

**UNC Workgroup 0517 0517A Minutes  
Review of the Supply Matching Merit Order in Setting Capacity  
Charges**

**Tuesday 06 January 2015**

**31 Homer Road, Solihull B91 3LT**

**Attendees**

Les Jenkins (Chair)	(LJ)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Charles Ruffell	(CR)	RWest
Colin Williams	(CW)	National Grid NTS
Debra Hawkin	(DH)	TPA Consultants
Francisco Gonçalves*	(FG)	Gazprom
Graham Jack	(GJ)	British Gas
Jeff Chandler	(JC)	SSE
Joel Martin*	(JM)	Scotia Gas Networks
John Costa	(JCo)	EDF Energy
John Edwards	(JE)	Wales & West Utilities
Julie Cox	(JCx)	Energy UK
Laura Butterfield	(LB)	National Grid NTS
Nick Wye	(NW)	Waters Wye
Nigel Sisman	(NS)	Sisman Energy Consulting
Richard Fairholme	(RF)	E.ON
Richard Pomroy	(RP)	Wales & West Utilities
Robert Wigginton	(RW)	Wales & West Utilities
Thomas Dangarembizi	(TD)	National Grid NTS

\* via teleconference

Copies of all papers are available at: [www.gasgovernance.co.uk/0517/060115](http://www.gasgovernance.co.uk/0517/060115)

The Workgroup Report is due to be presented at the UNC Modification Panel by 16 April 2015.

## **1.0 Introduction and Status Review**

LJ welcomed all to the meeting, confirming that Modification 0517A had now been formally sent to this Workgroup for assessment and development, and that the Workgroup's reporting date had been extended to 16 April 2015 to allow for this.

It was also noted that SSE had raised a potential alternative Modification 0517B; this would be considered by the January UNC Modification Panel and, if deemed to be an alternate, would also be sent to this Workgroup.

### **1.1. Minutes (15 December 2014)**

RP requested a minor amendment to the minutes of the previous meeting, at Section 2.1 (page 3, paragraph 4):

"RP reiterated that if the ~~material~~ effect of Modification 0517 had been demonstrated to be small then WWU would not have considered raising an alternative modification, but the potential impact on WS, ~~and~~ SW and SE LDZs in particular was significant."

The Workgroup accepted the amendment and the minutes were then approved. The minutes will be amended and a revised version will be published.

## 1.2. Actions

**1101:** The Workgroup to undertake further analysis of the modification impacts for both NTS and DN licensees and the impact of the charges on the allowances.

**Update:** It was accepted that this would be covered within the Workgroup's Report, and it was agreed to close the action. **Closed**

**1201:** *LDZ Charges* - Provide a comparison of the potential effects of Modifications 0517 and 0517A on charges for various types of LDZ customers.

**Update:** The potential effects on various types of customer had been modelled and the information provided in a [published](#) document. RP gave an overview of the modelling carried out (zones, customers), the four scenarios considered, the prices used, and the assumptions made. The results were considered. RP drew attention to Tables 5 and 6. It was observed the most significant effect would be for the larger customer, e.g. power station). RP clarified the results/effects for each zone for 2015/16, explaining this was to do with the way the charging methodology works; there was no pass through element; the same amount of money was being collected but the distribution was changing; recovery remains the same. RP explained this in more detail giving individual examples.

The effects of increases in pricing volatility were considered across the years and RP explained the impacts. Price impacts for customers situated geographically close but connected to NTS and LDZ networks were considered. There would be a delayed increase for LDZ-connected parties compared to NTS-connects, followed by a catch-up for LDZ-connects; in later years this would move to be more in line with one another. RP suggested that Shippers might wish to consider the timings of the changes and how this might affect competition.

Attention was then drawn to the information in Tables 7 and 8, illustrating the impacts on the exit capacity element of a bill. **Closed**

During the discussions under Action 1201, it was suggested a summary table would be helpful to aid the Workgroup's understanding. Later discussions suggested that RP and CW work together to provide clarity on the differing effects on DN Connects and NTS Direct Connects.

**NEW ACTION 0101: RP and CW to work together to provide a summary table for all exit zones, including any information relating to the differing effects (timing effects/competitive elements) for NTS Direct Connects and DN Connects.**

**1202:** *NTS Transportation Model* - CW to:

- a) clarify the workings of the model to assist the Workgroup's understanding of how it actually behaves and the effects it is bringing about; and
- b) compare the calculations/figures for points in Wales with calculations/figures for points in the North area and other areas to ascertain if the model is behaving correctly.

**Update:** CW gave a presentation, providing a brief overview of the Transportation Model and illustrating potential changes to flows in the model that would result from the proposed supply changes, and with specific reference to South Wales and South West.

CW commenced with a high level explanation of the model and key points to consider, responding to various questions and attempting to clarify certain aspects. The reference node does not drive the final price but is required by the model. The location of the node

does not affect the output. CW explained the process that operated through the model (based on virtual points, not physical points; a virtual point was not the same as a reference node; the reference node is primary, then the virtual point). CW confirmed it was an arithmetic average, not a weighted average. This was discussed in more detail.

