GAS INDUSTRY COMPANY LIMITED

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ICD Process

25 September 2009

Agenda

1. Approval of Minutes
2. Preview of Draft Balancing Regulations (GIC presentation)
3. Overview of objectives and evaluation criteria (handout)
4. Balancing regime checklist (handout)
5. Agenda items for next meeting
6. Closing remarks by Chair

Draft Gas Governance (Balancing) Regulations

high level preview

Basic Concepts – Scope of draft regs

- **Draft Regulations:**
  - '…to achieve an efficient, unified balancing arrangement for managing imbalance in the transmission system'
  - Require single Balancing Agent (BA)
  - Specify:
    - BA functions
    - Balancing market requirements
    - Linepack management - when balancing actions will be taken
    - Balancing gas (BG) allocation – back-to-back
    - Contents of balancing plan
    - Funding

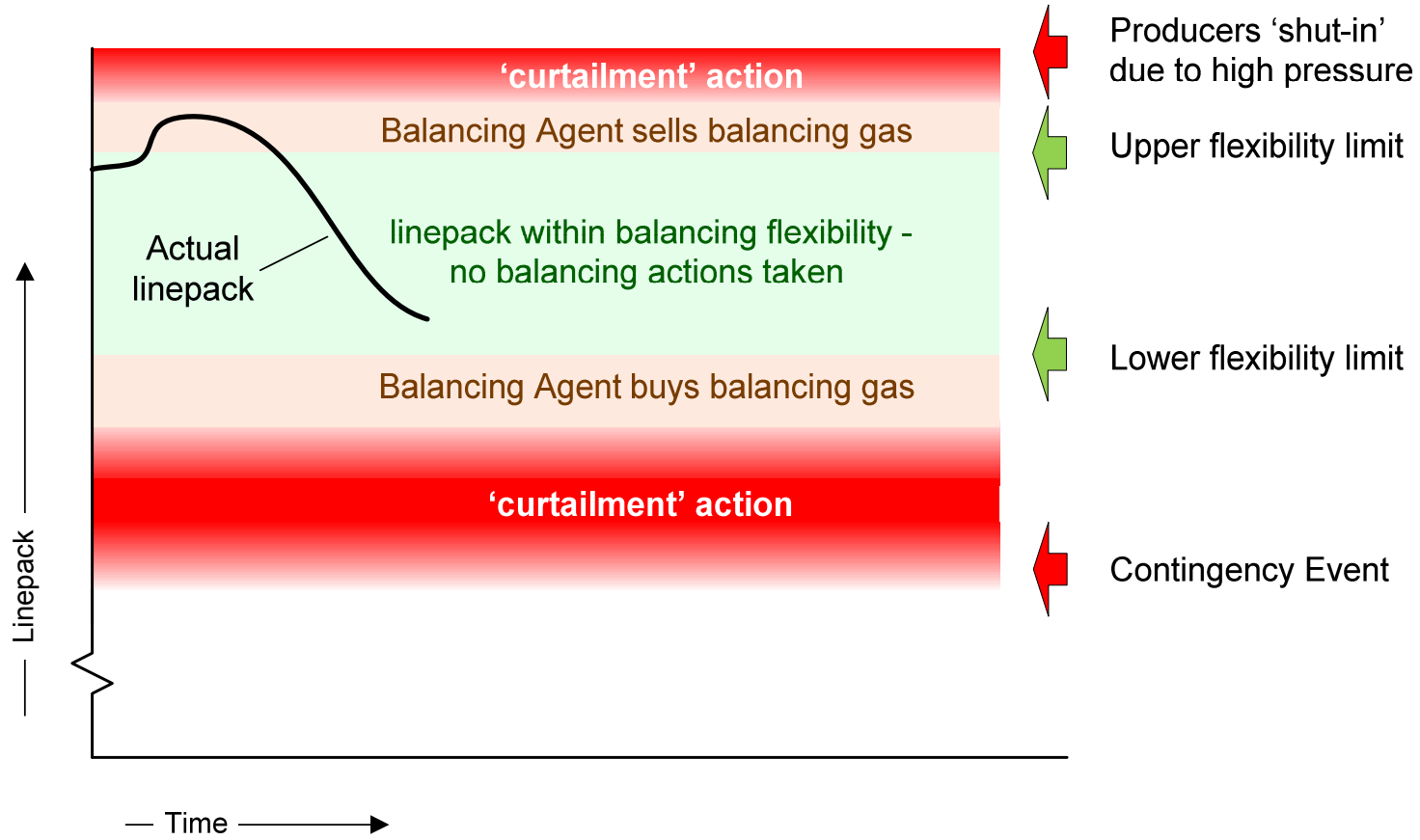
Basic Concepts – BA functions

- **BA required to:**
  - Use a market
    - BA must establish (or procure the functions of) a balancing market and trade BG on it whenever reasonably possible
  - Manage linepack
    - Buy/sell BG when a linepack threshold is crossed (or in BAs reasonable opinion is likely to be crossed)
  - Allocate BG and associated costs
    - According to back-to-back balancing principles

