

Determination of Daily Calorific Values Review Group (UNC0251) Minutes

Monday 04 November 2009

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

Attendees

Tim Davis (Chair)	TD	Joint Office
John Bradley (Secretary)	JBr	Joint Office
Alan Raper	AR	National Grid Distribution
Belinda Littleton	BL	Ofgem
Brian Durber	BD	E.ON UK
Chris Wright	CW	Centrica
Dave Lander	DL	Dave Lander Consulting Ltd
Dave Tilley	DT	National Grid Distribution
Johan Buys	JBu	Corona Energy
Jeff Chandler	JC	SSE
Phil Hobbins	PH	National Grid NTS
Richard Pomroy	RP	Wales & West Utilities
Richard Street	RS	Corona Energy
Stuart Gibbons	SG	National Grid Distribution
Stefan Leedham	SL	EDF Energy
Steven Sherwood	SS	Scotia Gas Networks

1. Introduction

TD welcomed all to the meeting.

2. Review of Minutes and Actions from the previous meeting (21 September 2009)

2.1 Minutes

The Minutes were approved.

2.2 Actions

The actions from the previous meeting were reviewed and, where appropriate, were covered under the main agenda:

RG0251/007A: Develop analysis indicating the potential level of Shipper shrinkage.

Update: PH reported that the data had still not obtained.

Carried forward

RG0251/007B: Review any extreme scenarios in closer detail.

Update: It was agreed no further review was required.

Closed

RG0251/016: DT to investigate what happens for different flow ratio scenarios (Option 4 and Option 5).

Update: It was agreed that this was no longer required

Closed

RG0251/018: SR to explore Option 2, and any related issues of discrimination, and socialisation of costs. (For example, if low CV was delivered into an area that had high CV and where a Transporter was adamant that propane should be added; also to clarify the acceptability of socialising costs within a Network).

Update: See item 3, below. **Closed**

Action RG0251/018A: JB to define and raise a further question, to be circulated for comment before being sent to Ofgem for a view.

Update: This had been circulated. **Closed**

Action RG0251/019: FWACV and customer billing - Establish the methodology used by British Gas to perform its calculations.

Update: Being established. **Carried Forward**

Action RG0251/020: Confirm current entry metering arrangements and any recent changes made.

Update: It was believed that one sub-terminal still requires updating to the 2003 Standard. The remainder comply. **Closed**

Action RG0251/021: Commence writing the Review Group 0251 Report.

Update: This has commenced. **Closed**

3. Ofgem View on Discrimination

BL circulated Ofgem's response. Ofgem had concluded that propane injection itself was not discriminatory provided the requirements were the same for comparable cases. In terms of requiring treatment to reduce CV shrinkage, as opposed to meeting safety standards, Ofgem set-out that particular circumstances would need to be examined in order to determine whether there was objective justification for propane injection being required in some cases but not others. Ofgem looked upon this as a policy rather than a legal matter but recognised that the justification for propane injection could vary from location to location.

The meeting then sought to interpret this response and a number of differing conclusions were drawn. BL saw a combination of DECC and DEFRA as the policy makers and would support a question being raised with them. TD asked what question would be asked? He suggested that network entry terms, including those which would only be met by gas treatment, are determinable under the GT licence, which is regulated by Ofgem, not by DECC or DEFRA.

SL suggested that the Ofgem note implied that it would not be discriminatory for propane injection to be required in an area if all the inputs to that area required it. On the other hand, requiring a single entry point to inject propane, where all other entry points do not need it, would be discriminatory. DL pointed out that all biogas plants would need propane injection if CV capping were to be avoided. AR suggested that, in addition to deciding whether requiring propane injection was discriminatory, the criteria of due versus undue discrimination should be considered. BL responded by referring to legal advice that only undue discrimination is defined - due discrimination is not.

RP and SS expressed the view that Transporters would find it hard to make the case that it was not unduly discriminatory to require propane injection in order to avoid CV shrinkage. DT then outlined the types of incentives that would be required to encourage biomethane, and suggested that requiring propane injection would run counter to any such incentives. PH mentioned that at Milford Haven and Teesside, NTS had a licence provision on its SO incentives so that all costs resulting from gas quality at these Asps would be funded 100% by shippers and this might be viewed as a precedent.