Moving to the flow diagrams, CW explained the illustration relating to the overall Network. Seeking clarity of a certain indistinctness in the visual illustration, JCx asked if the 'Not flowing' area indicated on the map was Easington. LB explained the flows in this area, and a brief discussion ensued regarding the sources and potential flows and how demand was assumed to be met by other sources.

Attention was then focused on flow diagrams relating to South Wales and South West. The direction of flows was illustrated and explained. Reduced positives and potential negatives were possible. It was pointed out that there was a need to take into account the way the entire system works. CW reiterated the process and the consequences of the changes on exit. NW observed it was a 'common carriage system and mechanism' that was adopted many years ago. The perceived imperfections of the model were commented on.

Whilst noting that the limitations of the model clearly have significant impacts (changes to directional flows and secondary adjustments seem to have a greater consequence in South Wales), LJ reminded the Workgroup that its role was to seek to understand the impacts of the proposed modifications, not to correct the model itself.

It was accepted that the model, though recognised to be imperfect, was doing what it was supposed to do. **Closed**

**1203: Implementation Timeline** - CW to provide a proposed implementation timeline(s) for review at the next meeting.

**Update:** To be reviewed at the next meeting (09 February 2015). **Carried forward**

## 2.0 Workgroup Report

### *General Discussion*

NW commented that all three proposed modifications suggest that the change to the Merit Order was an improvement to the current position, even though the model itself had apparent limitations and imperfections. CW added that there seemed to be agreement that the current Merit Order was out of date (not reviewed for at least 5 years), and it was recognised that any change would have impacts.

JC referred to the level of LNG flows seen this year and suggested that it might be inferred from market signals that future years could be similar. JC went on to question whether, in light of this, basing a change to the Merit Order on recent history was appropriate.

NS observed the price for LNG has changed dramatically recently; there was a need to consider a merit order that reflects the inherent volatility in NTS prices. The debate on the model would take place once the EU Tariff Code has been implemented. Oil price impacts were briefly discussed, noting that the LNG market was dependent on this.

It was observed that all three proposed modifications agreed with the grouping together of LNG and MRS at the same level. The next Merit Order review point might occur when shale gas becomes a viable source (a good many years away). JCx and JCo suggested there was a need to look backwards when sufficient data was available for examination, to

ensure more accurate charges based on actual flows. Although it was not certain how it will play out in the future, NW commented that based on recent evidence it made sense to amalgamate LNG and MRS in the Merit Order. JCx reiterated that the impact on customer charges was promoting this involved discussion; if there had been small changes evident, perhaps in the order of plus/minus 5%, there would not be the perception of a problem with the change in the Merit Order, but the proposed change had very significant ramifications for some parties and this needed exploration and clarification.

Observing that additional evidence was always welcome, LJ asked if there was currently enough evidence to support a change in the stack. He suggested that participants were welcome to bring forward alternative views for inclusion in the Report and, if necessary, specific questions could be included within the modification consultation process to seek wider industry views.

## **2.1. Consideration of any Alternates**

### *Modification 0517A - Review of the Supply Matching Merit Order in Setting Capacity Charges and Timing of Resultant Price Changes*

This had been informally reviewed at the previous meeting. LJ clarified that the Modification Panel had, in accepting it as an alternative, taken the view that this alternative would, in effect, introduce a deferred implementation of the same solution.

### *Modification 0517B - Review of the Supply Matching Merit Order in Setting Capacity Charges, Rolling Average to Reduce Volatility in Annual Charges*

This had been raised by SSE following the last meeting, and was to be considered at the January UNC Modification Panel.

JC gave an overview of the intent of the modification, advising that this had been formulated on the basis of Modification 0517A, using the existing methodology that was being proposed but then taking a simple averaging process (taking an average of a 3 year period to calculate the set of charges to be used for the current charging year). Confirming the averaging process is a lag, JC explained in more detail. This should provide a stabilisation mechanism, increased predictability of charges, and remove some of the volatility. There would be an over/under recovery of some form.

In discussion some doubts were expressed as to whether or not it could be considered to be a true alternate to Modifications 0517 and 0517A, as it was not addressing the problem with the Merit Order stack, but was more focused on the volatility problem. CW observed that it would have a consequential impact on entry and exit capacity prices. DH commented that it was not obvious that it was going to adjust revenue recovery in a particular way. LJ observed that it was averaging out all charges. NS suggested that further clarity might be required as to whether it concerns *all* charges or not. CW noted it would change whom it is collected from and how it is collected.

LJ reiterated the January UNC Modification Panel would consider this proposal and, if not deemed to be an alternate, it would be reassigned as an individual modification with a separate number and would be assessed and developed by its own separately established Workgroup.

## **2.2. Amended Modifications (0517 and 0517A)**

No amendments had been made to Modification 0517.

No amendments had been made to Modification 0517A.

### **2.3. Consideration of Business Rules**

Not discussed.

