

**Exit Capacity Substitution Workshop 5 - Minutes
Tuesday 7th September 2010
Ofgem Offices, Millbank, London**

Please note minutes 23.2 and 23.4 were amended following feedback received on the 25th September 2010

Attendees		
Steve Fisher	(SF)	National Grid Transmission
Andrew Fox	(AF)	National Grid Transmission
Lesley Ramsey	(LR)	National Grid Transmission
Paul O'Donovan	(PoD)	Ofgem
Lewis Hodgart	(LH)	Ofgem
Graham Jack	(GJ)	Centrica Energy
Julie Cox	(JC)	Association of Electricity Producers
Cheryl Snoddy	(CS)	Northern Ireland Utility Regulator
Jonathan Dennet	(JD)	National Grid Distribution
Bethan Winter	(BW)	Wales & West Utilities Ltd
J Brown	(JB)	RWE Npower
Mark Sutton	(MS)	TPA Solutions
Ian Taylor	(IT)	Northern Gas Networks
Ivan Purvis	(IP)	Premier Power Ltd
Matt Smith	(MS)	Scotia Networks

26. Introduction

SF welcomed attendees to the meeting.

26.1 Minutes of the Previous Workshop Meeting

The minutes of workshop 4 can be found at
<http://www.nationalgrid.com/uk/Gas/Charges/statements/transportation/ExCapSubMS/>

The minutes of the previous workshop (25th May 2010) were accepted.

26.2. Outstanding Actions

26.2.1. Action 24: National Grid to provide incremental quantities using pre and post re-jig baselines and actual July 09 applications

LR provided the requested quantities, the incremental quantity using the post re-jig baseline and actual July 09 applications was 223GWh, the incremental quantity using the post re-jig baseline and actual July 09 applications would have been 223Gwh.

Action closed

26.2.2. Action 25: National Grid NTS to investigate inconsistencies found between the summary of Incremental Exit Capacity in the Enduring Period from 01st October 2012 to 30th September 2014 and the Long Term Exit (Flat) Capacity Summary Report

LR advised that the Summary of Incremental Exit Capacity in the Enduring Period from 1st October 2012 to 30th September 2014 Report had contained data errors and therefore was not consistent with the Long Term Exit (Flat) Capacity Summary Report. The errors have since been rectified and the report has been republished.

Action closed

26.2.3 Action 26: National Grid NTS to obtain further details on the flow assumptions used in the high flow scenario at Isle of Grain ASEP in the South East.

LR stated that the high flow assumptions at Isle of Grain were based upon booked levels of entry capacity and advised that this information could be found at <http://marketinformation.natgrid.co.uk/Gas/CapacityReports.aspx>

Post Meeting Note: Following a query at the workshop, regarding the above link, the link has been checked and is correct.

Please contact Lesley Ramsey (lesley.ramsey@uk.ngrid.com) if there are further access problems to the above link.

Action closed

26.2.4. Action 11: Monitor European Legislation for potential impact on exit substitution proposals

Ongoing

26.2.5. Action 23: National Grid to consider whether information is available to compare revenue drivers with actual investment incurred on completed entry or exit projects.

Update: LR stated that National Grid NTS is unable to provide further information as this is considered commercially confidential. JC stated that

the aim of the action was to determine, in general, whether revenue drivers obtained in the past had been lower or higher than the actual investment costs incurred. SF advised that this action would be re-considered from a more general approach.

Action open

23. Summary of Informal Consultation

23.1. Slides 4, 5 and 6 - General Comments

AF presented slides on the general comments made by respondents to the informal consultation. He summarised that the principle of avoiding unnecessary investment was accepted however the benefits were not felt to justify the risks involved. He stated the main concerns highlighted were over reduced system flexibility and security of supply, specifically at Moffat, Storage and impacts on the electricity regime. These issues relate to the principle of substitution not its method of implementation. Hence National Grid believes them to be out of scope and should be considered in regard to Ofgem's impact assessment.

23.2. Slides 8, 9, 10, 11 - Criteria for substitution and revision

AF stated that in addition to the fundamental criteria required to identify substitution opportunities three further issues were put forward by respondents in the consultation.

The issue of security of supply was raised. MS said that it was surprising that National Grid had concluded that security of supply should not be a consideration in the substitution analysis given the obligations of TSOs with regard to security of supply under the EU Third Package (discussed later) AF responded that Security of Supply could be enhanced as substitution encouraged long term bookings and also Users are able to retain sufficient capacity. JC stated long term bookings were not always possible. SF added that mechanisms were in place, such as transfer and assignments, to adjust long term bookings if required. IP queried the peak flow at Moffat. AF responded that the booked capacity at Moffat exceeded peak flow and that substitution would only be an issue if Shippers reduced their allocations.

