 14

9 August 2006, 10:00 - 12:00

Ofgem's office, 9 Millbank

Attendees:

Mark Feather	Ofgem (chair)	S. Leedham	EDF Energy
Andrew Pester	Ofgem	Angela Love	Pöyry Energy
Suzanne Turner	PA Consulting/ Ofgem	Avian Egan	Bord Gais Eireann
Roddy Monroe	CSL	Iain Ward	NGG Gas Distribution
Mark Freeman	NG Gas Distribution	Rekha Patel	Conoco Phillips
Bali Dohel	SGN	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	Jeff Chandler	SSE
Christiane Sykes	E.ON UK	Shelley Rouse	Statoil
Robert Cameron-Higgs	NGN	Liz Spiering	WWU
John Bradley	Joint Office		

Introduction – review of minutes and actions

Mark Feather (Chair) welcomed the group and noted the key issue to be considered:

- NTS Flexibility Capacity Release Processes (presentation from NGG NTS)

Mark asked whether anyone had comments on the minutes of EOWG 13¹. Sharif Islam asked that his initial preference on the various options concerning the day ahead and within day flexibility release models is amended to '2*'. Angela Love noted a typing error in references to 'Pöyry Energy'.

Presentation from NGG NTS concerning NTS flexibility capacity release processes

Nigel Sisman provided a presentation on NTS flexibility capacity release processes. Nigel said that in the context of raising a UNC modification, NGG NTS proposes an OPN based flexibility requests approach (as discussed at previous EOWG meetings). Under this approach OPNs are used to derive users implied flexibility requirements and flexibility capacity rights are automatically conferred.

Nigel said that significant progress has been made on simplifying the proposals for NTS exit reform through the EOWG, including for example:

- *Simplification of the longer term release processes (prevailing rights and increments/decrements and user commitment)*

¹ Robert Cameron-Higgs asked that his name is removed from the initial preference list on the various options concerning the day ahead and within day flexibility release models as he was not present for this point of the meeting.

- *Simplification of flexibility (assumption no explicit build to support flexibility capacity)*

Nigel noted that there were still some ongoing issues concerning the very short term flexibility release. Nigel said that NGG NTS has proposed that the 2010/11 physically firm flow flexibility release should be limited to 22mcm. Nigel added that beyond this price control period further work will need to be undertaken on this issue.

Nigel provided a summary of two alternative primary flexibility capacity release philosophies. Under one approach, Nigel indicated that quantities would be released based on system capability and the provision of a high degree of firmness, with constraint costs being unlikely. This was described as 'prevention approach'. Alternatively an overselling approach could be adopted which seeks to satisfy user flow commitments as they arise but recognises a lower degree of firmness and the need for deployment of constraint management tools. This was described as a 'cure' approach. Mike Young noted that the preferred outcome depends on the limits of the system capability and that the two philosophies highlighted were on a spectrum of alternatives. Mike said there would be support for a prevention approach if we thought the flexibility offered for sale was close to system capability. Nigel agreed that this was a key issue and highlighted a number of key variants under each approach: system management tool development; constraint cost responsibility; dependence on overruns/ incentives; utilisation of system; and probability of emergency.

John Bradley asked whether the probability of emergencies was in the context of HSE requirements. Nigel said that if holders of the flexibility rights were not prepared to sell capacity rights in the event of a constraint on the system then NGG NTS could be forced to declare a Critical Transportation Constraint Emergency.

Nigel said that NGG NTS advocates a preventative approach to flexibility release. Nigel said that the NGG NTS position was driven by:

- The experience of the current regime operation
- The absence of commercial offering of buy-back of entry (e.g. recent St Fergus experience); and
- Limited liquidity of "locational offers" on the OCM

Nigel said that the NGG NTS approach is not to oversell capacity, so risks of within-day system management are low, but ensure that:

- Flex capability is sold and assessed on a zonal basis to recognise substantial diversity (Intra-LDZ)
- Flex capacity is efficiently allocated (application of zonal and area maxima)
- Flex capacity is fully tradable
 - Inter-zone up to 12:00 D-1
 - Intra-zone before and during the Gas Day
- Effort expended to assess capability on close to a real time basis to ensure maximum release

Nigel said that, in the absence of a high degree of confidence about system management tool effectiveness to manage within-day constraints, NGG NTS would consider it to be imprudent to oversell flex capacity. In response to a question from Nick

Wye, Nigel acknowledged that further work needs to be undertaken to assess system capability and that an iterative model would need to be developed.

Nigel said that trading opportunities would be possible across areas and zones subject to the maxima applied in the long-term allocation process. Nigel said that auction processes will rank bids in price order and then select subject to relevant zonal and area maxima. Nigel noted that this process addresses user concerns, including for example:

- Zonal release reflects intra-LDZ diversity
- Area maxima enable value based migration
- Annual Flexibility bundle trading enables further re-attribution
- Daily flexibility trading enables fine tuning before and during the gas day

Liz Spiering raised concerns about intra-LDZ flexibility when LDZ's are split across zones. In response, Nigel said that this would be better than the transitional arrangements as there would be fewer zones.