CW asked whether there could be value in the Review Group identifying the issue to DECC/DEFRA and requesting policy guidance from which obligations and incentives on Transporters and Shippers might flow. RS suggested also that DECC/DEFRA be given a range of potential solutions to this issue. However, there was no consensus that a letter be written on behalf of the Group.

4. CV Measurement at Low Flow Entry Points

DL and J Baldwin had circulated a note on this. In addition, DT had circulated some related questions.

DL stated that the paper was dedicated to one aspect – the normally required standards of accuracy for a small facility can incur substantial costs for that facility when viewed in the context of its total costs. He outlined two alternatives for the letters of direction and the Calorific Value instruments that might reduce these costs by permitting less expensive instruments, which give lower standards of metering accuracy than the official instruments used at larger Entry Points.

BL began by responding that there was flexibility in the current regulations that would allow some lower standards. AR responded that it was ironic for a small flow to have lower accuracy standards when it might set the CV allowed for billing purposes for a whole area. CW drew a distinction based on the number of biomethane plants. One plant of lower accuracy might be acceptable, but 500 at various points in the network might not be since together they could have a considerable impact on unbilled energy. RS viewed this issue as different from the propane injection issue and suggested any recommendation should only be made after reviewing the materiality in terms of both costs and benefits. If, for example, the change in accuracy was from 0.5% to 5%, the impact on consumers and unbilled energy could be considerable. DL responded by suggesting the impact on consumers of lower metering accuracy from small biomethane plants would be negligible, even if the number of plants were at the highest range of the National Grid forecasts.

TD suggested that any flexibility in metering at low flow entry points would be best covered by industry standards rather than in the UNC, and so could be regarded as out of scope for the Review Group. It was accepted that this was not a UNC issue. DL suggested that the issue be put to the Transporters' Calorific Value Liaison Group, which Ofgem attends, recommending that they carry out a cost/benefit analysis. However, he pointed out that under the existing regime the onus was on Ofgem to decide on the appropriate standard of CV measurement.

PH suggested that CV measurement should not be viewed in isolation. For example, other metering accuracy parameters might still necessitate the use of an instrument such as a Analyser, which is used for determining CV. DL recognised this but still believed that a cost/benefit analysis would be useful. TD asked whether use of a lower accuracy instrument might necessitate operation within a tighter gas quality range in order to be confident that GS(M)R would not be breached. DL responded, for safety related parameters, such as Wobbe Number, this would be the case. Notwithstanding the informal nature of the Calorific Value Liaison Group, it was agreed that it would be the appropriate body to consider the cost/benefits of using instruments of lower accuracy. BL also indicated that Ofgem would be willing to take into account the conclusions of such a study. CW suggested that an open invitation be given to shippers to attend this group. The Transporters present agreed this and any details received of meetings would be placed on the Joint Office's Events Diary.

5. Draft Review Group Report

This was reviewed, beginning with the bulleted items that the group had been asked to review in the Proposal. It was agreed that each of these items had been covered. SS suggested that the national shrinkage costs should be set out, which was over £100m. It was agreed that there should be a description on how shipper shrinkage arises. It was also agreed that the statement of the potentially disproportionate impact from small supplies was appropriate.

On Option 2, PH pointed out that CV is not a GS(M)R parameter and that this should be clear in the report. He suggested that, in the discussion, the term "target range" should be used rather than "target level".

On Option 3, TD asked for comments on the best way of presenting costs. SS responded that the energy benefit of injecting propane should be stated, including the limited number of locations where this would be practicable, unless interruption were to be acceptable to the Shipper. The group considered that “mix and measure” should be explained and the section on IP blending should be removed. SS considered that emphasis should be placed on the operational difficulties associated with any blending option.

On Option 4 it was suggested that the table should be deleted and the group’s conclusion that this was not a preferred option should be emphasised. However, BL requested that Ofgem’s view, which was more favourable to the concept of smaller charging zones, should be included and mention be made that the roll out of smarter meters could provide an opportunity for this to be revisited.

On Option 5, TD suggested that DT’s option of requiring propane injection or otherwise based on assessment of annual average rather than daily average CV might be included. DT emphasised that this option should be placed in the context of incentivising biomethane plants. PH suggested it should be stated that some Group Members believed that the costs of procuring shrinkage gas were real costs and not simply a matter of cost apportionment. DL explained that he had initially believed this was the case but having developed a simple model with SG, they had concluded that this was a matter of cost apportionment.

