Exit Capacity Substitution Workshop 1- Minutes
Wednesday 27th January 2010
Ofgem Offices, Millbank, London

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 Hodgar	(LH)	Ofgem
Cheryl Snoddy	(CS)	Northern Ireland Utility Regulator
Keith Dixon	(KD)	Northern Gas Networks
Roddy Monroe	(RM)	Centrica Storage
Bethan Winter	(BW)	Wales & West Utilities
Greg Hill	(GH)	Wales & West Utilities
Douglas O'Brien	(DB)	Bord Gas Transportation
Charles Ruffell	(CR)	RWE Npower
Rekha Patel	(RP)	Waters Wye Associates Ltd
Graham Jack	(GJ)	Centrica Energy
Steven Sherwood	(SS)	Scotia Gas Networks
Julie Cox	(JC)	AEP
Jonathan Dennett	(JD)	National Grid Distribution
Ian Taylor	(IT)	Northern Gas Networks
David Strahan	(DS)	Phoenix Energy Holdings
Fraser Ashman	(FA)	Wingas Storage Uk Ltd
Stefan Leedham	(SL)	EDF Energy
Libby Glazebrook	(LG)	International Power
Peter Bolitho	(PB)	EON

1. Introduction

SF welcomed attendees to the meeting.

JC questioned the governance of this workshop and how it fitted in to UNC processes. PD stated that as exit substitution is a Licence issue the meeting falls outside of UNC governance. SF replied that Transmission and Distribution work streams would be updated to ensure involvement of a wider audience, particularly in the event that a UNC modification proposal is needed, and publication of workshop minutes will be notified through Joint Office.

2. Ofgem Introduction

PoD gave an introduction including the objectives of exit capacity substitution and exit capacity revision. User Commitment will be a key requirement any proposals must satisfy.

Questions were raised with regards to lessons learnt from entry substitution; PoD acknowledged that there were both Ofgem and external issues which had contributed to the late clarification by Ofgem of "entry substitution" options.

RM requested Ofgems involvement from the beginning and PoD advised that Ofgem would be involved in the process. PoD advised Stuart Cook would be present at future meetings.

3. Exit Capacity Substitution Presentation

National Grid NTS (AF) provided a presentation on exit capacity substitution with the following items being raised/discussed

3.1. Substitution Objectives

Slide 4 - Substitution Objectives 1

PB queried the potential for infrastructure savings from exit capacity substitution because investment is generally driven by entry capacity requirements with exit investment only made when critical to the efficient delivery of gas.

RM added that a flexible system with some surplus capability was preferable to a more constrained one that could not respond to market developments.

There was support for reviewing whether the exit capacity substitution obligation is necessary. PoD said that consideration of possible licence changes could be part of a regulatory Impact Assessment. This would be undertaken at the end of the process to develop exit capacity substitution proposals.

SL requested analysis on how much investment is spent on exit compared to entry.

Action 1: National Grid NTS to review whether relevant and useful data is available on the level of entry and exit investment.

RP queried the exit equivalent of the NPV test that needs to be passed before entry capacity is released. AF advised that the release of exit capacity is subject to the ExCR and four year User Commitment. He also explained that exit substitution would not affect the release of exit capacity at an exit point but would impact on the way National Grid NTS provides the additional capacity requested at that exit point. This could be through investment (or contractual alternative) for which National Grid NTS would expect a Revenue Driver, or through substitution of capacity from another exit point, for which a Revenue Driver would not be available. The reduced allowed revenue for National Grid (of substitution compared to investment) would be reflected in marginally lower charges at all exit points.

PoD added that exit substitution would prevent National Grid NTS from building unnecessarily and so avoid unnecessary investment.

Slide 5 – Substitution Objectives 2

The key message of this slide was that only unsold baseline capacity would (subject to further restrictions developed as part of the exit capacity substitution methodology) be available for substitution. Hence, to ensure that capacity is not substituted from an exit point Users only need to buy it.

JC requested a snap shot of current spare capacity be provided before detailed exit capacity substitution process development is undertaken. She added that as current baselines may be below capability and as entry capacity can create new exit capacity, there should be "spare" capacity on the network and it should be possible to identify where it is and how much there is.

