

**Review of Industry Charging and Contractual Arrangements – DM Supply Point
Offtake Rates (shqs) and DM Supply Point Capacity (soqs)**

Review Group 0329 Minutes

Tuesday 19 October 2010

at 31 Homer Road, Solihull, B91 3LT

Attendees

Tim Davis (Chair)	TD Joint Office
Helen Cuin (Secretary)	HC Joint Office
Alex Ross	AR Northern Gas Networks
Brian Durber	BD EON UK
David Simpson	DS Scotia Gas Networks
David Watson	DW British Gas
Denis Aitchison	DA Scotia Gas Networks
Gareth Evans	GE Waters Wye
Greg Hill	GH Wales & West Utilities
Ian Dunston	ID Wales & West Utilities
Jemma Woolston	JWo Shell Gas Direct
Joel Martin	JM Scotia Gas Networks
Jonathan Wisdom	JW RWE npower
Phil Lucas	PL National Grid NTS
Simon Trivella	ST Wales & West Utilities
Stuart Parker	SP Wales & West Utilities
Tony Pearson	TP Northern Gas Networks
Steve Sherwood	SS Scotia Gas Networks

1. Introduction and Status Review

1.1. Minutes from previous meeting

The minutes from the previous meeting were approved.

1.2. Review of action from previous meeting

Action 329/001: SGN (JM) to ascertain how notifications of changes to Offtake Rate are held and used.

Action Update: JM confirmed that changes are held in sites and meters and Transporter planning systems. A debate occurred on the obligation to provide notification of offtake changes. It was clarified that the UNC describes that Transporters should be advised. BD believed that this would be through the siteworks process. BD also pointed out that the UNC refers to an offtake rate, not SHQ or SOQ. **Complete.**

Action 0329/002: Joint Office to invite Ofgem to attend meeting 3 to present their concerns and views on SHQ incentives.

Action Update: Ofgem invited. **Carried Forward.**

2. Review Group Discussion – Impact of SOQ/SHQ on DN Investment

2.1. Overview, impact of SOQ / SHQ on SGN planning decisions and physical network operation

DS presented on behalf of Scotia Gas Networks. He explained the background to the proposal, highlighting that a concern had been raised about the current incentives placed upon Shippers to provide SHQs that are representative of usage. He explained that the UNC review group is asked to consider the issues raised and ultimately determine whether any modifications are required to the UNC. The presentation included information on the legislative requirements, importance of network analysis, the areas affected and the impact of inaccurate SHQs.

DS explained that if SHQ is too high, this can sterilise system capacity and may result in unnecessary reinforcement, resulting in unnecessary costs to the industry and to customers. He also explained the opposite scenario. If the SHQ is too low, this can result in capacity not existing to supply demand, and may result in security of supply issues affecting customers and could be a significant safety issue.

DS provided an illustration of a number of site's contracted SHQs compared to the sites actual usage. BD asked about SGN's main concerns and if, as a result of the concerns outlined, they would use within planning models the stated SHQ or the maximum load observed. DS confirmed that the higher is used because the DNs have to guarantee a minimum pressure. BD asked if this would be 19 millibar, and SS and ID confirmed there was a guaranteed 19 millibar at the meter.

GE suggested that the broader system build requirements need to be considered first rather than looking at a narrow, SHQ based, solution. He believed that looking solely at DM sites meant a bold assumption had effectively been made that the largest NDM sites may not have an impact on the system when their load swings. ST highlighted that there are 530 mandatory DMs all of which are likely to have an impact outside of any normal expectations, and any change in which is likely to have a significant impact on the system. It was accepted at the moment the regime for NDMs still works and is fairly robust. Both ST and SS felt that there was merit in focussing on SHQ in order to make a step change forward even if this was not a complete solution.

GE asked about sites exceeding contractual levels. DS explained that this can cause planning issues. ST added that in extreme cases customers may have to be contacted about the actual burn above the contractual SHQ and that, without reinforcement, sites in extreme cases may be cut off to ensure the safety and integrity of the network. It was explained that sometimes actual burns above the contractual level can be managed in the short term whilst the siteworks process is followed for reinforcement. Sometimes, for example, it is okay for sites to take 10% more without it becoming a real issue.

GE asked about the communication process by Transporters. SS explained that both the customer and the Shipper would be contacted to try and resolve any issues.

BD asked about communication of substantially lower burns than the contractual level and if Transporters notify Shippers in these circumstances. ST explained that Transporters collect the same information as Shippers through the read process. However he saw no reason why the Transporters could not inform Shippers of burn rates for sites to assist in any review. ST emphasised, however, that consideration of SHQ accuracy is not a process to remove site capacity as opposed to providing accurate notification of potential system use.

GE remained concerned about the narrow set of data and users being considered while ignoring the larger picture. He was concerned with only looking at DM sites and not considering other contributors to peaks - large NDM could also have an impact. He suggested that analysis is undertaken including NDM sites. ID explained that the impact on the system may also be dependant on site location. The DNs are comfortable with algorithms for domestic NDM, small offices etc., for which diversified load is relatively predictable and any variation does not have significant network planning implications.

