

**UNC Workgroup 0517 0517A 0517B Minutes**  
**Review of the Supply Matching Merit Order in Setting Capacity Charges**  
**Monday 09 February 2015**  
**31 Homer Road, Solihull B91 3LT**

**Attendees**

Les Jenkins (Chair)	(LJ)	Joint Office
Helen Cuin (Secretary)	(HC)	Joint Office
Alena Fielding*	(AF)	Ofgem
Charles Ruffell	(CR)	RWE
Colin Williams	(CW)	National Grid NTS
Debra Hawkin	(DH)	TPA Consultants
Francisco Gonçaves*	(FG)	Gazprom
Gerry Hoggan	(GH)	Scottish Power
Graham Jack*	(GJ)	British Gas
Isabelle-Agnes Magnes*	(IAM)	GDF Suez
James Thomson*	(JT)	Ofgem
Jeff Chandler	(JCh)	SSE
Joel Martin*	(JM)	SGN
John Costa	(JCo)	EDF Energy
Julie Cox	(JCx)	Energy UK
Laura Butterfield	(LB)	National Grid NTS
Nigel Sisman	(NS)	Energy Consultancy
Peter Bolitho	(PB)	Waters Wye Associates
Richard Fairholme	(RF)	E.ON
Richard Pomroy	(RP)	Wales and West Utilities
Sue Ellwood	(SE)	Gas Terra
Thomas Dangarembizi	(TD)	National Grid NTS

\* via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0517/090215>

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 from the previous meeting on 06 January 2015 were approved.

**1.2. Actions**

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

**Update:** CW confirmed that an implementation timeline had been added to the modification.. LB summarised the rationale around the implementation timeline. The Workgroup reviewed the timeline. Some minor amendments were suggested to the example timeline to assist parties understanding of the impacts to processes. **Closed**

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

**Update:** RP confirmed that the LDZ charges have been updated for all the exit zones and CW had updated the NTS charges. Both an [Appendix for MOD0517A - all five exit zones - summary table](#) for WWU and an [Action update - NTS Direct Connect payment under Current Prices and 0517](#) for National Grid NTS were published on the meeting page. The Workgroup also reviewed the [Commentary on example WWU charges](#). RP confirmed that WWU had included projections for what the transportation charges would be, to show the impacts to direct NTS connects. JCh requested that SW1 is added to the example WWU charges table. The Workgroup considered illustrating hypothetical customer charges and the value this would add. It was agreed that National Grid NTS and WWU would work offline to provide example charges based on Baglan Bay Power Station. **Closed**

**Action 0201: WWU and National Grid NTS to agree volumes and charges in each WWU exit zone. It was requested that Baglan Bay Power Station be used for the relevant zone.**

## 2.0 Workgroup Report - Development

### 2.1. Consideration of Alternate Modification (0517B)

LJ confirmed that Modification 0517B was presented and considered by the January panel. JCh outlined that Modification 0517B was based on Modification 0517 with one simple addition; it would take the current and the previous two years charges and calculate an arithmetic average on a rolling basis going forward to introduce stability and reduce the risk of large swings.

CW enquired about the scope, and particularly whether this applies to capacity only, and applies to entry (averaging reserve prices) and/or exit (adjusted reserve prices). CW asked for further clarity to be added to the modification on the intentions behind exit, entry and capacity.

CW also wished to understand the interactions with commodity charges and how this interacts with revenue collection (predominantly TO). He believed by taking an average there would be an impact on commodity. He also asked about volatility and the influence of factors beyond the merit order.

It was recognised with averaging prices the Workgroup would need to consider interaction with GTCR and the European Tariff Code.

NS believed that although the process is averaging it would have impacts elsewhere to address the revenue recovery. NS believed it would be prudent to be clear in section Y of the UNC.

The Workgroup agreed it needed to consider: the scope of Capacity and/or Commodity; affecting Entry and/or Exit; Cost Reflectivity, and European / GTCR Interactions.

RP suggested that the Workgroup might need to consider the possibility of the changes to NTS revenue recovery requiring licence changes instead or as well as this modification. However some of the Workgroup did not anticipate a licence change requirement, despite noting that licence changes were identified when considering Modification 0368 - Smoothing of Distribution Charge Variation. LJ suggested that NTS seek clarity on whether the solution can be inserted into the UNC without a licence change.

**Action 0202: Modification 0517B - 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.**

PB was keen not to quash considerations to make a change even if a licence change was believed to be required. He didn't want to see the modification withdrawn at this stage until the industry had time to fully consider all the solutions available.

