Exit Capacity Substitution Workshop 2 - Minutes
Tuesday 23rd February 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 Hodgart	(LH)	Ofgem
Stuart Cook	(SC)	Ofgem
Cheryl Snoddy	(CS)	Northern Ireland Utility Regulator
Richard Fairholme	(RF)	E.ON UK plc
Keith Dixon	(KD)	Northern Gas Networks
Roddy Monroe	(RM)	Centrica Storage
Bethan Winter	(BW)	Wales & West Utilities
Greg Hill	(GH)	Wales & West Utilities
Simon Trivella	(ST)	Wales & West Utilities
Jeff Chandler	(JC)	Scottish & Southern
Charles Ruffell	(CR)	RWE Npower
Rekha Patel	(RP)	Waters Wye Associates Ltd
Graham Jack	(GJ)	Centrica Energy
Mark Sutton	(MS)	TPA Solutions
Julie Cox	(JC)	AEP
Jonathan Dennett	(JD)	National Grid Distribution
Ian Taylor	(IT)	Northern Gas Networks
Matt Smith	(MS)	Scotia Gas Networks
Fraser Ashman	(FA)	Wingas Storage UK Ltd
Stefan Leedham	(SL)	EDF Energy
Libby Glazebrook	(LG)	International Power

5. Introduction

SF welcomed attendees to the meeting.

5.1 Minutes of the previous Workshop Meeting

The minutes of workshop 1 can be found at http://www.nationalgrid.com/uk/Gas/Charges/statements/transportation/ExCapSubMS/

Subject to a few minor amendments the minutes of the previous workshop (27th January 2010) were accepted.

PoD clarified that Stuart Cook would be present at some, but not necessarily all, future workshops (minute 2).
PoD emphasised that exit substitution is a licence obligation and any revisions to the licence, to remove, amend or clarify, the obligation would only be considered after the regulatory impact assessment and would be dependent upon the risks and benefits identified in the assessment (minute 3.1).
CS noted the view from workshop 1 (minute 3.11) whereby there was no general support for special arrangements to exclude specific sites from substitution, but stated her support for the different treatment of exit points.

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5.2 Outstanding Actions

SF stated actions from the previous workshop would be reviewed within the presentation.

6. Potential Benefits of Exit Substitution

6.1 Slide 4 Potential Benefits of Exit Substitution

[Action 1] AF provided data on actual and forecast investment categorised by entry or exit driver. This showed exit investment to be much less than for entry.

JC requested a breakdown of the exit related investment between DN loads, and larger specific loads, and that required in response to new entry supply locations.

JD requested forecast figures for 10/11 and 11/12.

This information could assist in making judgements on the potential for exit substitution in future.

Action 7: National Grid to identify whether a further breakdown of investment can be made available.

Action 8: National Grid to consider whether forecast investment figures can be provided for 10/11 and 11/12.

6.2 Slides 5 & 6 - Potential Benefits of Exit Substitution: Marchwood

[Action 2] AF provided an example of potential benefits of exit substitution on transportation charges. AF explained that the Marchwood example was used because a revenue driver was available which could be

used to show actual cost savings, but AF explained that Marchwood may not have been feasible for substitution in practice.

GJ and MS queried what criteria make it infeasible; size or location. AF answered it could be either. Whether substitution is feasible depends on whether there is enough available capacity and that is less likely at the extremes of the network.

6.3 Slides 7 & 8 - Theoretical Substitution: Staythorpe

AF gave a theoretical example of exit capacity substitution and its potential effects on donors. The example assumes that any unsold baseline exit capacity was available for substitution at 1:1 exchange rate. This provided an envelope of possible donor impacts. Network analysis would be required to derive actual impacts and exchange rate.

JD commented that it would be more efficient in terms of capacity utilisation to substitute capacity from the furthest downstream exit point first and work backwards, rather than the nearest, as in the example. AF agreed but explained that, in respect of an exit point in the middle of the network, it can be difficult to identify the furthest exit point.

RP asked whether partial substitution would be undertaken if there is limited substitutable capacity available. AF stated that National Grid had no opinion on this at the current time and requested views.

