

UNC Workgroup 0517 0517A 0517B Minutes
Review of the Supply Matching Merit Order in Setting Capacity Charges
Wednesday 01 April 2015
at 31 Homer Road, Solihull B91 3LT

Attendees

Les Jenkins (Chair)	(LJ)	Joint Office
Helen Cuin (Secretary)	(HC)	Joint Office
Charles Ruffell*	(CR)	RWE
Colin Williams	(CW)	National Grid NTS
Debra Hawkin	(DH)	TPA Consultants
Graham Jack	(GJ)	British Gas
James Thomson*	(JT)	Ofgem
Jeff Chandler*	(JCh)	SSE
Julie Cox	(JCx)	Energy UK
Karen Visgarda	(KV)	Joint Office
Laura Butterfield	(LB)	National Grid NTS
Nick Wye	(MW)	Waters Wye Associates
Robert Wiggington	(RW)	Wales & West Utilities
Richard Pomroy	(RP)	Wales and West Utilities
Richard Fairholme	(RF)	E.ON

* via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0517/010415>

The Workgroup Report is due to be presented at the UNC Modification Panel by 17 September 2015.

1.0 Introduction and Status Review**1.1. Minutes**

The minutes of the previous meeting were approved.

1.2. Actions

0517 0202: Modification 0517B - National Grid NTS (CW) to provide a view as to whether the modification solution of average prices could be implemented into the UNC without a Licence change.

Update: CW believed that a Licence change was not required. **Closed.**

0517 0301: Modification 0517A - National Grid NTS (LB) & Wales & West Utilities (RP) to look to provide similar information to that provided by National Grid NTS for inclusion in a revised set of timeline tables.

Update: RH provided a table giving example model changes and indicative charges for inclusion in the revised set of timeline tables. See item 3.0. **Closed.**

0517 0302: Modification 0517B - National Grid NTS (CW) to look to support SSE (JCh) in amending Modification 0517B to align with Workgroup discussion points, in time for consideration of an amended modification at the 01 April 2015 meeting.

Update: Modification 0517B Amended. See item 2.0. **Closed.**

2.0 Consideration of amended modification(s)

JCh provided a [draft amendment to Modification 0517B](#), summarising the changes made to align the modification with Workgroup discussions from last month. He confirmed the solution and why change sections had been amended.

The Workgroup considered the solution and the potential that new entry points may not have two-years worth of historical data. DH suggested the reference to an 'annual step change in charges' might need to be reworded, perhaps referring to 'year on year', as a reference to 'step change' may be confused with the other processes.

The Workgroup considered the reference within the modification to 'Where there are less than two years of historic charging data available to calculate a rolling average, then however many years data are available will be used to calculate the applicable charge year', and whether this also needed to be reworded. RP suggested the use of formulas where there are not two years worth of data to avoid any ambiguity.

The Workgroup considered the calculation of indicative User Commitment costs for exit. JCh confirmed that no change is proposed to the User Commitment for new exit points and it will be based on the prevailing methodology. To calculate the User Commitment it is proposed to use the rolling average of three years of exit prices for the year the average prices are applicable for.

JCh confirmed that to calculate incremental Entry Price Steps, it is proposed to use the rolling average of three years of QSEC step prices for the year the average prices are applicable for.

JCx believed that the prevailing methodology for the first capacity charge and most of the example laid out in the solution could be removed.

RP enquired if there would be an issue for Bacton. The Workgroup believed that the stepped prices would remain the same.

The NPV and the recovery period were considered. DH explained the relationship between the NPV and the charges.

CW clarified that there was no need to refer to the forecast when relating to the 2015/16 price steps. The Workgroup also considered the reference to the wording referring to 'historical 2015/16' and whether this needed to be reworded for clarity.

JCh agreed to consider and make a number of amendments to the modification before formally submitting the amended modification.

3.0 Consideration of enhanced information (WWU's timeline)

RW provided some [commentary on the example WWU and NTS charges](#) as a follow-on from last month's closed Action 0201. WWU had modelled the impact on large sites in five exit zones using the AQs and SOQs used by NTS. The purpose of this was to compare the path of prices for a customer connected to the NTS with the path of prices for customer with an identical AQ and SOQ connected to the LDZ nominally in the same place.

The Workgroup considered the provided graphs. RW explained these demonstrate that Modification 0517, when compared to Modification 0517A results in a greater volatility for WWU pricing, and there is a clear disparity in the impact of the change on an NTS customer, when compared to WWU LDZ customers in the same location.

It was clarified by LB that for NTS sites the build costs remain static, whereas the LDZ costs are based on an average and allowed revenue. LJ believed that the difference between the two modifications would be a cash flow issue for the first two years. It was believed this wouldn't be a cash flow issue for customers. NTS customers would be paying a different cost for NTS connections compared to a customer connected to the LDZ in the same location. However after the two years the prices would smooth out and the effect of the two-year lag would eventually catch up.

The Workgroup considered the volatility and the need for DNs to apply for an adjusted allowance to recover. It was recognised the allowance would be more volatile for the customer. It was recognised that the DNs are always ‘playing catch up’.