Basic Concepts – Balancing market

- **Balancing market must:**
  - Be open to any person who:
    - has gas available to buy/sell on the transmission system
    - meets technical requirements specified in balancing plan
    - agrees BA's terms and conditions of BG trading
  - Clear at the marginal price
    - For any balancing action, all bidders get marginal price
  - Be used wherever possible, but
    - If Gas Industry Co considers market isn't meeting purpose of regs, BA and Gas Industry Co will agree how BG is bought/sold

Basic Concepts – Linepack management 1



Basic Concepts – Linepack management 2

- **Balancing Zones:**
  - Defined in balancing plan
  - Can be:
    - Directly Managed (ie managed by purchase & sale of BG)
    - Indirectly Managed (ie relies on another pipeline being balanced)

Basic Concepts – Linepack Management 3

- **Thresholds:**
  - Defined in balancing plan
  - Linepack thresholds:
    - BA must buy/sell BG if threshold is breached, or reasonably expected to be breached
  - Price thresholds:
    - BA must notify TSO if BG is not available within price thresholds

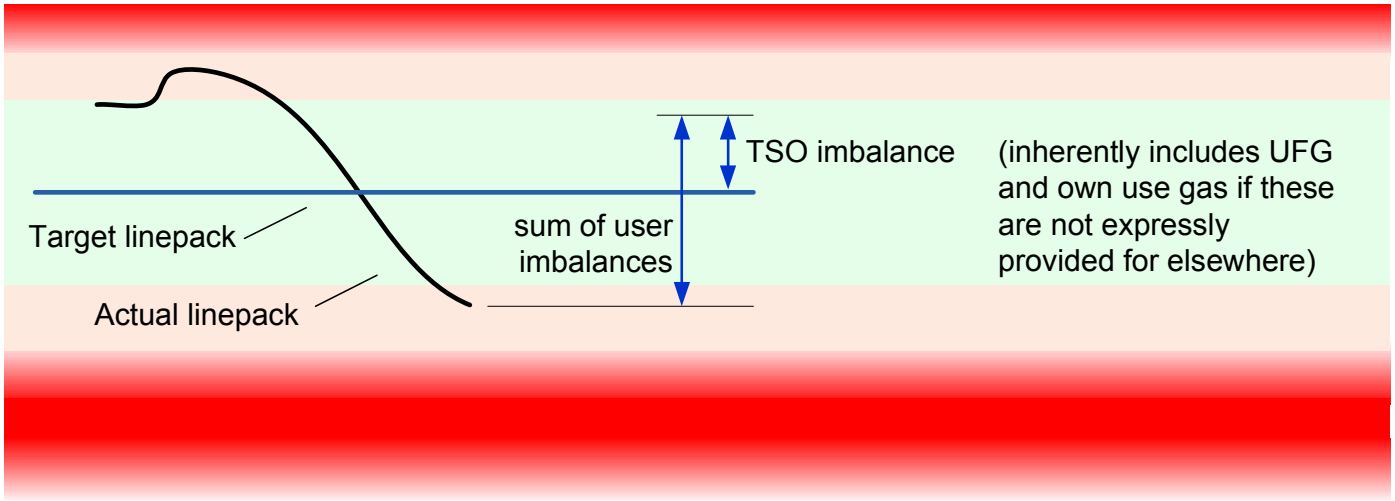
Basic Concepts – BG allocation 1

- **Cost to causers:**
  - Allocation model is specified in the balancing plan
  - For each balancing action, BA required to:
    - Allocate BG and associated costs to users whose imbalance* caused balancing action
    - If not enough imbalance to allocate all BG, BA must allocate remainder to itself

* Note that the regs define what imbalances are for shippers, traders, interconnected parties, and TSOs. They are silent on tolerances.

Basic Concepts – BG allocation 2

- **TSO can be a causer:**
  - TSOs will have imbalance positions and may be cashed out like other users:
    - A TSO's imbalance in a balancing zone is the amount actual linepack plus imbalances differs from the target linepack:



Basic Concepts – BG allocation 3

- **Transparency:**
  - BA required to:
    - Maintain records of trading transactions (including allocations)
    - Publish, for each balancing action:
      - Quantity and clearing price
      - Allocations
      - Settlement of any gas allocated to BA
      - Costs of any associated transmission service
  - Report monthly to Gas Industry Co