LG requested that any disadvantages should be included in the example such as buy-back and reduced flexibility. AF replied that exit capacity substitution was purely looking at investment savings and that the substitution methodology should satisfy the substitution objectives which includes no material increase in buy-back costs.

RP added that reduced system flexibility would lead to less price diversity on the electricity side and that this should this be addressed. POD replied that this would be a commercial decision for the power station to address.

ST enquired as to whether National Grid could gain twice through substitution by not incurring the investment cost plus selling the substituted capacity. AF answered that because capacity is released through substitution National Grid does not receive the revenue driver. Hence National Grid's allowed revenue does not increase so does not gain at all. The additional income from Shippers from transportation charges for the increased capacity will be matched by a marginal reduction in charges to all other Shippers at other exit points.

JC inquired if all capacity release triggered a revenue driver. AF/SF explained that a revenue driver is not automatically given but has to be requested. JC requested clarification that revenue drivers are only provided if investment is required and not provided if substitution was carried out. SF confirmed that National Grid has not requested a revenue driver where

investment has not been required and would not be allowed one where substitution applies. POD confirmed this and added that the same would also apply to partial substitution.

Action 9: National Grid to clarify when a revenue driver is sought.

ST queried the ability to substitute capacity from one offtake where capacity has been bought but is no longer required to another offtake where additional capacity is required. POD suggested this was possibly a UNC modification. MS pointed out that a capacity reduction may be possible in response to an increase request where this would facilitate substitution. SF added that reductions/increases on exit were possible and there was also flow swapping for short term switching.

RM likened the scenario to entry capacity transfer and trade and asked if there was any scope for T&T on exit which could solve this issue. PoD replied that there is no current licence requirement or aspiration for this but it could be a future possibility.

JC compared the scenario to the exit capacity baseline re-jig of 2009 and suggested that regular re-jigs could be beneficial.

7. Slides 9, 10 and 11 - Spare Capacity.

[Action 3] AF described how "spare capacity", i.e. unallocated capacity in excess of baselines might arise. AF outlined the difficulties in quantifying and locating "spare capacity", adding that the most appropriate point in time to assess possible spare capacity is when an incremental signal is received. AF confirmed that spare capacity would be used to meet a capacity increase in preference to substitution and investment.

MS asked whether some initial modelling work, in advance of specific applications, could be undertaken to quantify spare capacity. AF explained that this could be a lot of work as there are about 200 offtakes that could be considered and questioned the value of such modelling. JC requested an approximation of spare capacity to be identified on a zonal basis.

JC requested spare capacity be identified. JD added that spare capacity was an unknown due to varying loads. Spare could be created assuming flows but this would only work with control of the flows. MS stated that spare capacity could be broadly identified.

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

RM added that substitution provides an additional element for National Grid to de-risk the network POD advised that the risk should be neutral.

RF asked if the substitution exchange rate could be better than 1:1. National Grid stated that this was unlikely but agreed to give the matter further consideration.

Action 10: National Grid to consider whether exit capacity substitution is possible with an exchange rate less than 1:1.

8. **Slide 12 - Lessons Learnt.**

[Action 6] POD gave an update on European legislation. Currently there are no regulations that require capacity at inter-connectors to be treated differently to other offtakes. However, developments require monitoring and if the situation changes appropriate revisions or exclusions to the substitution methodology may be necessary.

Action 11: Exit Capacity Substitution work group to monitor European Legislation for potential impact on exit substitution proposals.

9. **Slides 13 and 14 - Exit Capacity Revision Objectives**

[Action 4] AF described the licence requirements with respect to exit capacity revision and emphasised that baselines could be revised downwards in certain circumstances.

RP queried whether there would be a 42 month lead time before exit baselines are revised. AF replied that the revisions will normally be expected to aligned to entry capacity release but SF added that it could potentially be longer as may be dependant upon actual entry flows.

RP also asked when the industry would be made aware of any changes.

Action 12: National Grid to clarify when the industry will be notified of any exit baseline changes resulting from the release of incremental obligated entry capacity.

Action 13: National Grid to clarify when revised exit baselines will become effective following exit capacity revision.

MS and JC queried whether exit investment should have an equivalent revision methodology in place to revise entry baselines. AF replied that there is no licence requirement for this at present.