SF suggested that the availability of spare capacity is dynamic and would depend on utilisation elsewhere, supply / demand patterns, and location relative to new entry points e.g. Milford Haven could have created spare capacity.

JC and RP requested examples of potential savings which can be passed through to the end consumer where investment has been avoided by substitution.

Action 2: National Grid NTS to produce an example indicating cost savings from exit substitution.

Action 3: National Grid NTS to consider whether information can be provided on the extent of "spare capacity"

Slide 6 – Lessons learnt

AF advised that we need to learn from experience of developing the entry capacity substitution methodology when considering exit especially:

- the need to be aware of external events that might impact of exit capacity substitution proposals, e.g. TPCR5 and European regulations; and
- where adverse impacts are considered likely for supporting data to be provided to demonstrate and quantify these impacts.

RM queried if there would be any preferences for particular sites e.g. Greenfield sites. AF responded that the driver for substitution is the release of incremental capacity and that this is independent of the type of site (existing or Greenfield).

3.2. Timeline

Slide 10

AF described the process of annual applications, allocations at the end of September and capacity release and substitution proposal submissions to the Authority and discussed the implications. The on-going process of increase applications through ad-hoc and ARCA applications require on-going substitution submissions. This points towards a monthly substitution analysis cycle.

AF confirmed that the Users and consumers would first be aware that capacity has been substituted from an exit point when substitution proposals have been approved (or not vetoed) by the Authority. This would be in January. JC requested why, after capacity allocations are made at the end of September (2 months after the window closes) a further two months of evaluation are required before incremental capacity release and substitution proposals are submitted to the Authority. This additional evaluation is required to assess the impact of revised applications from DNOs which may be made in September following rejection of their flex capacity requests.
The timeline for a donor exit point wishing to replace capacity lost to substitution was discussed. A capacity increase application would be required which could be raised in January (any earlier would be on the assumption that substitution had been proposed and not vetoed). This increase would be subject to Y+4 release date, leaving a one year gap between substitution and replacement of substituted capacity.

AF also confirmed that it was not possible to indicate in advance of the annual window (or other application) whether capacity at an exit point would be vulnerable to substitution. This would depend on what incremental capacity requests are received.

RP asked whether there was any interaction with entry capacity substitution assessments and if so did it take precedence over exit and what impact would it have. SF confirmed that with QSEC auctions in March any entry substitution proposals should be complete before exit applications are assessed.

JC added that entry changes allowed exit baselines to be changed ("exit capacity revision"). SF agreed, but PoD responded that there is nothing in the licence conditions whereby exit baselines could be changed as a result of entry capacity substitution. National Grid NTS and Ofgem agreed to check the licence and clarify the position.

Action 4: National Grid NTS to clarify the licence requirement for adjustment to exit capacity baselines as a result of entry capacity release and substitution.

3.3 National Grid NTS (LR) presented data showing baselines, aggregate allocations, peak demand and unsold capacity by a different market sector.

3.4. Issues: Interruptible Sites / Off Peak Product

The potential impact of exit capacity substitution on interruptible sites was discussed. There was consensus that no special arrangements should be made to protect these sites from substitution.

3.5. Issues: DN flow swapping

IT raised whether substitution would limit the ability to flow swap which is carried out for operational reasons. AF stated that as it is likely that substitution would make the NTS tighter, rejection of requests from DNOs would be more likely. However, those initiated by the NTS should be unaffected because substitution does not affect the downstream networks.

The meeting could not conclude on what impact substitution would have on flow swapping. All transporters agreed to seek information on the frequency and magnitude of flow swapping requests.

Action 5: NTS and DNO's to provide historical information on DN flow swapping activities.

JC raised the question of what happens when, as a result of a flow swap, actual flow is above booked capacity. KD replied that this could lead to an overrun and a deemed application for additional capacity. Overruns, deemed applications and the commercial arrangements for flow swapping are issues to be addressed irrespective of substitution and will be dealt with in a different forum.

3.6. Issues : Exit Capacity Buy backs

AF stated that buy-back arrangements will be developed independent of substitution. However, substitution is expected to make the NTS tighter and thereby potentially lead to the need for more capacity buy-back. SF advised that there is no sharing mechanism and that National Grid is exposed to 100% of buy-back costs.

