Enduring Offtake Arrangements Working Group
Meeting 15
23 August 2006, 13:30 - 17:00
Ofgem's office, 9 Millbank

Attendees:

Mark Feather	Ofgem (chair)	Stefan Leedham	EDF Energy
Andrew Pester	Ofgem	Beverley Grubb	SGN
Jason Mann	PA Consulting/ Ofgem	Keith Dixon	Northern Gas Networks
Mark Sutton	TPA Solutions for BGE	Charles Ruffell	RWE npower
Mark Freeman	NG Gas Distribution	Rekha Patel	Conoco Phillips
Steve Fisher	NGG NTS	Amrik Bal	Shell
Paul Roberts	NGG NTS	Eddie Proffitt	MEUC
Phil Broom	Gaz de France	Angus Paxton	Pöyry Energy
Mike Young	Centrica/ BGT	Conor Purcell	ESB PG
Bethan Winter	NG Gas Distribution	Shelley Rouse	Statoil
Christiane Sykes	Statoil	Liz Spiering	WWU
Stuart Waudby	Centrica Storage	Dennis Rachwal	Joint Office
Robert Cameron-Higgs	NGN		

Introduction – review of minutes and actions

Mark Feather (Chair) welcomed the group and noted the key item for the meeting:

- NGG NTS presentation on the enduring offtake arrangements

Mark asked whether anyone had comments on the minutes of EOWG 14. Meeting participants did not raise any comments on the minutes.

Presentation from NGG NTS concerning the enduring offtake arrangements

Paul Roberts provided a presentation on enduring offtake arrangements (in advance of detailed business rules being published) in order to aid participants understanding of the relevant issues. Paul's presentation covered the following key areas:

- Commercial/ Regulatory Framework
- Capacity Products
- Registration mechanisms
    - Flat capacity
    - Flex capacity
- Constraint Management
- Liabilities
- Charging Arrangements
- Way Forward

Commercial/ Regulatory Framework

Paul outlined the commercial/ regulatory framework for the enduring regime that consists of interactions between the: Licence; UNC; charging methodology; and IExCR.

Capacity Product

Paul noted the two types of capacity products that are key to the proposed enduring regime model. Firstly, the NTS exit (flexibility) capacity provides the right to flow at a non-even flow rate in an NTS exit zone. Secondly, the NTS exit (flat) capacity provides the right to offtake a daily quantity of gas with implied rights to flow at uniform rate at an NTS exit point. Paul noted that the NTS exit (flexibility) capacity would be offered on both an annual (1 to 5 years) and a daily (day ahead and on the day) basis. Paul also noted that the NTS exit (flat) capacity would be provided in the following bundles:

- Prevailing rights for 3 years plus
- Annual (1 to 3 years)
- Daily (day ahead and on the day)
- Daily Interruptible (day ahead)

Stefan Leedham asked for clarification as to what is meant by prevailing rights. Paul explained that NGG NTS will prepare a list for all supply points and in July 2007 users will have the opportunity to indicate whether they want all of their current SOQ in the form of prevailing rights from October 2010. Paul explained that on 15 July users could say whether they require prevailing rights and if they do, then their rights will continue unless the user indicates a reduction/ increase to their SOQ. Paul indicated that if a user wanted to reduce its usage it would need to provide 1.2 years notice. Paul said that as a result of the prevailing rights model the SOQ becomes an evergreen flat right (although this does not extend to flexibility).

Paul noted that users of the NTS exit capacity will only incur a flat or flexibility overrun charge at an NTS Exit Point or Zone on any day if:

- There is an "Aggregate NTS Exit Overrun". For example, if the aggregate end of day flows exceeds aggregate flat holdings or aggregate flexibility utilised exceeds aggregate flexibility holdings ; and
- It has resulted in an individual User overrun. For example, if the user's end of day flow exceeds its flat holdings or user flexibility use exceeds its flexibility holdings

Paul said that in the event that the sum of each "User's Individual NTS exit (flat/ flexibility) overrun" is greater than "aggregate NTS exit (flat/ flexibility) overrun", then each user's overrun amount will be scaled down such that the sum of each "User's NTS exit (flat/ flexibility) overrun" is equal to the "aggregate NTS (flat/ flexibility) exit overrun".