Nigel said that the long term physically firm flexibility release permits migration to where/who values it most. Nigel said there would be a primary auction allocation, with:

- Secondary market "annual bundle" trading; and
- Secondary market "daily bundle" trading after the last annual auction release

Nigel said that there is question about how far the 22mcm physically firm release will go and that it is not clear whether all demands will be satisfied. Nigel noted that the 22mcm physically firm release should provide sufficient for DN requirements. Nigel noted that shorter term flexibility capacity release is therefore likely to be necessary closer to gas flow. Nigel said there are two major challenges: assessing capability and assessing capacity utilisation against holdings.

Nigel said that when assessing system capability a number of key model inputs need to be considered:

- Opening linepack position
- Predicted zonal supply input patterns/ profiles
- Predicted offtake patterns/ profiles

Nigel noted that in any OPN based approach to short-term firm flexibility release, the real incremental requirement may be difficult to determine since it is not clear how much of the flexibility capacity holding is being used. Nigel said that this was a significant issue for network operations to factor into the processes. Nigel outlined the short term release via OPN based or auction based processes. Nigel said the OPN based approach would require new network operation processes, including the need for a single or lead user at an exit point or some sort of attribution of flexibility to users in place in order for NGG NTS to be able to make a more informed decision. Nigel said that if a constraint emerges on the system then a pay as bid process would be evoked. Nigel noted that if there is no constraint on the system then the auction reserve price would be zero or close to zero depending on the reserve price.

Nigel noted reservations about current system management tools. Nigel proposed a new system management tool for when excessive aggregate offtake occurs and NGG NTS has to reduce the cumulative flow rate (by x GWh over y hours). Nigel said that under

this management tool users would be advised of: the quantity requirement; the necessary timing; and the geographical location of the requirement. Nigel added that users (if any) would then offer the service and an offer stack would be constructed. Nigel noted that the bids would be accepted down the stack until the requirement is satisfied. Nigel added that were offers accepted then the users' flexibility capacity holdings would be revised and that the marginal price would feature in flexibility overrun calculations.

In response to a question, Nigel said that the system management tool would be reliant on the willingness of DNs to sell back capacity.

Liz commented that DNs may need to request turn down of customers on their own networks. In the event capacity was sold back. Nigel commented that sell backs of capacity could also be accommodated in some instances by stock changes on the DN.

Iain Ward asked whether the system management tool was proposed to manage flexibility or end of day issues. Mike Young noted that the tool was intended to manage within day issues but that it was distinct from the defined concept of flexibility as the product could actually require users to increase their flexibility usage by reducing their offtake. Nigel commented that the tool was necessary to manage local linepack depletion within day and was not an end of day tool.

Nick questioned the extent to which this tool would be of value absent of the enduring offtake reform. Nigel noted that it could be but that the need for it increased with enduring reform and as a result of the flexibility proposals.

Timetable – Next Steps

Nigel proposed the following timetable:

Milestone	Date
National Grid NTS issue overview of proposed model	18th Aug
EOWG discussions	23rd Aug
National Grid NTS issue detailed Business Rules	31st Aug
Transmission Workstream discussions	Dates to be arranged
Submission of UNC Proposal to Modification Panel	12th Sept
Modification Panel decision (National Grid NTS to request proposal issued for consultation)	21st Sept
Consultations: <ul style="list-style-type: none"> ➤ UNC Modification Proposal consultation ➤ Charging proposals ➤ IExCR Methodology Statement 	Oct 2006
Applications for: <ul style="list-style-type: none"> ➤ additional prevailing flat capacity from Oct 2010 ➤ annual flexibility capacity for Gas Years 2010/11 and 2011/12 	July 2007

Nigel confirmed that NGG NTS was currently drafting the relevant business rules. Nigel added that NGG NTS would be willing to talk through the relevant legal drafting as

appropriate. In clarification, John said that in order for the modification to be consulted on, the relevant legal text must be provided within at least 15 days of the modification submission.

Nick Wye questioned whether a separate modification was required for the buy back service element of the proposal. Nick noted that the focus of the EOWG meeting has been the development of flat and flexibility concepts. Nigel said that the buy back service provides a key interaction with capacity holdings in the enduring regime. Paul Roberts added that the proposal would fit better within a single modification.

Steve Rose asked whether information from the OCS booking process could be made available. Liz said that discussions between transporters were ongoing, as to what level of aggregation was appropriate given the relevant confidentiality issues. Mark said that Ofgem would encourage the release of such information.

Steve said that the amount of available flexibility capacity needs to be further considered. Nigel recognised that this was an important issue, which represented a significant challenge for the NGG NTS. Mark said that Ofgem was considering possible incentives on NGG NTS to encourage a release of physically firm capacity greater than the 22mcm amount.

Other business and date of next meeting

Mark noted that the next meeting of the EOWG could be used to go through the NGG NTS proposal (in advance of detailed business rules being published) in order to aid participants understanding of the relevant issues. Mark also noted that the EOWG could continue (after the modification is raised) on an ad-hoc basis in order to discuss relevant licence condition drafting. Mark noted that the EOWG, to the extent it was convened again, would not discuss issues associated with any modification proposal and that all such discussions would occur through the UNC processes. John Bradley noted that a clear distinction between the work of the EOWG and the UNC process would be beneficial.

Mark confirmed that the last EOWG meeting will be on 23 August at 13:30 to 17:00. The last EOWG meeting will be held at Ofgem.