The Workgroup asked for WWU to clarify what the graphs actually demonstrate with the two-year effect. CW also suggested that the deviations, that may have an impact, are also outlined. It was requested that the graphs are amended to illustrate the current baseline (prior to the modifications) and using the same set of assumptions illustrate Modifications 0517, 0517A and 0517B to allow a better comparison using the same graph scale (y axis). The aim will be to include the graphs within the Workgroup Report to be clear about the impacts.

Action 0401: WWU to provide a baseline graph from 2015 if a Modification is not made and provide a direct comparison for Modifications 0517, 0517A and 0517B.

RW also provided the table below to illustrate the impact on the way the prices work for each Modification.

	0517	0517A	0517B
NTS exit capacity charges for 01 Oct 2015	Changed Model	Current model	Current model
NTS entry capacity charges for 01 Apr 2016	Changed Model	Current model	Current model
NTS exit capacity charges for 01 Oct 2016	Changed Model	Current model	Current model
NTS entry capacity charges for 01 Apr 2017	and thereafter Changed model	and thereafter Changed model	and thereafter Changed model
NTS exit capacity charges for 01 Oct 2017	and thereafter Changed model	and thereafter Changed model	and thereafter Changed model

The Workgroup considered the provided table and felt that it was not correct for 0517B.t. It was considered that WWU should use the National Grid NTS table (applicable to 0517 and 0517B) in Section 5 Implementation as a base.

4.0 Development of Workgroup Report

The Workgroup considered the [Draft Workgroup Report](#).

The Workgroup considered what evidence, which might need to be included within the Workgroup Report, especially on the volatility.

It was agreed the proposers should meet offline and consider the case for each modification and the evidence required. WWU agreed to support the Workgroup with the graphical modelling.

Action 0402: All parties to consider and submit the required evidence for the Workgroup Report.

5.0 Review of Relevant Objectives

The Workgroup considered the Relevant Charging Objectives. Normally within the Workgroup Report, Black text is used for common which relating to all three modifications, the Blue text is for A only and the Red is for B only. Within the Relevant Objectives the colour coded text was used to illustrate the impacts for each modification ie. *0517*, *0517A*, *0517B*.

The Workgroup considered whether there was a positive impact against Relevant Objective a) for all three modifications whether these improve cost reflectivity. The Workgroup considered the impact of changes to the prices and which objective in particular would be

impacted by changing the merit order, therefore changing the distribution of charges (rebalancing the charges).

The Workgroup considered each charging objective and recorded whether there was a positive/negative/neutral impact for each modification. It was agreed that further consideration would be required to articulate the impacts at the next Workgroup meeting. LJ agreed to compose text for the relevant objectives for further discussion and accept any additional comments for inclusion via email by Tuesday 28 April 2015. The draft Workgroup Report will be published ahead of the next meeting for all parties to consider.

Action 0403: All parties to provide view on the Relevant Objectives by 28 April 2015 for inclusion with the Workgroup Report.

6.0 Consideration of Legal Text

National Grid NTS confirmed that the Legal Text for Modification 0517B would start to be drafted with the aim of considering the Text within the June Workgroup Meeting.

7.0 Next Steps

LJ outlined the basic agenda items for the 06 May 2015 meeting as follows:

- Amended modification(s)
- Required evidence
- Relevant Objectives.

The consideration of Legal Text was deferred until June.

8.0 Diary Planning

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

Workgroup meetings will take place as follows:

Time / Date	Venue	Workgroup Programme
10:30 Wednesday 06 May 2015	Elexon, 4 th Floor, 350 Euston Road, London, NW1 3AW	NTSCMF and Development of Workgroup Report 0517
10:30 Wednesday 03 June 2015	31 Homer Road, Solihull B91 3LT	Development of Workgroup Report 0517 and consideration of Legal Text.
10:30 Wednesday 22 July 2015	31 Homer Road, Solihull B91 3LT	NTSCMF and Finalisation of Workgroup Report

Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0517 0202	10/02/15	2.1	<i>Modification 0517B</i> - National Grid NTS to provide a view as to whether the modification solution of average prices could be implemented into the UNC without a Licence change.	National Grid NTS (CW)	Closed

Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0517 0301	04/03/15	3.0	<i>Modification 0517A</i> - National Grid NTS (LB) & Wales & West Utilities (RP) to look to provide similar information to that provided by National Grid NTS for inclusion in a revised set of timeline tables.	National Grid NTS (LB) & WWU (RP)	Closed
0517 0302	04/03/15	3.0	<i>Modification 0517B</i> - National Grid NTS (CW) to look to support SSE (JCh) in amending Modification 0517B to align with Workgroup discussion points, in time for consideration of an amended modification at the 01 April 2015 meeting.	National Grid NTS (CW)	Closed
0517 0401	01/04/15	3.0	WWU to provide a baseline graph from 2015 if a Modification is not made and provide a direct comparison for Modifications 0517, 0517A and 0517B.	WWU (RP/RW)	Pending
0517 0402	01/04/15	4.0	All parties to consider and submit the required evidence for the Workgroup Report.	All	Pending
0517 0403	01/04/15	6.0	All parties to provide view on the Relevant Objectives by 28 April 2015 for inclusion with the Workgroup Report.	All	Pending