3.7. Issues: Flex and Pressures

AF confirmed all current obligations would continue to be met after any substitution proposals had been actioned. Queries were voiced as to whether pressure commitments could be discriminatory between different types of customer e.g. flex provisions to DNs. Whether these obligations are discriminatory is outside of the scope for substitution.

AF confirmed that any analysis undertaken would include exiting and future agreed capacity requirements for power stations or elsewhere. SF agreed that speculative developments which had not applied for capacity at that point in time would not be taken into account.

3.8. Issues: User Commitment

AF requested views, and alternatives, on the commitment required to exclude capacity from the exit substitution process. It was acknowledged that historical or projected flows provide no financial commitment from the User, so should not be used for determining non-substitutable capacity. Consensus was for a simple process, i.e. if capacity is unsold it is available for substitution.

LG expressed a view that as retainers were introduced on entry substitution they could also apply to exit. SF replied that retainers could be a possibility but questioned whether the level of complexity that they present could be justified given the absence of competition for capacity at exit points.

No alternative suggestions for User Commitment were put forward.

3.9. Issues: Limiting Substitutable Capacity

Concerns were raised as to the complexity of substitution and how/whether limits should be applied.

Consideration was given to containing substitution to a smaller location making it (marginally) easier for Users to predict if substitution could impact on a specific exit point. This could restrict substitution to a defined location, possibly a single NTS pipeline.
PB supported this view believing that substitution is likely to be limited to between a few exit points. RP agreed that as entry substitution is very complex, exit (with many more relevant points) could be even more complex so a simpler solution is preferred. JD suggested that substitution could only happen locally, on the same pipeline anyway.
It was agreed that a 1:1 exchange rate cap could prevent any substitution from taking place so a higher value would be appropriate but no value was agreed. However, a location specific methodology would maximise exchange rates. SF replied that the methodology would define these elements and that National Grid NTS would make recommendation and Ofgem would approve or disapprove the proposals.

3.10. Issues: Impact of Donor Exit Points

SF confirmed that, if a User lost baseline capacity through substitution it would normally take until Y+4 to get it back with a minimum of one year at the lower capacity level. In the mean time there would be less Annual and Daily firm capacity available and little if any reduction in the exit capacity price. No special rules were considered appropriate.

3.11. Issues: Adverse Consequences

There was no support for special arrangements to exclude specific sites from substitution or to minimise the potential for unexpected outcomes. Whilst neither National Grid NTS nor Ofgem favour application of discretion to override the approved methodology (due to the impact on process timeline and due process) the licence does allow for Ofgem to veto National Grid's substitution proposals. This veto could be applied in the event that exception result arose by following the approved methodology.

JC questioned whether special rules for interconnectors are necessary so as to comply with European legislation. PoD was not aware of any requirement but agreed to check whether this is the case.

Action 6: Ofgem (PoD) to check whether any European Legislation requires special treatment to protect exit capacity at interconnectors from substitution.

3.12. Issues : Timing

It was accepted that substitution should apply to applications for capacity from year Y+4 as substitution is an alternative to investment which has a default lead-time of Y+4.
Any surrendered capacity will be treated in the same way as any other capacity made available by a reduction request. Provided that the capacity is available to coincide with the capacity increase effective date then it will be made available before incremental capacity is released and substitution and/or investment triggered.

4. Diary Planning

The next Exit Capacity Substitution Workshop (2) is due to be held at 10:00 on Tuesday 23rd February 2010, at Ofgem Offices, Millbank, London.

Details of all planned workshops are on the National Grid Website http://www.nationalgrid.com/uk/Gas/Charges/statements/transportation/

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	
2	27/01/10	3.1	National Grid NTS to produce an example indicating cost savings from exit substitution.	NTS	
3	27/01/10	3.1	National Grid NTS to consider whether information can be provided on the extent of "spare" capacity.	NTS	
4	27/01/10	3.2	National Grid NTS to clarify the licence requirement for adjustment to exit capacity baselines as a result of entry capacity release and substitution.	NTS / Ofgem	
5	27/01/10	3.5	NTS and DNO's to provide historical information on DN flow swapping activities.	NTS / DNO	
6	27/01/10	3.11	Ofgem (PoD) to check whether any European Legislation requires special treatment to protect exit capacity at interconnectors from substitution.	Ofgem	