# Exit Capacity Substitution Workshop 3 - Minutes
# Wednesday 7th April 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 |
| Tom Jessop | (TJ) | Conoco Phillips |
| Dylan King | (DK) | Conoco Phillips |
| Cheryl Snoddy | (CS) | Northern Ireland Utility Regulator |
| Richard Fairholme | (RF) | E.ON UK plc |
| Roddy Monroe | (RM) | Centrica Storage |
| Bethan Winter | (BW) | Wales & West Utilities |
| Greg Hill | (GH) | Wales & West Utilities |
| Simon Trivella | (ST) | Wales & West Utilities |
| John Costa | (JCo) | EDF Energy |
| Rekha Patel | (RP) | Waters Wye Associates Ltd |
| Chris Wright | (CW) | Centrica Energy |
| Mark Sutton | (MS) | TPA Solutions |
| Julie Cox | (JC) | AEP |
| Jonathan Dennett | (JD) | National Grid Distribution |
| Ian Taylor | (IT) | Northern Gas Networks |
| Steve Sherwood | (SS) | Scotia Gas Networks |
| Fraser Ashman | (FA) | Wingas Storage UK Ltd |
| Jill Brown | (JB) | RWE Npower |
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**17. Introduction**

SF welcomed attendees to the meeting.

**17.1 Minutes of the previous Workshop Meeting**

The minutes of workshop 2 can be found at http://www.nationalgrid.com/uk/Gas/Charges/statements/transportation/ExCapSubMS/

Subject to one minor amendment the minutes of the previous workshop (23rd February 2010) were accepted.

CS noted that a comment from Stuart Cook regarding European Regulations at Interconnector points had been omitted from workshop 2 minutes. SC had stated the requirement for European Legislation to remain at the forefront of discussions.

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**17.2. Outstanding Actions**

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

AF stated that it is intended that the worked examples of incremental exit capacity release and substitution to be presented in workshop 4 should illustrate the availability of "spare" capacity within each specific case.

AF also explained how the charging model could also be used to indicate where "spare capacity" may be available. Shippers / developers can add their potential new / increased load to the model. No change in flow rates in the vicinity of the new load indicates the possibility of spare capacity.

AF also provided a slide displaying a map of the UK and the incremental capacity which was released in July 2009 (excluding DN offtakes), detailing location, site type and whether or not a revenue driver had been obtained. This can be used as an indication of where spare capacity was last year. MS/JC requested that actual incremental quantities are printed against the location. AF replied that he would put this information on the National Grid website.

**Action 3: Action Closed**

**Action 16: National Grid to record actual incremental quantities against the location. This information to be published on National Grid's website.**

**17.2.2.** ***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.***

**Actions 7 and 8: Actions closed.**

AF provided tables detailing future projects for 2010 and 2011. JC inquired about individual project costs and AF replied that this information is not published. JC thought this information should be included in Ofgem's impact assessment. IT stated that the data displayed was too short term; substitution will be applied at least three years into the future; however AF explained that the data can only be provided where projects have been approved. Beyond the dates in the tables, any information would be too uncertain.

RM suggested that additional investment information for specific projects could be obtained from revenue driver submissions although he acknowledged that National Grid, in the past, had not considered this information to be in the public domain . AF agreed to check whether this information can be made available.

**Action 17:National Grid NTS to investigate whether additional investment information for specific projects could be obtained from revenue driver submissions**.

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

AF presented information (slide 6) to advise that National Grid NTS requested a revenue driver where investment is required. A revenue driver may be requested where there is uncertainty as to whether spare capacity or substitution would be sufficient to meet an incremental capacity request.
**Action 9:** **Action closed.**

SS recalled National Grid stating, regarding the 2009 baseline rejig, that all incremental exit capacity required a revenue driver. AF/SF disagreed with this, but agreed to check previous workstream minutes and clarify at the next workshop.

RM inquired if assumptions e.g. storage withdrawal at peak demand, were discussed with Ofgem when making revenue driver submissions. PoD confirmed that all assumptions are included in the industry consultations allowing consultees to comment on their suitability.