10. **Slides 15 & 16 - Thoughts on Exit Revision**

AF outlined a high level process for capacity revision. JC queried where the exit capacity created from Theddlethorpe entry capacity release would be put. AF stated that National Grid would prefer not to locate the capacity, but to use it when specific applications are received. However, the licence is drafted such that additional capacity must be added to an existing baseline. JC agreed with

the principle of not adding to a specific exit point, but thought the created capacity should be recorded.

11. Slide 17 - Summary of Substitution Workshop

ST queried the treatment of capacity allocated above baseline. SF clarified that the baseline in the licence does not get increased at the time of allocation. AF added that this incremental capacity would not be substitutable until it is reclassified as baseline in the licence even if the capacity becomes unsold. Reclassification is expected to occur after five years. AF confirmed that, irrespective of whether the capacity is baseline or not, National Grid would have an on-going obligation to make it available.

12. Slide 18 and 19 - Issue: DN Flow Swapping

[Action 5] AF presented findings from the historical information provided by Transporters on DN flow swapping. AF stated that generally there isn't a consistent, robust recording system in place and it was therefore difficult to quantify the possible risks of substitution on the ability to flow swap. However high level conclusions had been drawn from the information gathered, particularly that the number of DN initiated flow swaps where flows exceed allocated quantities is a small proportion of the total occurrences. Hence the risks should be small but not zero. In addition, no possible mitigation rules are apparent. National Grid and the DNOs present concluded that no special rules should be put in place for DN flow swapping.

Several aspects of DN flow swapping were discussed. These were recognised as concerns arising from exit reform rather than substitution. It was agreed that the commercial impact of DN flow swapping needs to be addressed as a separate piece of work in a different forum.

13. Slide 22 - Allocation and Substitution

National Grid presented a timeline for capacity allocations and substitution proposals. This identified a potential issue with allocations being made and committed whilst substitution proposals could still be vetoed. National Grid would probably assume that substitution proposals would not be vetoed and hence available capacity would be derived on that basis unless and until a veto was made. POD added that this timeline is not dissimilar to that for incremental entry capacity release.

RM asked whether Ofgem were able to veto substitution proposals that, although consistent with the methodology were clearly inappropriate. AF stated that the licence gives Ofgem the ability to veto exit capacity substitution proposals without restriction, i.e. not just failure to follow the approved methodology. POD agreed to check the licence for consistency between entry and exit veto rights.

Action 14: Ofgem to confirm the extent to which the licence permits exit substitution proposals to be vetoed and how this compares to entry substitution.

RP requested that the timeline is enhanced by the addition of QSEC auction and entry capacity allocations.

Action 15: National Grid to amend the allocation time line to include QSEC processes.

14. Slide 24 - Detailed Examples Confirmed with Network Analysis

AF confirmed that detailed worked examples demonstrating the potential effects of exit capacity substitution and revision cannot be provided for workshop 3. National Grid intends to present examples at workshop 4.

15. Indicative Timeline: Development of Exit Capacity Substitution and Revision Methodologies

National Grid asked whether workshop 3 would be beneficial to workshop participant or whether it should be cancelled with the next major step being consideration of examples in workshop 4. POD considered that workshop 3 in April was necessary for National Grid to present a tangible methodology, upon which examples would be based, that people can comment on.

16. Diary Planning

The next exit capacity substitution workshop (3) is due to be held at 10:00 am Wednesday 07th April 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/ExCapSubMS/

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	On-going
4		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	
8	23/02/10	6.1	Consider whether forecast investment figures can be provided for 10/11 and 11/12.	NTS	
9	23/02/10	6.3	Clarify when a revenue driver is sought	NTS	
10	23/02/10	7	Consider whether exit capacity substitution is possible with an exchange rate less than 1:1.	NTS	
11	23/02/10	8	Monitor European Legislation for potential impact on exit substitution proposals.	Exit Capacity Substitution Work group	
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	

13	23/02/10	9	Clarify when revised exit baselines will become effective following exit capacity revision.	NTS	
14	23/02/10	13	Confirm the extent to which the licence permits exit substitution proposals to be vetoed and how this compares to entry substitution.	Ofgem	
15	23/02/10	13	Amend the allocation time line to include QSEC processes.	NTS	