AF put forward the timings for assessing substitution and revisions. AF stated that it was National Grid's view that Adhoc and ARCA applications, which may be effective from M+7, could be considered to be met through substitution. MS stated that this was a fundamental change and created timeline inconsistencies between Adhoc/ARCA and July applications being met via substitution opportunities. After further debate it was decided that this issue requires further consultation with the Industry.

Action 28: A specific question to the whole industry to be put forward in the formal consultation, this will address whether Adhoc applications earlier than 1st October Y+4, e.g for M+7, could be considered to be met by substitution.

Open

AF explained offtake flow rate setting for network analysis purposes. AF advised that interactive exit points, including those likely to be potential donor exit points, would be set at obligated flow levels and elsewhere exit points would be set at booked levels. It was agreed that clear rules were required defining where exactly flows would be set to obligated or to sold levels.

23.3 – Slides 13 and 14 - Definition of substitutable capacity.

AF stated the majority of Users supported substitutable capacity equating to unsold capacity. However exceptions were raised including widening the definition of substitutable capacity to include “sold capacity”. AF stated that this would be an extension of substitution beyond that required by the Licence and would add complexity to implementation. It may be more appropriate to introduce substitution as originally envisaged before considering extending substitution to include sold capacity.

A further issue raised was that unsold capacity may not necessarily be unwanted. However AF stated that no suitable approach to protect unsold capacity had been found.

23.4- Slides 16, 17 , 18, 19 and 20 - Special Sites

No special treatment for DN off takes or interruptible/off-peak sites is being proposed.

AF stated that only one respondent supported different treatment for interruptible sites and this response related to storage facilities. He added that the quantity of off-peak capacity on offer would remain the same however substitution could make the system tighter and this may lead to more scale backs.

The meeting considered whether different treatment of Interconnectors would be appropriate. A view was expressed that in principle no offtake should be treated differently to others. However, the meeting discussed the fact that DN offtakes were already treated differently to interconnectors and others, in that capacity was booked by DNOs rather than shippers. MS considered this was because of concerns over downstream security of supply, and that there was clearly an analogy with Moffat (and perhaps other interconnectors) JC stated that EU regulations may require arrangements for bundled capacity products at Moffat, so the quantity of exit capacity booked at Moffat matches downstream capacity. MS stated that the 3rd package Directive 2009/73 as well as the Regulation 715/2009 should be taken into account; for example Article 13 of the Directive refers to the provision of sufficient cross-border capacity.....taking into account security of gas supply. POD stated that it would be necessary to consider the impact EU regulations may have for

Moffat and other interconnectors, including the consequences that any requirement for a bundled capacity product may have for exit substitution.

23.5- Slides 23 and 24 - Partial Substitution

AF stated there was support for partial substitution. The issue of partial revenue drivers was discussed. POD thought a consultation on generic revenue drivers would be issued by Ofgem in the next couple of months. AF suggested the proposed methodology statement could include a temporary caveat excluding partial substitution until generic revenue drivers have been included in the Licence

23.6 Slide 26, 27 and 28 - Donor and Recipient Exit Point selection

AF stated two respondents questioned why the donor point selection should stop at the upstream compressor boundary. AF stated that analysis time was limited and this would remove extra complexity on analysis.

AF stated that the proposed methodology will ensure that the most appropriate donor is selected. However if this was not the case, flexibility to deviate would require National Grid's discretion, and this would not be favoured by most industry players, and could also lead to challenge and time delays. JC thought Ofgem could issue an explanation if a submitted proposal was rejected. SF thought the issue could then be addressed in the annual review of the methodology as this would be the most appropriate time to do it.

Questions were raised as to why the application at the exit point with the lowest revenue driver should be selected first. AF replied it was more important that an order was derived rather than whether the lowest or highest revenue driver was selected first and that there were pros and cons to using the highest or lowest revenue driver. SF agreed the selection order would be changed to select the application with the highest revenue driver first.

23.7 - Slides 30, 31, 32 and 33- Process Timelines

AF stated that the consultation aimed to identify means to create additional time for the substitution analysis to be undertaken. The two options raised in the consultation were not supported. Two other suggestions were put forward. National Grid agreed that additional network analysts and earlier communications are important and are areas National Grid is looking to improve. However the potential to create additional analysis time is limited.

AF advised that ARCA/Adhoc applications received in the early stages of substitution analysis could be allocated (subject to acceptance of the offer) unsold capacity which would then be excluded from substitution analysis; however applications received in the later stages of substitution analysis

would not. IT stated that Adhoc/ARCA applications submitted in October or November should be aware of the substitution risk.