Paul noted that a user's NTS exit capacity flat/ flexibility overrun charge will be determined as the "user's NTS exit (flat/ flexibility) capacity overrun" amount multiplied by the highest of:

- 8 times the highest price paid by users at the NTS exit point/ zone for any class of firm NTS exit (flat/ flexibility) capacity for that day

- 8 times the highest reserve price at the NTS exit point or zone for any capacity auctions. Paul noted that this is to cover a scenario where no capacity is booked at an NTS exit point/ zone, but users still flow
- 1.1 times the highest price paid by National Grid for NTS exit (flat/ flexibility) capacity for any NTS exit point/ zone for that day for capacity buy back through any constraint management action

Paul said that a single user ("overrun user") may be appointed to be responsible for all overrun charges at an NTS Exit Point. Paul noted that for a user to become an overrun user they must provide formal consent of all users registered to flow gas at the NTS Exit Point. Paul added that overrun users can terminate without the consent of registered users and that a list of overrun users will be published.

Christiane Sykes asked whether there would be a seasonal overrun charge (i.e. a lower charge in the summer) and noted that the '8 times' figure is arbitrary. Mark Feather indicated that constraints can arise in summer off peak months and it was important that ticket to ride principles were consistently applied through the year. Beverley Grubb added that the '1.1 times' figure is the highest price paid at any exit point and is therefore not properly targeted. Paul noted that the overrun framework has been debated extensively in the entry regime and the exit proposals draw on this.

Mark Sutton asked what would happen if a user triggered incremental capacity, but then decided to give it up with 1.2 years notice. Mark Sutton added that this raises questions about what happens to the baseline and whether these rights are subsequently made available following a capacity reduction requirement being signalled.

Paul noted that the 1.2 years parameter would be set out in the IEXER that will be referenced by the UNC. Beverley noted this may create difficulties and asked who can change the IEXER. Paul noted that NGG NTS would amend the IEXER in consultation with users.

Eddie Proffitt argued that the 1.2 years notice period was too long and that shippers often do not know their requirements until one month ahead of the gas flow. Paul noted that the 1.2 years period encourages users to think through whether their capacity holding is appropriate. Paul also noted that the proposed lead time was shorter than Ofgem's preferred requirement of 4 years.

Registration Mechanisms
Flat Capacity

Paul noted that NTS exit (flat) capacity release would be through a pay as bid auction during the constrained period (years 1 to 3) and through annual applications during the unconstrained period (years 4 to 7).

Paul said that in July 2007, users would be able to book initial prevailing rights in the unconstrained period for use from October 2010. Consequently, for shippers they will be able to book prevailing rights up to the maximum winter 2005/06 level and for DNOs they will be able to book prevailing rights up to their 2009/10 bookings.

Paul noted that if users wish to reduce prevailing rights in the unconstrained period they must provide at least 1.2 years notice. Paul added that in July 2007, users would also be able to request additional prevailing rights for use from October 2010. Paul said that a

request for additional prevailing rights will require a user commitment to pay 4 years charges. Paul noted that within the unconstrained period, after a user has committed to an increase in prevailing rights, a user is only able to reduce their prevailing flat capacity when the commitment is met. Mark Sutton asked how much of the capacity is subject to the 4 year commitment. Paul noted that the 4 year commitment applies to the full amount. Amrik Bal expressed concern that if capacity was only required for a one year period a shipper would not be prepared to accept a 4 year commitment. Mark Feather stressed that a key element of enduring offtake is that when incremental investment is triggered a user commitment is necessary to underpin a proportion of the investment.