Basic Concepts – Balancing plan 1

- **Balancing plan is:**
  - Developed and consulted on by TSOs
  - Approved by Gas Industry Co if it meets purpose of regs
  - If TSOs cannot agree, or plan is not approved, Gas Industry Co will:
    - Propose amendments, but if these are not accepted by TSOs…
    - Appoint a BA and establish a balancing plan

Basic Concepts – Balancing plan 2

- **Balancing plan is to describe:**
  - Who BA is
  - Balancing zone details
    - Boundaries
    - Directly or indirectly managed
    - Upper and lower thresholds
  - Coordination between BA and TSOs
  - How users and TSOs will provide information to BA

'must be set to give the maximum practicable flexibility for managing linepack without unreasonably interfering with the transmission of gas'

Basic Concepts – Balancing plan 3

- **Balancing plan is to describe (continued):**
  - How BG will be procured
    - Technical requirements
    - Balancing actions decision process
    - Price thresholds
  - BG allocation model
    - Compliant with back-to-back balancing principles

Purchase price – pre-estimate of critical contingency price

Sale price – pre-estimate of marginal cost of non-production of gas

Basic Concepts – Back-to-back Allocation

- **Principles** **(see Appendix F of Second Options Paper)**:
  - BG only allocated when balancing actions are taken
  - Allocate
    - When a balancing action is committed to
    - To parties (including TSOs) with contributing imbalance positions
    - To BA if insufficient user imbalance

Basic Concepts – Funding

- **Fees are payable by TSOs, and comprise:**
  - A **'development fee'**, to meet Gas Industry Co's costs of:
    - Reviewing and approving TSOs balancing plan, and
    - Developing a balancing plan, appointing and paying a BA (where TSOs cannot agree a plan, or their plan is not approved).
  - **'Ongoing fees'**, being the costs of:
    - Gas Industry Co meeting its obligations, including balancing plan amendments
    - Any audit costs
  - TSO will recover costs through pipeline tariffs (as at present)

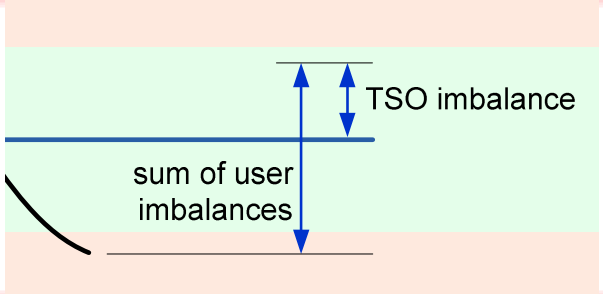
Basic Concepts – Disputes

- **Not specifically addressed in draft regs:**
  - The Gas Governance (Compliance) Regulations 2008 would be amended to provide coverage of the Balancing regs

    (just as it now covers the Switching Rules, Processing Facility Information Disclosure Rules, Downstream Reconciliation Rules, and Contingency Management Regulations.)

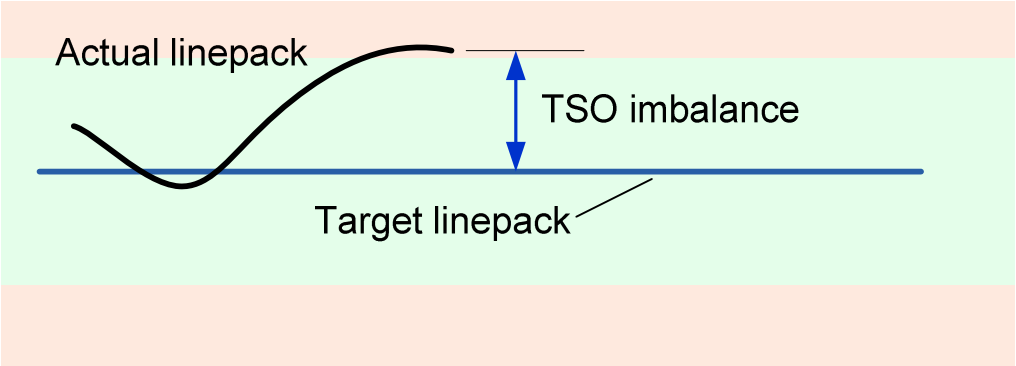
Additional slide 1 on TSO Imbalance

- **Not all imbalance is attributable to users:**
  - TSOs can affect linepack, just like shippers and welded parties, and can be treated in the same way
  - The draft regs define TSO imbalance as:
    - *'the amount by which the actual linepack of a part of the transmission system owned by that person differs from the target linepack of that part of the system plus other users' imbalances in that part'*
  - TSO imbalance can arise from:
    - Compressor use
    - UFG and own-use-gas
    - Setting a target linepack at a level other than where Σuser imbalance =0



Additional slide 2 on TSO Imbalance

Example: ∑user imbalances = 0, but Actual LP ≠ Target LP



Additional slide 3 on TSO Imbalance

Example: Timing differences