23.8 Slides 38 and 39 - Exchange Rate Cap and Collar

There was general support for a cap set at 3:1. AF advised that an exchange rate collar provides an important simplification of the process for National Grid, however only one respondent supported a collar. MS stated that “spare” capacity should not be increased which is what would happen with a collar. JC was concerned allocation of spare capacity created by a 1:1 collar would not be audited. JD believed Ofgem could ensure fairness. SF added that because analysis would be simplified with an exchange rate collar National Grid is still minded to propose one.

24. Diary Planning

It is expected that the formal consultation will begin close to 4th November 2010 to 1st December 2010 and will be submitted to the Authority for approval within 14 days of the consultation closing.

Open Actions					
Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
11	23/02/10	8	Monitor European Legislation for potential impact on exit substitution proposals.	Work group	Carried forward
23	25/05/10	21.2.3	National Grid to consider whether information is available to compare revenue drivers with actual investment incurred on completed entry or exit projects .This action to be re-considered from a more general approach.	NTS	Open
28	07/09/10	23.2	A specific question to the whole industry to be put forward in the formal consultation, this will address whether Adhoc applications earlier than 1st October Y+4, e.g. for M+7, could be considered to be met by substitution.		Open

Closed Actions					
Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
1	27/01/10	3.1	National Grid NTS to review whether relevant and useful data is available on the level of entry and exit investment.	NTS	Closed
2	27/01/10	3.1	National Grid NTS to produce an example indicating the cost savings from exit substitution.	NTS	Closed
3	27/01/10	3.1	National Grid NTS to consider whether information can be provided on the extent of “spare capacity”.	NTS	Closed
4	27/01/10	3.2	Clarify the licence requirement for adjustment to exit capacity baselines as a result of entry capacity release and substitution.	NTS/Ofgem	Closed
5	27/01/10	3.5	NTS and DNOs to provide historical information on DN flow swapping activities.	NTS/DNOs	Closed
6	27/01/10	3.11	Ofgem to check whether any European Legislation requires special treatment to protect exit capacity at interconnectors from substitution.	Ofgem	Closed
7	23/02/10	6.1	Identify whether a further breakdown of investment can be made available.	NTS	Closed
8	23/02/10	6.1	Consider whether forecast investment figures can be provided for 10/11 and 11/12.	NTS	Closed
9	23/02/10	6.3	Clarify when a revenue driver is sought	NTS	Closed
10	23/02/10	7	Consider whether exit capacity substitution is possible with an exchange rate less than 1:1.	NTS	Closed
12	23/02/10	9	Clarify when the industry will be notified of exit baseline changes resulting from the release of incremental obligated entry capacity.	NTS	Closed
13	23/02/10	9	Clarify when revised exit baselines will become effective following exit capacity revision.	NTS	Closed
14	23/02/10	13	Confirm the extent to which the	Ofgem	Closed

			licence permits exit substitution proposals to be vetoed and how this compares to entry substitution.		
15	23/02/10	13	Amend the allocation time line to include QSEC processes.	NTS	Closed
16	07/04/10	21.2.2	National Grid to record the actual incremental quantities against the location. This information to be published.	NTS	Closed
17	07/04/10	21.2.3	National Grid NTS to investigate whether additional investment information for specific projects could be obtained from revenue driver submissions	NTS	Closed
18	07/04/10	17.2.3	Transmission workstream minutes to be checked to clarify previous statements on the requirement for revenue drivers for the 2009 baseline re-jig.	NTS	Closed
19	07/04/10	17.2.7	Ofgem to monitor whether a licence change is required to clarify the scope for veto of exit substitution proposals.	Ofgem	Closed
20	07/04/10	18.2	AF to consider whether donor exit point selection order could be represented diagrammatically in the methodology statement.	NTS	Closed
21	07/04/10	18.6	National Grid NTS to review and clarify the possibility of exit capacity revision resulting in baseline reductions.	NTS	Closed
22	07/04/10	19	National Grid to check if investment cost savings can be provided with examples at workshop 4	NTS	Closed
24	25/05/10	22.1	National Grid to provide incremental quantities using pre and post re-jig baselines and actual July 09 applications	NTS	Closed
25	25/05/10	22.1	National Grid NTS to investigate inconsistencies found between the Summary of Incremental Exit Capacity in the Enduring Period from 1 st October 2012 to 30 th September 2014 and the Long Term Exit	NTS	Closed

			(Flat) Capacity Summary Report		
26	25/05/10	22.2	Obtain further details on the flow assumptions used in the high flow scenario at Isle of Grain ASEP in the South East Example.	NTS	Closed
27	25/05/10	22.2	Are Operating Margins taken into account in substitution analysis	NTS	Closed