GE was also suggested understanding the type of customers that may need to be considered. Some NDMs impact system development and recognition was required for all loads that potentially had a significant system impact. JW was uncertain about treating customers differently dependent on where they are on the network as opposed to the type of customer they are.

PL then provided a spreadsheet illustrating UNC G5.5.3 Referrals explaining why there is a 16 times rule for network referral. BD asked if the SHQ is not increasing, ie a flat profile, why these would need to be referred. JM suggested that any increase in SHQ requires a referral but decreases in SHQs are not referred. BD asked what analysis would be undertaken if the SHQ has a flat profile.

It was agreed that all should review PL's spreadsheet and identify any issues they have with the referral process.

GE enquired on the number of referrals each year, and ST suggested that DNs might be able to provide some statistics.

Action 0329/003: UNCG5.5.3 Referral Spreadsheet to be reviewed and consideration given to the referral process.

BD asked if DNs use flow rates for operational purposes at sites where telemetry is in place. SS confirmed that this is the case for VLDMC sites. BD then asked if this also includes offtake metering, and SS confirmed that offtake metering is included and their flow rates do inform system operation.

2.2. Link to investment, price control and charges

JM explained that the SHQ drives costs but this is not incorporated into the Transportation charges levied onto Shippers on a site-by-site basis (charges are mainly based on SOQ). DA explained that, to encourage correct SHQs through cost reflective charging, the DNs' initial thoughts evolved around looking at individual site ratios between SHQ to SOQ. A scaling factor could then be used to adjust charges payable. DB suggested this would be a charge based on the

utilisation of the main rather than the size of the pipe. DA explained there would be a need to look at the scaling factor and how much the adjustment should be, and that this needs to be a cost reflective adjustment to comply with charging methodology requirements. Further work needs to take place to determine the cost relationship, based on the SHQ/SOQ ratio. He suggested that further investigations need to determine the scale of costs imposed on the networks by peaky profiles and how can this be actively charged to accurately reflect costs imposed on the networks. DA believed a move away from the SOQ based regime was likely to be very costly for xoserve and Shippers and hence using scaling factors and the existing charging mechanism was likely to be an efficient way forward.

JW asked about alternative ideas on how to incentivise the provision of accurate SHQs - What is the appropriate incentive, is this a charging mechanism, threat of emergency shut down etc. GE suggested the use of a ratchet regime, however ST questioned what this would be based upon.

Action 0329/003: All to consider alternative options on how to incentivise the provision of accurate SHQs.

ST pointed out that it is not for Transporters to determine the SHQ or dictate to customers what the SHQ should be. However, the Transporters can provide actual usage for a site such that there is an opportunity to review SHQs and ensure they customers understand their own position and what they are paying for.

3. AOB

ST asked about the order of topics. It was agreed that the topic programmed for meeting 6 - The process for increase and decrease of SOQ / SHQ. (Monitoring and updating of SOQ / SHQs on an ongoing basis) should be discussed at meeting 3.

4. Diary Planning for Review Group

The next meeting will take place at 10:30 on 23 November 2010, National Grid, 31 Homer Road, Solihull B91 3LT.

It was agreed that the Review Group would examine identified issues and consider potential solutions, over a number of meetings as below.

Meeting 3: 23 November 2010 - Overview of current UNC rules on setting SOQ / SHQ (evidence that they create a problem, especially with respect to incentives to state an accurate SHQ).

The process for increase and decrease of SOQ / SHQ. (Monitoring and updating of SOQ / SHQs on an ongoing basis)

Ofgem to be invited to present the evidence which led to the concern that the existing charging and contractual arrangements may not place appropriate incentives on customers to declare accurate SHQs

Meeting 4: 13 December 2010 - Potential changes to UNC rules governing the setting of SOQs / SHQs. To include:-

- the current SOQ / SHQ relationship (G 5.4.1).

- the current SOQ Ratchet regime.
- Data availability and provision to support change
- Potential changes to network planning to address identified issues

Meeting 5: January 2011 - Impact on DN Transportation charges and recovery of such charges in relation to any changes to the SPOR / SPC regime (including the move to 100% capacity and its implications (if any))

Meeting 6/7: February/March 2011 –

Meeting 8: April 2011 – Conclude Review Group Report.

Review Group 0392 Action Log:

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0392 0001	21/09/10	3.0	Ascertain how notifications of changes to Offtake Rate are held and used	SGN (JM)	Carried Forward
RG0392 0002	21/09/10	4.0	Invite Ofgem to attend meeting 3 to present their concerns and views on SHQ incentives.	JO (BF)	Invitation made.
RG0392 0003	21/10/10	2.1	UNCG5.5.3 Referral Spreadsheet to be reviewed and consideration given to the referral process.	All	
RG0392 0004	21/10/10	2.2	All to consider alternative options on how to incentive the provision of accurate SHQs.	All	