

Minutes of Workgroup 0356
Demand Data for the NTS Exit (Flat) Capacity Charges
Methodology

Tuesday 10 May 2011

Energy Networks Association, Dean Bradley House,
52 Horseferry Road, London SW1P 2AF

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Asma Jalal	(AJ)	Centrica
Debra Hawkin	(DH)	National Grid NTS
Eddie Blackburn	(EB)	National Grid NTS
Fiona Gowland	(FG)	Total
Graham Jack	(GJ)	Centrica
Jacopo Vignola	(JV)	Centrica Storage Ltd
James Thomson	(JT)	Ofgem
Jeff Chandler*	(JC)	SSE
Julie Cox	(JCx)	AEP
Rekha Theaker	(RT)	Waters Wye Associates
Richard Fairholme	(RF)	E.ON UK
Richard Hounslea	(RH)	National Grid NTS
Stefan Leedham	(SL)	EDF Energy

**via teleconference*

1. Introduction

Copies of all papers are available at: www.gasgovernance.co.uk/0356/100511.

TD welcomed attendees to the meeting.

2. Review of Minutes and Actions from the previous meeting

2.1 Minutes

Following agreement of two corrections suggested by JCx, the minutes of the previous meeting were approved.

2.2 Actions

The outstanding actions were reviewed.

WG0301: Provide web link to presentation on Moffat prices related to St Fergus flow as described in GCD09.

Update: To be provided. **Action carried forward**

WG0302: Consider what the potential might be for Moffat to reduce bookings.

Update: EB reported that this was being considered; there may be scope for some reduction but not as much as might be first thought. **Action carried forward**

WG0303: Provide capacity and commodity breakdown by offtake category at actual prices.

Update: Included within presentation. **Action Closed**

WG0304: Consider raising a self-governance modification to update text at UNC TPD Section Y Appendix C 2.5.1 The Transport Model, to rectify error identified under 'Model Inputs'.

Update: RH reported that correction of the error would be addressed through the Consent to Modify (CtM) route. TD briefly explained how this would progress and JT confirmed that Ofgem would be happy to consider the correction made through this route. **Action Closed**

WG0305: Review and revise draft Suggested Text to more closely reflect the intent of the modification, with particular attention to adding clarity to definitions.

Update: EB reported that a draft, revised modification had been provided for today's discussion but that legal text was still in production. It had been noted that 'estimate' rather than 'forecast' was used in the UNC and any text would need to reflect this. **Action Closed**

3. **Assessment of Options**

Draft Revised Modification

RH outlined the changes made in response to feedback offered at the previous meeting, and further points were clarified in the discussion following.

JCx asked if the capping applied on an individual offtake basis, and commented that the methodology seems to be mix of baseline and forecast - transparency regarding the publication of data and reasons for its use was important, as well as being able to reproduce charges. EB responded that under the current approach there should not be any capping.

It was asked if the best estimate of firm demand was based on data provided by the User. JCx thought that National Grid's forecast was overlaid onto the DNS's forecasts. EB responded that the forecast was compiled from User feedback through the TBE process.

SL questioned how new exit points would be forecast, as there was no history to enable reliable modelling of flows. EB responded that these would be zero until incremental capacity is triggered. Actual charges will be set in the summer prior to the gas year, when capacity bookings should be available for charge setting purposes. Asked if this was based on the lower of either forecast or obligated level, EB said yes - a new site will have a level of capacity associated with it. Shippers pointed out that some have a zero baseline; the revenue driver is linked to a quantity.

SL reiterated his concerns regarding the use of forecasts, and suggested that the alternative should be the use of booked capacity for setting indicative charges. RT referred to the July application window and pointed out that the numbers provided a party with no real indication of what they might actually be paying. Her customers did not like this high level of uncertainty, and RT was unable to usefully advise them as to what to allow for.

Noting the issue regarding unpredictability, TD asked if the group were of the view that moving to using booked capacity would address this. SL believed that using booked capacity meant that charges were unlikely to be jumping around as much as using forecast. GJ pointed out that there were potential problems – bookings can shift and change. As raised at the recent Transmission Workgroup meeting, there was also a quirk in relation to overruns and deemed capacity, whereby mistakes can trigger an unwarranted obligation that effectively tied a party in for long periods unnecessarily. SL observed that pipes are not fluid; capacity bookings drive National Grid investment and so charges should be based on booked capacity.