**Action 18: Transmission workstream minutes to be checked to clarify previous statements on the requirement for revenue drivers for the 2009 baseline re-jig.**

**17.2.4.** ***Action 10: Consider whether exit capacity substitution is possible with an exchange rate less than 1:1.***

AF confirmed it was intended that the proposed methodology would include no restrictions on capacity exchange rates; but see minute 18.5.
**Action 10:** **Action Closed**

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

AF stated that since the last workshop National Grid was not aware of any relevant developments and the principle of treating all exit points alike unless and until this proves contrary to European regulations should continue.

JC thought it would be preferable to take into account the principles of current European legislation being considered rather than waiting for developments to be made. JC/MS raised concern regarding interconnector exit points, highlighting a major difference to general exit points, in that they have both upstream and downstream capacity holders. MS contemplated substitution leading to insufficient downstream capacity being available and concern over security of supply. PoD agreed with the concern over security of supply but felt that as Shippers could mitigate any risk by obtaining, or retaining, sufficient exit capacity, specific actions should be considered after, not before, concrete proposals are developed by the European forum.

**Action 11** **Carried forward**

**17.2.6.** ***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.***

AF presented a slide (18) showing two scenarios for when revised exit baselines will become effective. As a default National Grid proposed that it should be from when the entry capacity is made available. However, National Grid must be satisfied that gas flows using the incremental entry capacity will be reliable as this is a key factor in ensuring exit capability. Hence National Grid may defer the effective date of revision until reliable flows have been proven.

JC questioned whether it would be more transparent if all revisions were subject to the delayed implementation pending demonstration of reliable entry flows.

AF advised National Grid would determine new baselines after the July window and September re-applications and make a judgment that in principle substitution proposals are assumed accepted, and therefore such proposed substituted capacity will not be used to meet other capacity requirements.

AF identified the issue with the quantity available for sale. Allocations are confirmed on the 1st October, when substitutions are awaiting approval, possibly up until the end of December. This highlights a problem with the quantity of capacity available for ad-hoc / ARCA applications. In the period October to December National Grid intends to withhold capacity from sale whilst substitution proposals are being developed or awaiting approval to the extent that capacity has been identified for substitution.

**Actions 12 and 13:** **Closed**

**17.2.7.** ***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.***

PoD advised that when considering licence changes for entry capacity substitution it was confirmed that the Gas Act overrides the licence. This allows Ofgem to reject inappropriate substitution proposals under the Gas Act even if the substitution proposals followed the approved methodology. PoD believes this to be the same for exit substitution but requested views as to whether further clarification, via a licence change, was required. RM thought it was necessary as something tangible was required which could be referred to.

**Action 14:** **Closed**

**Action 19: Ofgem to monitor whether a licence change is required to clarify the scope for veto of exit substitution proposals.**

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

AF presented the allocation and substitution timeline including the QSEC processes. AF illustrated how, on entry, substitution proposals are submitted, and approved, before allocations are confirmed. However, on exit, substitution proposals are developed and submitted for approval after capacity is allocated. AF explained that this causes problems for National Grid in determining the quantity of capacity available for sale via ad-hoc and ARCA applications.

MS queried what would happen if the substitution proposal was vetoed and questioned whether allocations would be affected. RP asked if allocations could be unwound. AF responded that the allocations would remain, however investment would need to be considered as an alternative to the vetoed proposals. This would result in over 3 months lost from the investment delivery timeline.

Referring to the notice of available unsold capacity, JC asked if, for transparency, both sets of baselines (assuming approval and assuming veto) would be published. SF thought further consideration was required, but "available capacity" would be notified from 1 October. One option would be to publish pre-substitution and he added that this quantity would have a caveat that it may be reduced due to possible substitution.

**Action 15:** **Closed**

## 18. Exit Capacity Substitution and Revision: Initial Proposals

### 18.1. Slides 10 and 11, Key Features of Exit Capacity Substitution

AF presented slides on the key features, underlining that they are initial proposals, to be used in subsequent examples, and so are subject to change including through informal and formal industry consultations.