### **2.4. Review of Impacts and Costs (DNs and consumers)**

Considered in general discussions.

### **2.5. Review of Relevant Objectives**

The draft Workgroup Report for 0517 and 0517A was displayed.

The Workgroup then considered the relevant objectives and how these might be facilitated. Various views were expressed and included in the report as discussions progressed.

#### *Evidence*

Requirements were discussed. It was suggested that CW and RP work together to provide informative supporting evidence to include in an Appendix to the report.

#### *Impact on prices*

The DN's inability to recover costs for a number of years due to the strictures of the current Price Control mechanisms was discussed; a potential side effect of cross-subsidy was queried. RP agreed to further develop the 'Case for Change' within the Relevant Objectives section of the Report to explain why Modification 0517A should be implemented.

### **2.6. Consideration of Wider Industry Impacts**

No further discussion at this time.

### **2.7. Consideration of Legal Text and Commentaries**

The text provider for these modifications is National Grid NTS.

#### *Modification 0517*

At its December meeting the UNC Modification Panel had formally requested that text and a commentary be provided for Modification 0517. This had been provided.

The commentary was reviewed and it was suggested it would benefit from rewording to provide more clarity.

The legal text was reviewed and briefly discussed.

*2.5.1 The Transport Model, Model Inputs (c)* - It was commented that the phrase 'supply numbers' appeared to be too vague and CW will reconsider this.

#### *Modification 0517A*

At its December meeting the UNC Modification Panel had formally requested that text and a commentary be provided for Modification 0517A. This had been provided.

LB explained the legal text and this was briefly discussed. It was suggested that text might be usefully translated to the Transition Document, to address practical aspects of having to operate the two sets of charges, current and future. CW would consider this.

*General*

It was suggested that separate legal text and commentaries be provided for each modification.

**2.8. Implementation**

Potential timescales and how this might work in practice were discussed in some detail. RP and CW will clarify the timescales and the practical application and provide a draft statement for review.

**2.9. Development of the Workgroup Report**

The reporting date to UNC Modification Panel had been extended to 16 April 2015 to take account of consideration and development of Modification 0517A.

It was noted that further revisions/discussions may be required to accommodate Modification 0517B depending on the outcome of the UNC Modification Panel’s decision as to whether or not it is a true alternate.

**3.0 Next Steps**

Development of the Workgroup Report will continue.

The following should be provided to the Joint Office by 28 January 2015 so that it can be included in the draft Workgroup Report and published for review in advance of the next meeting:

- *Relevant Objectives* - CW and RP to work together to clarify the differences between Modifications 0517 and 0517A, and to provide informative supporting evidence to include in an Appendix to the report.
- *Implementation* - RP and CW will clarify the timescales and practical application and provide a draft statement for review.
- *Legal Text for Modifications 0517 and 0517A* - CW to consider suggestions made and provide revised text as appropriate.

**4.0 Diary Planning**

Further details of planned meetings are available at: [www.gasgovernance.co.uk/Diary](http://www.gasgovernance.co.uk/Diary)

Workgroup meetings will take place as follows:

Time / Date	Venue	Workgroup Programme
10:00 Monday 09 February 2015 (included under NTSCMF)	31 Homer Road, Solihull B91 3LT	<ul style="list-style-type: none"> <li>• Consideration of alternate modification(s) if appropriate</li> <li>• Development of Workgroup Report</li> </ul>

10:30 Wednesday 04 March 2015	31 Homer Road, Solihull B91 3LT	<ul style="list-style-type: none"> <li>Development of Workgroup Report</li> </ul>
10:30 Wednesday 30 March 2015	31 Homer Road, Solihull B91 3LT	<ul style="list-style-type: none"> <li>Completion of Workgroup Report</li> </ul>

### Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
1101	25/11/14	2.1	Workgroup to undertake further analysis of the modification impacts for both NTS and DN licensees and the impact of the charges on the allowances.	All	Closed
1201	15/12/14	2.1	<i>LDZ Charges</i> - Provide a comparison of the potential effects of Modifications 0517 and 0517A on charges for various types of LDZ customers.	Wales & West Utilities (RP)	Closed
1202	15/12/14	2.5	<i>NTS Transportation Model - CW</i> to: a) clarify the workings of the model to assist the Workgroup's understanding of how it actually behaves and the effects it is bringing about; and b) compare the calculations/ figures for points in Wales with calculations/figures for points in the North area and other areas to ascertain if the model is behaving correctly.	National Grid NTS (CW)	Closed
1203	15/12/14	2.9	<i>Implementation Timeline - CW</i> to provide a proposed implementation timeline(s) for review at the next meeting.	National Grid NTS (CW)	Carried forward
0101	06/01/15	1.2	RP and CW to work together to provide a summary table for all	Wales & West Utilities	Pending

**Action Table**

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
			exit zones, including any information relating to the differing effects (timing effects/competitive elements) for NTS Direct Connects and DN Connects.	(RP) and National Grid NTS (CW)	