Determination of Daily Calorific Values Review Group (UNC0251) Minutes

Tuesday 24 November 2009

via teleconference

Attendees

Tim Davis (Chair)	TD	Joint Office
Lorna Dupont (Secretary)	LD	Joint Office
Belinda Littleton	BL	Ofgem
Dave Lander	DL	Dave Lander Consulting Ltd
Dave Tilley	DT	National Grid NTS
Phil Hobbins	PH	National Grid NTS
Richard Street	RS	Corona Energy
Simon Trivella	ST	Wales & West Utilities
Stuart Gibbons	SG	National Grid Distribution
Steven Sherwood	SS	Scotia Gas Networks

1. Introduction

TD welcomed all to the meeting.

2. Review of Minutes and Actions from the previous meeting (04 November 2009)

2.1 Minutes

The following adjustment was agreed to page 2 of the Minutes of the previous meeting:

Under "3. Ofgem View on Discrimination

Paragraph 4: …..PH mentioned that ~~at Milford Haven and Teeside,~~ NTS had a licence provision on its SO incentives so that all CV Shrinkage costs resulting from Milford Haven, Teesside and all DN entry points ~~gas quality at these ASEPs~~ would be funded 100% by Shippers and this might be viewed as a precedent."

The Minutes were then approved.

2.2 Actions

The actions from the previous meeting were reviewed.

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

Update: PH reported that the data had still not been obtained, but that delivery was expected within another week. He would follow up with SL once the data had been obtained. **Carried forward**

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

Update: Centrica were not represented at this meeting. **Carried Forward**

3. Finalise Recommendations

TD asked whether any different recommendations should be made other than those in the draft report.

BL stated that from Ofgem's perspective, she would like to see the best option come forward, and although happy that Options 1,2, and 3 had been rejected for the various reasons, would like to see greater depth of analysis under Options 4 and 5, and particularly more costing analysis under Option 4. TD recapped on the various discussions that had taken place regarding costings.

RS reported that feed back from internal discussions had indicated that Option 4 would be prohibitively expensive for shippers and suppliers to manage. Other Shippers had also commented on this in the previous discussions, pointing out that it may require a complete rewrite of billing systems. RS added that the amount of processing required would mean increasing the size of the servers tenfold.

BL reiterated that more figures would aid the review.

TD pointed out that any significant change in the size of the charging zones would be unmanageable and would be ruled out, and asked if the Transporters could provide more information on costs and describe what the difficulties are.

ST added that Shipper/Supplier costs would dwarf anything the Transporters were likely to provide; more and more entry points would lead to unmanageable complexities and much bigger changes across more and more systems.

Action RG0251/022: RS and ST to provide explanations of the perceived issues/costs of smaller charging zones from the perspective of Shipper and Transporter.

RS suggested that he also raise this at the next Gas Forum Shipper meeting, as others may also be able to provide some information.

SS believed that the work that National Grid NTS had already put into defining the charging zone and the summer and winter analysis was very costly and time consuming, and thanked DL for his efforts. DL pointed out the need to take on board the differences in aspect and practicality of the physical and conceptual distribution zones; an LDZ or charging zone would need to be viewed as a collection of customers. RS added that there would be much uncertainty on every day, to see if a consumer was within/without a particular zone on each day, and this would also affect smart metering; every consumer would have to have a CV measure. BL said that Ofgem was not expecting a CV measure to be fitted on each smart meter. Assuming this was the case RS commented that it would make it very difficult for a Shipper to meet its obligations elsewhere and billing would be too difficult.

TD summarised that Option 4 required more analysis and a better understanding of any real life constraints to justify its rejection by the Group.

Moving on to Option 5, BL was of the opinion that this also required more analysis, to make clear how the Group had reached its conclusion and what the incentives might look like. RS commented that looking at the current incentive(s) the potential level of biogas coming in would make the scheme inoperative because the maximum limits would be breached. BL thought that more detail was required to make clear how it would differ from existing incentives; Teesside and Milton Haven had been carved out previously because the shrinkage level was too great – how would this situation be impacted? PH explained the circumstances that had led to that position and why there were no mitigation options available to National Grid NTS.

ST suggested that it was not clear how such an incentive would operate. If the Transporters were being asked to manage the CV Shrinkage risk over 20 years or so it would be difficult to envisage the Transporters agreeing to such a long running incentive.

The producer would be likely to do the minimum required of it, and the DNs would not have limited vires to deliver any change in behaviour. TD pointed out it was not the task of a UNC Review Group to develop incentive schemes – Ofgem was the expert in this area.

RS thought that there had been broad support for looking at Options 2 and 3, the issue being who would pay for those solutions as opposed to the solutions themselves. SS said that any DN entry point could be required to meet the target CV for the day at its own cost; this could be imposed on every DN entry point. Funding might come from DECC schemes to incentivise environmental ambitions. RS added that some customers were willing to pay for environmentally beneficial fuels, and hence a significant premium could be charged for biomethane, providing a means of funding the costs. BL said she would like to see these sorts of incentive options in the report if this could be done.

RS questioned whether it was appropriate for rules/subsidies to be set up to favour biomethane producers – what about LNG, for example, which could also increase CV shrinkage costs? TD agreed this was a key point and that the Group was not focussed on biomethane - if the Group recommended a rule that all gas entering the network should be close to the FWACV, this should apply to both the top and bottom ends in order to be non-discriminatory.