Questions were raised regarding National Grid NTS's assessment and process for considering reduction requests in order to accommodate substitution where no unsold capacity remains. AF stressed that the licence does not require substitution of sold capacity, but that substitution of sold capacity, by way of an ad-hoc reduction invitation from National Grid, is envisaged in the Exit Capacity Release methodology. There was a consensus that coordination of assessment of increase applications, reduction invitations and reduction requests would be difficult and that detailed transparent rules should be put in place before this is introduced. SF stressed the short timeline and the fact that no information would be fixed until the end of December therefore it would be difficult to implement. IT/ST supported the opportunity to reduce capacity at one exit point and increase at another. SF added that this is a current facility within the July application window.

JC raised the length of time revenue drivers could take to arrange and asked if a revenue driver would be required for an application for capacity at an existing exit point. SF answered that a revenue driver was required in the licence in order to inform decisions on how the capacity requirement would be met; but he agreed that the timeline was lengthy.

ST queried whether capacity release through substitution incurred a User commitment, because substituted capacity would not require a revenue driver. AF responded that User commitment rules are not affected by substitution, if capacity allocation requires a User commitment it will do so whether or not National Grid uses spare capacity, substitution or investment to satisfy the request.

AF stated that the start point for substitution should include partial substitution. However, difficulties may arise in determining revenue drivers and partial substitution should not be considered where revenue drivers cannot be agreed for the partial investment. JC also expressed concern that partial substitution may not be efficient if this leads to the use of smaller pipes. SF requested views on partial substitution. LH responded that the methodology should evaluate benefits on a case by case basis. RM stated that this is similar to entry substitution discussions where the value of lost flexibility was important. JD added that Ofgem had the power of veto in cases where partial substitution was not efficient. PoD and SF requested views on partial substitution.

**18.2. Slides 12 - Capacity available for substitution**

AF explained that capacity would only be made available for substitution if it is available indefinitely. ST asked if capacity that is unsold in the near term but is unavailable for substitution because it is sold in the longer term

would be available as daily or annual release. He requested confirmation that this capacity would not be available at another exit point. AF/SF agreed with both points.

**18.3. Slides 13 - Donor Exit Points**

RF asked for a steer from Ofgem regarding the possible introduction of retainers as a means to prevent substitution (in addition to buying capacity). PoD did not dismiss the possibility but clarified that retainers were not being advocated. AF stated that a simple method was preferable and had support at earlier workshops.
JC asked if there would be a table to illustrate how donor exit points are identified, i.e which points are up/downstream of a specific location. AF commented that this could be difficult and complex with over 180 offtakes. JC queried how flows could be identified as either downstream or upstream. AF/SF responded that dependant on circumstances downstream could become upstream and vice versa. MS/RM added that normal downstream and upstream information could be put in the methodology statement with more variable flows highlighted. MS suggested that the network schematic diagrams included in the Ten Year Statement could be used with flow directions added.

SF added that all substitution proposals submitted to Ofgem would include information on flow and other assumptions made.

**Action 20 : AF to consider whether donor exit point selection order could be represented diagrammatically in the methodology statement.**

**18.4. Slide 14 – Capacity Available for Substitution**

AF stated that if incremental was reduced it would not be substitutable until it moves into the baseline (in general after 5 years) SS asked if this would still be the case if the capacity was wanted at another exit point. SS stated that incremental requests require user commitment; therefore any heavy growth in the network, in the above situation, could lead to lots of incremental frozen from substitution. SF responded this was more of a licence issue as the licence dictates the obligation. He confirmed that reductions and substitution from baseline are possible but reduced incremental may not be substitutable until it becomes baseline. AF added that any reduced incremental capacity would be available at the same exit point. JC added that this conflicted with the fact that substitution was intended to save money and IT agreed.

**18.5. Slide 15 Exchange Rates**

AF stated that it was National Grid's intention not to apply any restriction to exchange rates.