EB reiterated that the methodology was trying to reflect National Grid's costs, and costs of transporting gas to specific exit points may change over time. GJ pointed out that unwarranted distortions appeared to be occurring.

TD asked whether the focus should be on getting it right or on stable/predictable charges? The Group needed to consider what would provide sufficient cost reflectivity and sufficient predictability and stability. SL responded that predictability was of the most importance, and that it would be impossible to achieve perfectly cost reflective charges because of constant change. The answer was likely to be some sort of compromise. Baselines appear to be unusable, and that was why the Modification had been raised. EB observed that bookings can be made on the day and indicative prices based on bookings rather than forecasts would produce more unstable prices.

EB expanded that it was not known what the bookings were on the day and parties' use; DNs were booking slightly higher than forecast – appearing to book a level to cope with operational uncertainty – so there may still be a difference. If it was acknowledged that DN were booking more than forecast demand to cope with operational uncertainty, JCx wondered why National Grid did not also take this into account in respect of CCGTs collectively. DH questioned if National Grid was being asked to take this into account for forecasting. JCx believed it came down to diversity and its definition.

Summarising, TD said it could be argued that all solutions would make the model work. A well informed forecast, taking account of all information rather than just bookings, would be expected to be more cost reflective. However, forecasts involve judgement and may not support stability, predictability, transparency, and reproducibility, which support competition and are important to customers.

GJ reiterated that there was too much volatility, which needed to be reduced; a reasonable degree of stability at the expense of cost reflectivity would be welcome. He referred to an earlier idea of EB's, which he believed involved some sort of averaging number over scenarios – this might bring some stability. EB acknowledged that more stable prices could be produced through using some smoothing methods. Supply/demand drives change in prices (e.g. flow directions change). EB had looked at the German model, which took into account all possible flow paths for each exit point, and a flow-weighted average is then used. This could produce more stable prices, but was more theoretical and not as consistent with the data used in the planning process. GJ commented that credible scenarios were required in respect of offtakes together with sensible averaging to produce stability. EB added that reverse flow effects will give a big step price change, e.g. Glasgow supplied from the south rather than St Fergus. New signals received on capacity would also have an effect.

GJ noted that the German model appeared to have some merit, reflected in its approach to averaging, and recognition of different scenarios. JCx agreed that averaging approaches should be rethought. DH pointed out that supply patterns change and some changes should be expected. EB added that once the system

is predominantly flowing north the prices would be right. SL observed that an attempt had been made to get away from high entry and exit prices next door to each other; if this is the case then a return to basics should be considered.

TD asked the group if there was any basis for deciding if the NTS proposal to cap undiversified NTS forecast 1-in-20 peak day demand for the DNs, Moffat, and other DC offtakes at the obligated capacity level was any better or worse than the EDF proposal to use bookings. Was there any clear way to analyse this and produce a correct answer?

JCx suggested waiting for 3 or 4 months until the initialised position had been established. This would represent a step change and more clarity should be available at that point to enable assessment of whether it would be more appropriate to use bookings. GJ asked what was meant by 'booked' in SL's modification. SL responded that it was enduring only; however, he was open to including annual.

TD asked - excluding daily bookings - would waiting for initialisation and returning in a few months help to identify a clear favourite between the two options? EB believed he would have a concern regarding cost reflectivity if bookings were to be used - the appropriateness of indicative charges in particular would need to be considered. SL preferred to have one methodology for indicative and actual charges.

EB offered to assist in developing a proposal based on bookings, providing it included what happens in terms of daily bookings, and a clear and workable methodology for setting indicative charges. It was suggested that National Grid perform further analysis to model scenarios and demonstrate volatility under either of the proposed approaches.

Action WG0501: Model scenarios to test volatility (model 2009/10 Indicatives and Actuals using both bookings and forecasts).