RS said that the issue at the moment is the potential disadvantaging of customers who received less energy than they paid for. He acknowledged that biomethane in the market was an advantage; it was a good product but its introduction should not be to the detriment of consumers. BL wondered if was possible to change the cost allocation mechanism in order to alleviate the disadvantages, such as allocating al costs within a charging zone. RS thought that this may make the situation worse and gave an example to illustrate his view - costs should be targeted to the right party to make it more equitable.

DT pointed out that equitability was not always easy to achieve; whatever change is made incurs a cost and how should this be allocated/recovered? He suggested it came down to two options: process gas to a target CV, or abandon the cap (some customers would be paying more for energy than they should, but the total subsidy would be reduced).

Summarising, TD questioned:

> Should we continue to have some protection for consumers burning low CV gas or should we abandon the cap? Neither RS nor DT was in favour of abandoning the cap.
>
> Should we continue protection through capping at 1 megajoule below the average, or should the level be changed?

TD added that the equity as against efficiency issue was beyond the scope of any UNC Group. RS agreed that this was not the right forum to decide how much money should be given to biomethane producers – this should be decided by the government/DECC. It was clear, however, that allowing biomethane entry would increase CV shrinkage costs for everyone if no conditions were attached. RS added that abandoning the cap would just be shifting the cross subsidy elsewhere, and PH that reducing protection seems the wrong thing to do.

ST had concerns regarding potential discrimination if target CVs were proposed for DN entry points and thought this would need more consideration. DT commented that allowing big variations in the CV of gas entering the network could prove unmanageable and would cost too much in commercial terms; the issue needed a policy and a proper scheme to support the financial implications. The Transporters could be incentivised, but would not determine the rules. PH commented that not only new entrants arrangements but also arrangements with every single party that delivers into the system and the associated Network Entry Agreements may have to be renegotiated if there was a move to bring all flows within a tighter CV range; legal challenges could be made.

SS suggested that the Group refocus on what to include in the recommendations. TD pointed out that the real cost and who should pay for it might be best left to Ofgem and DECC to determine as it extends beyond the scope of the UNC.

DT thought that, as a Group, it had been agreed that relaxation of the CV capping regime is not a good thing, but something should be done to manage the potential cost increase; the Group had looked at options as to how to do this, but some further understanding was required as to who should meet the costs of processing gas on a non-discriminatory basis. BL believed that example situations needed to be scoped out at the lower and the upper level of Wobbe together with some explanation as to how such situations could arise.

DT stated that he was satisfied with the recommendations as set out in the draft report. RS thought that a model based mechanism would be easier to sign off than Transporter discretion. Sensible judgements need to be made that could be based on a common model and this would perhaps avoid any suggestions of due/undue discrimination, operating as an economic test which determined the acceptable level of CV which could be supplied in any location. BL supported more thought being given to the idea of a common mode, and RS suggested that this might be developed by the Transporters and signed off by Ofgem. PH pointed out that this would then have to be applied to each new connection, which would be a fundamental shift from the current position. However, RS believed that new connections could legitimately be treated differently without too much difficulty. PH said that whether a new connection can cause CV shrinkage was perhaps a subjective judgment, and that sometimes it was difficult to draw a line. DT added that a model could be applied on different days and different outcomes would be obtained. TD agreed that it would not be a simple model and may inevitably involve the use of discretion.

TD agreed to redraft the recommendations in light of the discussion and to circulate this for review and comment. A further meeting might then follow via teleconference.

4. Finalise Review Group Report

DT referred to the cost allocation section of the report, which he believed required redrafting. He did not agree that the ‘polluter pays’ principle had been accepted as appropriate. He would like to see it recognised that in the absence of a clear policy to the contrary, there was a real potential that Network Operators will admit gas as long as it is GS(M)R compliant notwithstanding that this would cause CV shrinkage costs to increase. There was no clarity as to whether a Network Operator had the justifiable right to insist on propane enrichment.

In response to RS’ surprise at DT’s objection to the polluter pays principle, DT pointed out that it was hard to determine who was the polluter and ST suggested that ‘polluter’ was probably not the most appropriate word to use in this context, as it implies ‘wrongdoing’ and this would not be the case in this scenario.

5. Review Group Process

TD agreed to update the Review Group Report in light of the discussions and incorporate any extra details provided in response to **Action RG0251/022.** The revised report will be circulated 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.

ST suggested that RS give some consideration to the model inputs/economic test that might underpin the model that RS had suggested earlier in the meeting.

RS advised that a Gas Forum Shipper meeting was taking place on 07 December 2009; and attendees may appreciate sight of the report.

ST referred back to recommendation (2) regarding the Transporters CV Liaison Group and suggested that further clarity could be added as to what action such a group could take.

6. Any Other Business

None.

7. Diary Planning for Review Group

Arrangements for the next meeting (via teleconference) will be notified when finalised.

ACTION LOG - Review Group 0251: 24 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/ 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/ 022	24/11/09	3	Provide explanations of the perceived issues/costs of smaller charging zones from the perspective of Shipper and Transporter.	WWU (ST) Corona (RS)	