Paul highlighted the investment process for incremental prevailing flat capacity as follows:

1. Users able to apply in July to signal additional "prevailing" requirements for 3 years ahead
2. Each user commits to pay for [4] years of charges, irrespective of baseline (but may only reduce thereafter subsequent to [1.2] years notice period)
3. If aggregate of user requirements at a node above baseline then National Grid NTS consider need for investment
4. National Grid NTS considers whether transfer of unsold capacity from other nodes would avoid investment and request permanent baseline reductions via application to release incremental capacity
5. Allocations and transfers published by October

Mike Young asked whether the 4 year commitment is still applicable if an extra increment is within baseline. Paul agreed that the 4 year commitment would apply but offered to include a new rule within the business rules that would reduce the level of commitment to 1.5 years if the required increment is below the baseline. Paul however indicated that this may increase complexity for users.

Eddie Proffitt expressed concern at obtaining firm commitment for incremental capacity when a customer cannot get a shipper to book four years or when a shipper books for 4 years and can not get a customer. Eddie noted that 7 year minimum contracts would be anti-competitive and questioned whether they should apply to interruptible sites. Paul said that this issue is being considered by NGG NTS, including whether interruptible sites can be allocated a prevailing right linked to the firm baselines.

Beverley Grub stressed the need for a transparent process for publishing the relevant allocations and transfers. Paul said that under the proposed regime the individual shipper would initially be informed of their allocation/ transfer and NGG NTS would then aggregate this information.

Paul noted that ARCAs allow non-UNC parties to reserve prevailing NTS exit (flat) capacity. Paul said that the counter party commits to pay 4 years of exit capacity charges on any amount of reserved capacity not booked by Users under UNC. Paul said that NGG NTS would then commit to allow users to book reserved capacity.

Paul noted that during the constrained period users are able to book annual flat capacity rights up to the unsold baseline through a pay as bid auction process (which is consistent with the entry process) according to the following timeframe:

- In August 2008 annual rights can be booked for gas year 2010

- In August 2009 annual rights can be booked for gas years 2010 and 2011
- In August 2010 annual rights can be booked for gas years 2010, 2011 and 2012

Paul said that within the constrained period annual increases in flat capacity will be subject to the following process.

- There will be two bid days, every third business day
    - 50% of available volume offered on first day
    - Remaining on second day
- Window open between 08.00 and 17.00 on working days
- Allocation will take place after each bid window
- Price bid must be greater than or equal to reserve price
- If the user has a credit sanction in place, bid rejected
- No more than 10 bids per User per NTS Exit point per period

Paul noted that users are able to book daily firm flat capacity rights (within the constrained period) through a pay-as-bid auction at 15:00 day ahead and within day, which includes unsold baseline, plus any discretionary release. Paul added that users are able to book daily interruptible rights through a pay-as-bid auction at 15:00 day ahead, which includes a UIOLI provision (based on 30 day average unutilised firm holdings), plus any discretionary release.

Paul highlighted the daily auction process for firm and interruptible flat capacity. Paul noted that for any gas day the bid window opens between D-7 06.00 and D-1 22.00. Paul noted that users are able to place up to 10 bids per NTS exit point per day and that NGG NTS will allocate and notify users within one hour of each auction. Paul said that not later than one hour after each user has been notified of their allocation, NGG NTS will publish auction results aggregated at NTS exit point level.

Paul noted that NGG NTS would facilitate secondary transfers (trading) of flat exit capacity for any gas day(s) after last annual auction at an NTS Exit Point up to 04:00 on gas day. For example, a user is able to transfer (trade) any quantity of capacity at an NTS exit point to another user at the same NTS exit point, but the primary holder remains liable for capacity charges. Paul added that NGG NTS would facilitate the primary transfer (assignment) of a user's total amount of capacity holding to another user at an NTS exit point with 5 days notice. Paul noted that a user is able to assign its total amount of capacity holdings at an NTS exit point to another user at the same NTS exit point, subject to credit checks, including the liability to pay for capacity charges.

Flexibility Capacity

Paul said that NTS exit flexibility capacity release is based on a pay as bid auction process with no incremental flexibility capacity release. Paul noted that flexibility release will be limited through annual sales to national, area and zonal limits.

Users are able to book annual flexibility rights subject to national, area and zonal limits through a pay as bid auction process five years ahead. Users can increase flexibility capacity on a daily basis, through the following process:

1. Assessment of daily capability and unutilised flexibility

2. Consider release of additional flexibility (in accordance with incentive/ obligation)
3. Allocate through OPN acceptance, if can meet all requests
4. If you can't meet all requests, allocate through pay as bid auction.