TD returned to consideration of the impact of using bookings and the benefit of waiting to see what happens in the initialisation process. GJ, JcX and SL felt that this would provide more information. RT was concerned that the timeline, including the Ofgem Impact Assessment, should not be compromised by any decision to delay the process, and asked when the data would be formally published. This could, for example, inform parties' responses rather than being required for the initial assessment of the options.

Action WG0502: Reduction window 01–15 July - Advise of earliest availability/ publication of results.

TD asked JT if there was any further analysis that Ofgem would like the Workgroup to undertake in order to inform the decision between the options. At this stage, JT was not aware of any further analysis that might usefully be provided.

Revenue Analysis

RH gave a presentation, in response to Action WG0303, covering further analysis to show the current contribution of different exit components compared to the prevailing methodology and that proposed under Modification 0356. The results were discussed.

It was observed that an increase in bookings was driving the DC increases, i.e. they were picking up a greater proportion of the costs. JcX commented that AEP members were reporting that prices were 30% greater, and this was clearly a concern. EB responded that a low Scottish price scenario puts a greater proportion of costs on the south (there are more DCs in the south).

Demand Data: References and Glossary

This was provided further to action WG0201 (08 February 2011). GJ queried the definitions on slide 3 (Extract from 20120 TYS – 3.8 Impact of Exit Reform on Peak Gas Demand) and sought clarification.

Action WG0503: Demand Data: References and Glossary - Clarify definitions provided under “Extract from 20120 TYS – 3.8 Impact of Exit Reform on Peak Gas Demand”.

4. Consideration of Alternative(s)

During discussions at (3) above it was noted that EDF Energy had raised an alternative modification based on booked capacity, which was to be considered at the May UNC Modification Panel.

5. Workgroup Report

TD clarified the next steps. There were two competing proposals and no consensus had yet been reached by the Workgroup as to which might be the most appropriate. Under the present timescales, the Workgroup Report is to be submitted to the UNC Modification Panel to be considered on 21 July 2011; an extension may therefore need to be requested.

In the meantime it was confirmed that the modification and alternative would be formally revised as necessary to clarify the setting of indicative charges and how daily bookings are to be addressed. EB noted JCx's request that all charges, modelled and actuals, be provided in spreadsheet format to facilitate use of the information.

Legal text will also be provided by National Grid NTS for the Workgroup to consider.

6. Any Other Business

None raised.

7. Diary Planning for Workgroup

Further details of planned meetings are available at: www.gasgovernance.co.uk/Diary

The next Workgroup 0356 meeting will take place on Thursday 07 July 2011, at Elexon, 350 Euston Road, London NW1P 3AW (following the Transmission Workgroup meeting).

Action Log - Workgroup 0356: 10 May 2011

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
WG 0301	11/03/11	4.1	Provide web link to presentation on Moffat prices related to St Fergus flow as described in GCD09.	National Grid NTS (RH)	Carried forward
WG 0302	11/03/11	4.2	Consider what the potential might be for Moffat to reduce bookings.	National Grid NTS (EB)	Carried forward
WG 0303	11/03/11	4.2	Provide capacity and commodity breakdown by offtake category at actual prices.	National Grid NTS (EB)	Closed
WG 0304	11/03/11	7.1	Consider raising a self-governance modification to update text at UNC TPD Section Y Appendix C 2.5.1 The Transport Model, to rectify error identified under 'Model Inputs'.	National Grid NTS (EB)	Closed
WG 0305	11/03/11	7.1	Review and revise draft Suggested Text to more closely reflect the intent of the modification, with particular attention to adding clarity to definitions.	National Grid NTS (EB)	Closed
WG 0501	10/05/11	3.	Model scenarios to test volatility (model 2009/10 Indicatives and Actuals using both bookings and forecasts).	National Grid NTS (EB)	
WG 0502	10/05/11	3.	Reduction window 01–15 July - Advise of earliest availability/ publication of results	National Grid NTS (EB)	
WG 0503	10/05/11	3.	Demand Data: References and Glossary - Clarify definitions provided under "Extract from 20120 TYS – 3.8 Impact of Exit Reform on Peak Gas Demand"	National Grid NTS (EB)	