JD queried whether there should be an upper limit on exchange rates and RP asked why this differed from entry substitution which does have an

exchange rate limit (3:1) in order to prevent destruction of capacity. There was a general consensus for an exchange rate cap in order to take a cautionary approach. AF/SF thought the worked examples should not include exchange rates limits, but that they should show how much capacity is substituted with a 3:1 limit and then how much with no cap. RF asked if capacity could be created or would it be consistent with entry where it is not possible to create. AF answered that lower limits were not being considered at this time.

**18.6 Slide 16 Initial Proposals**

MS queried the statement that where revision is applied and an exit baseline is increased then there will not be a corresponding decrease elsewhere. He thought that this contradicted with comments at an earlier workshop.

**Action 21: National Grid NTS to review and clarify the possibility of exit capacity revision resulting in baseline reductions.**

**18.7. Slide 17 Initial Proposals**

In response to a specific question on substitution of capacity from "interruptible" sites, SF/AF advised that the MSPOR will remain unaltered at an exit point even if all the baseline capacity is substituted away. "Off peak" capacity will still be available in accordance with UNC.

**18.8. Slide 18 Initial Proposals**

AF explained that revised exit capacity baselines would become effective following exit capacity revision. He advised that it would normally, following exit capacity revision, be expected to be aligned to delivery of the relevant entry capacity. However, exit capacity revisions would be dependant on assessment of the reliability of entry flows at the ASEP where incremental capacity was being released. Without these flows there would be no increase in exit capability irrespective of the commissioning of new pipeline infrastructure. He added that to take the risk that flows would be reliable would be contrary to the substitution objective to avoid material increase in the costs, specifically constraint management.

JC asked if a revenue driver would be required for exit capacity revision. AF responded that a revenue driver was required in respect of the incremental entry capacity but not for the exit capacity as this would be released without the need for investment.

JC suggested that if National Grid could not provide transparent criteria for when exit capacity will be revised at the same time as the entry capacity then the default position should be to delay all revisions until flows are demonstrated.

JCo noted that the increase in baseline through revision would increase NG risk. RM stated that there was a balance between this risk and increased costs to consumers through investment cost. This would have been considered when agreeing National Grid's licence. The risks are further controlled by the substitution objectives.

**18.9 Slide 19 Notice of revised baselines**
AF stated that it would be assumed that all substitution and revision proposals are accepted when considering the available capacity for ad-hoc or ARCA applications. The same principle would apply in advance of the submission of proposals if substitution analysis has commenced at the time an application arrives.

**19. Slide 23 – Detailed Examples of Exit Capacity Substitution**

AF outlined the two substitution examples that will be analysed in detail and which it is intended will be presented at the next workshop. He stated that key assumptions made would be clearly provided in the examples. The results should show the impact on potential donor exit points and the extent of "spare" capacity available.

JC asked if investment cost avoided would also be provided. This was not intended but SF agreed that this should be included. SF clarified that the examples would relate to the enduring regime for 2013.

**Action 22: National Grid to include investment cost savings in the examples to be presented at workshop 4.**

**20. Diary Planning**

**The next exit capacity substitution workshop (4) is due to be held at 10:00 am Tuesday 25th May 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/

| 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 |

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| 16 | 07/04/10 | 17.2.1 | National Grid to record the actual incremental quantities against the location. This information to be published. | NTS | |
| 17 | 07/04/10 | 17.2.2 | National Grid NTS to investigate whether additional investment information for specific projects could be obtained from revenue driver submissions | NTS | |
| 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 | |
| 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 | |
| 20 | 07/04/10 | 18.2 | AF to consider whether donor exit point selection order could be represented diagrammatically in the methodology statement. | NTS | |
| 21 | 07/04/10 | 18.6 | National Grid NTS to review and clarify the possibility of exit capacity revision resulting in baseline reductions. | NTS | |
| 22 | 07/04/10 | 19 | National Grid to check if investment cost savings can be provided with examples at workshop 4 | NTS | |

| **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. | 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 | NTS | Closed |

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| | | | capacity". | | |
| 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 licence permits exit substitution proposals to be vetoed and how this compares to entry substitution. | Ofgem | Closed |
| 15 | 23/02/10 | 13 | Amend the allocation time line to include QSEC processes. | NTS | Closed |