Paul provided an overview of the OPN process, which derives users implied flexibility requirements and flexibility capacity rights that are automatically conferred. Paul said users would 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. Paul 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. Paul 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. Paul 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. Paul said if these are still rejected then an auction is invoked and users will have to buy flexibility via an auction. Beverley asked whether a flexibility auction could occur within day. Paul said yes.

Paul said that NGG NTS will facilitate secondary transfers (trading) of capacity for any gas day(s) after last annual auction:

- at an NTS exit zone up to 04:00 on gas day. For example, a user would be able to transfer (trade) flexibility capacity at NTS exit zone to another user at the same NTS exit zone, or
- between NTS exit zones up to 12:00 day ahead. For example, a user is able to transfer (trade) flexibility capacity at NTS exit zone to another user or itself at another NTS exit zone (subject to specific limitations).

Paul noted that the primary holder remains liable for capacity charges.

Paul said that NGG NTS will facilitate primary transfer (assignment) of a user's total amount of capacity holding to another user at an NTS exit zone with five days notice. Paul added that users would be able to assign its total amount of capacity holdings at an NTS exit zone to another user at the same NTS exit zone, subject to credit checks, including the liability to pay for capacity charges.

Stefan asked whether it would be appropriate to apply a UIOLI concept to flexibility. Paul said that NGG NTS had no intention to build for flexibility, because it is more efficient for DNs to undertake such investment. Mark Feather said that earlier discussions had indicated that a UIOLI flexibility product would introduce unwarranted complexities. Mark Feather indicated that discussions at the EOWG had emphasised that it was important that flexibility rights could be traded within and across zones. Mark also indicated that Ofgem were intending to bring forward proposals to incentivise NGG NTS to release more flexibility.

Stefan asked whether the physically firm flow flexibility release of 22mcm was sufficient to satisfy all DN flexibility demand. Paul said this would depend on DN demand. Paul added that DNs have agreed to release aggregate figures on their flat and flexibility holdings.

Mark Sutton asked what is the annual revenue target for flexibility. Paul noted that there is no target revenue for flexibility.

Constraint Management

Paul highlighted a range of constraint management tools for NTS exit (flat) capacity, which are as follows:

- Scale back of interruptible flat holdings: This will be at zero cost (at NGG NTS discretion)
- Flow swapping agreements: This may replace the current arrangements whereby flow can be swapped between NTS/ LDZ offtakes while maintaining the aggregate end of day flow into an LDZ
- Options and forward contracts: Buy back of NTS (flat) capacity via daily auctions ahead of and on the gas day undertaken as required by NGG NTS and users
- Daily buy back auctions: Buy back of NTS exit (flat) capacity via daily auctions ahead of and on the gas day undertaken as required by National Grid NTS.

Paul also highlighted a range of constraint management tools for NTS exit (flexibility) capacity, which are as follows:

- Flow swapping agreements: This may replace and extend the current arrangements whereby flow can be swapped between NTS/LDZ offtakes while maintaining the aggregate end of day flow into an LDZ to enable temporal flow switching
- Options and forward contracts: Buy back of NTS Exit (Flexibility) Capacity via bi-lateral contracts between NGG NTS NTS and Users
- Daily buy back auctions: Buy back of NTS Exit (Flexibility) Capacity via daily auctions held ahead of the gas day undertaken as required by NGG NTS
- Within day reductions: Buy back of NTS exit (flat) capacity via daily auctions ahead of and on the gas day undertaken as required by NGG NTS

Paul said that the within day linepack depletion service would be defined as "Cumulative flow reduction of x GWh over y hours' in a zone". Paul said that users would be advised of: the quantity requirement; the necessary timing; and the geographical location of the requirement. Users (if any) would then offer service and an offer stack would be constructed.

Stuart Waudby asked if there would be a flexibility overrun. Paul Roberts confirmed from the earlier slides that there would be. Charles Ruffell asked whether the within day depletion tool would be part of the code modification. Paul noted that the UNC is the enabling tool and will specify the rules under which it operates.