The Group then discussed recommendations. DT suggested that there should be a materiality concept within the Calorific Value capping mechanism i.e. it would only apply to Supply Points above a certain demand level, although by establishing a cap related to annual average Calorific Value, there could be consumer protection. DL responded that this would not be consistent with the CV regulations, which was acknowledged. CW also suggested that individual consumers, such as those operating at low demand periods, might be adversely affected by a relaxation from a daily average to monthly or annual average. SS was unsure of the benefits of this and whether it was correct that billing would be correct on average since Supply Points change Shippers within a year. CW added that consumers may move as well such that averaging across a year may not be equitable for all.

TD then asked the Group whether, as a starting point, it was recommending any change at all. JC responded that the Group could not ignore potential costs of £100m per annum, but DT commented that these costs would not change – only their allocation. BL considered this important, as costs should be appropriately allocated.

TD suggested that the Group was moving towards a conclusion that any gas should only be allowed to enter a network if its CV were close to the flow weighted average. DT was unwilling to agree to this as there was a desire to encourage biomethane production. TD then asked whether the issue was the disproportionate effect of a small input, in which case there would be no issue if the biomethane injection were large? Members responded that both small and large inputs were both potentially problematical.

On the basis that action was required since CV shrinkage costs of £100m could materialise, the Group discussed who should pay for any measures to prevent cost escalation. Following the “polluter pays” principle might indicate the producer at the entry point that triggers the cap should pay. It was agreed to be discriminatory to simply apply all costs to the newest entrant. It was also recognised that it could be impractical to identify the responsible party creating CV shrinkage at any given time – for example, CV shrinkage could be triggered on some days by high CV flows arriving whereas it did not on others, and it was not clear why the lowest CV source was the issue in such circumstances as opposed to the high CV source. Instead, it was suggested that there could be merits in incentives being established to reward development of the most efficient and economic option to manage CV shrinkage costs. These would need to be placed on the party best placed to manage the issue, which was likely to be the

Transporter. DT concurred, providing this approach did not imply an indefinite requirement to inject propane. Group members responded that no single solution would be implied – blending might be the most economic option in some cases. SL pointed out that Ofgem had indicated that the DN Incentive Arrangements would be reviewed in early 2010 providing an opportunity for this to be explored in more detail.

6. Review Group Process

Td agreed to update the Review Group Report in light of the discussions and Members agreed to provide comments on the report by email. However, it was recognised that a further meeting was likely to be necessary to finalise the recommendations and Report.

7. Any Other Business

None

8. Diary Planning for Review Group

The next meeting will be held, if required, on 24th November, at a London location.

ACTION LOG - Review Group 0251: 04 November 2009

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0251/007A	30/07/09	2.0	Develop analysis indicating the potential level of Shipper shrinkage	National Grid NTS (PH) and EDF Energy (SL)	Carried Forward
RG0251/007B	30/07/09	2.0	Review any extreme scenarios in closer detail.	National Grid NTS (PH) and Ofgem (BL)	No longer required Closed
RG0251/016	30/07/09	4.0	Investigate what happens for different flow ratio scenarios (Option 4 and Option 5)	National Grid NTS (DT)	No longer required Closed
RG0251/018	30/07/09	4.0	Explore Option 2, and any related issues of discrimination, and socialisation of costs. (For example, if low CV was delivered into an area that had high CV and where a Transporter was adamant that propane should be added; also to clarify the acceptability of socialising costs within a Network).	Ofgem (SR)	Paper presented at meeting 04/11/09 Closed
RG0251/018A	21/09/09	3.2	Due/undue discrimination - JB to define and raise a further question, to be circulated for comment before being sent to Ofgem for a view.	CNG Services (JB)	Letter issued to Ofgem Closed
RG0251/019	21/09/09	3.1	FWACV and customer billing – establish the methodology used by British Gas to perform its calculations.	Centrica (CW)	Carried Forward
RG0251/020	21/09/09	3.6	Confirm current metering entry arrangements and any recent changes made.	Centrica (CW)	Confirmed all except one of the Sub-terminals conform to 2003 Standard Closed

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0251/021	21/09/09	4.0	Commence writing the Review Group 0251 Report.	Joint Office (TD)	Report commenced and reviewed Closed