Liabilities

Paul noted three types of NGG NTS liabilities and the relevant proposals.

Types	Proposal
Non-compliant gas	As per current arrangements
Failure to make gas available for offtake	As per current arrangements, but with compensation payable on flat and flexibility products separately. Retention of maintenance days. May be separate arrangement for late delivery of investments through TPCR.
Pressure commitments	Commitments for 2009/10 (set this summer) rolled over. Both NGG NTS and DNOs able to request permanent of finite reduction: • Must be accepted unless would jeopardise safe and efficient operation of the other party's network. • Overriding obligation to co-operate in establishment of pressures that will 'optimise the safe and efficient operation of the NTS and LDZ.

Stuart Waudby asked whether pressure commitments would remain unchanged for existing sites under the proposals. Paul confirmed this was the case. Stuart added that DCs are currently unable to get more than 25bar, whereas the transporter can request an elevated pressure. Mark Feather noted that this issue has not been previously raised as part of the EOWG work and that if DCs believe they are being treated differently they should formally raise this issue with Ofgem.

Paul then moved on to charging and discussed the prevailing NTS exit (flat) capacity charges, but noted that NGG NTS through the Gas Transmission Charging Methodology is considering a move to one year supply/ demand forecast and use of a transportation model. Paul highlighted the NTS exit (flat) capacity charging principles as follows:

Types	Proposal
Prevailing NTS exit (flat) capacity	Pay prevailing charge for year of use (as under current regime). Indicative charges published to inform user applications
Annual NTS exit (flat) capacity	Pay bid price, subject to reserve price equal to: • For Gas Year Y + 1 – prevailing charge for that year • For Gas Year Y + 2 – predicted prevailing charges for Y + 2 • For Gas Year Y + 3 – predicted prevailing charges for Y + 3 Aim to be no cheaper than prevailing rights
Daily NTS exit (flat) capacity	Pay bid price, subject to a reserve price equal to prevailing charge for gas year.
Daily interruptible NTS exit (flat) capacity.	Pay bid price, subject to a reserve price equal to 0.0001p/kWH.

Paul noted the proposal for the NTS exit (flexibility) capacity charging principles (for both annual and daily) was based on a pay as bid auction that would be subject to a reserve price equal to 0.0001p/kWH.

Paul outlined the proposed SO commodity charging principles, which are as follows:

Types	Proposal
End of day gas flows	As under the current regime – standard SO commodity rate on all exit flows, but reduced to offset SO costs attributable to flexibility utilisation.
Flexibility utilisation	New SO flexibility commodity charge to encourage efficient use of NTS exit flexibility capacity. This will be set at [5%] of standard SO commodity rate.

Paul highlighted the exit capacity neutrality concept that socialises the constraint management costs across the one national market or on an NTS exit area basis. Beverley raised the issue about whether the constraint management costs should be smeared across all exit points or to target the costs to particular nodes/ zones.

Paul noted that NGG NTS will determine and assign to each user a credit limit and will keep the user informed of its credit limit. Liz asked whether there would be any changes to the Code credit rules. Paul confirmed there would be no anticipated changes to the code credit rules, but there will be an additional exit credit requirement to cover exit and entry nominations.

Timetable – Next Steps

Paul proposed the following timetable:

Milestone	Date
National Grid NTS issue detailed Business Rules	31st Aug
Transmission Workstream discussions	5th & 12th September
Submission of UNC Proposal to Modification Panel	12th Sept
Modification Panel decision (National Grid NTS to request proposal issued for consultation)	21st Sept
Consultations: ➢ UNC Modification Proposal consultation ➢ Charging proposals ➢ IExCR Methodology Statement	Oct 2006
Applications for: ➢ Additional prevailing flat capacity from Oct 2010 ➢ Annual flexibility capacity for Gas Years 2010/11 and 2011/12	July 2007

Other business and date of next meeting

Mark Feather noted that the EOWG could continue 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 the commercial arrangements and that all such discussions would occur through the UNC processes.