JCo believed 0517B in reality addressed a step-change potentially introduced by changes to the merit order and wished to understand any other means of addressing stability and volatility. LJ clarified that the current scope of 0517B was limited to an averaging mechanism over 3 years of charges; hence the assessment would be limited to the operation and impacts of such a change. Of course, should any further modifications be presented, such things could also be assessed.

LJ explained that the Workgroup should now take each of the four key issues (Capacity and/or Commodity, Entry and/or Exit, Cost Reflectivity, and Interaction with GTCR and EU TAR Code) and establish how to resolve them.

#### Capacity and/or Commodity

CW believed that the approach wouldn't change; it would simply be a different set of capacity prices being fed into the process. It was understood that some prices would go down and some would go up. It was challenged if the modification would create more volatility in the TO Commodity charges and the fixed SO Commodity charges.

CW suggested the Workgroup would also need to consider the auction process and the use of reserve prices. He explained that consideration would need to be given on the reserve pricing for auctions and the prices that parties actually pay. He confirmed that National Grid NTS might have to look at an averaging process for those who have paid the reserve price. To set the commodity charge they need to consider the reserve prices and clearing prices, and if averaging reserve prices, which reserve price needs to be used. It may not be possible to simply use the payable price.

CW was keen to understand and explain the TO commodity charge calculation and the elements of averaging. He suggested the Workgroup review how a three-year average pricing would work and how this interacts with commodity charges and quantify what would be different.

#### Entry and/or Exit

CW believed that the Workgroup needed to consider the merit order, as by default the change will affect entry and exit.

DH agreed, if using averages why would you only average one element and not average both. JCh expressed an interest in seeing the impact to the entry charges if an average is to be used, since this would help inform discussions

JCo asked if there would be any issues that would prevent using entry or exit rather than both. The Workgroup wished to understand any potential discrimination issues if such an average was used just for one.

It was believed it would be beneficial for the Workgroup to fully understand the impact to charges. However it was recognised this would require extensive analysis. The Workgroup also considered that, under any scenario, comparing the actual pricing to an average pricing method would create a smoothing effect and that a rolling average would be deemed to create more stability in capacity charges.

**Action 0203: *Modification 0517B* - SSE to articulate the scope of the modification and the rationale why.**

**Action 0204: *Modification 0517B* - National Grid NTS to produce data on actual prices compared to average prices for the Workgroup to see the effect of smoothing.**

**Action 0205: *Modification 0517B* - National Grid to show how commodity charges are calculated and the interaction of capacity and commodity in setting charges.**

#### Cost Reflectivity

LJ challenged how the Workgroup are going to demonstrate the points on cost reflectivity i.e. What would the impacts be on the cost reflectivity? Does it make it

better or does it make it worse? It was suggested by CW that cost reflectivity could be less, depending on the base assumptions used.

CW believed the principal of setting average tariffs would lessen the cost reflectivity for a given year but the Workgroup wished to understand why it would impact cost reflectivity and if the benefit would be better volatility.

The workgroup agreed to return to this issue once the scope and supporting information was available.

## 2.2. Review of Amended Modifications (0517 and 0517A)

RP summarised the amendments to Modification 0517A, in particular removing the reference to the Mod 0186 process.

## 2.3. Draft Workgroup Report

The Workgroup reviewed the draft Workgroup Report incorporating Modification 0517B.

LJ explained the intention would be to keep this a live document and to publish a draft Workgroup Report ahead of meetings to aid discussions. Contributions in the form of evidence and/or counter views would therefore be welcomed at least a week ahead of future meetings.

## 2.4. Review of Legal Text and Commentaries (0517 and 0517A)

LJ confirmed that the Legal text and commentary had been published and unless Modifications 0517 or 0517A were amended the legal text would remain as it is. The intention will be for National Grid NTS to produce text for 0517B in due course.

## 3.0 Next Steps

Proposers to work with NTS to address the information required for the further consideration by the Workgroup. Workgroup to further consider: Capacity Prices; Entry and Exit verses Entry Only; European Interactions and GTCR; Cost Reflectivity and interactions with other charges.

## 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
10:30 Wednesday 04 March 2015	31 Homer Road, Solihull B91 3LT	Further consideration of the key issues arising from 0517B  Development of Workgroup Report
10:30 Wednesday 01 April 2015	31 Homer Road, Solihull B91 3LT	Workgroup 0517:  Development of Workgroup Report
10:30 Wednesday 06 May 2015	Elexon, 4th 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	Workgroup 0517:  Development of Workgroup Report

### Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
1203	15/12/14	2.9	<i>Implementation Timeline</i> - CW to provide a proposed implementation timeline(s) for review at the next meeting.	National Grid NTS (CW)	<b>Closed</b>
0101	06/01/15	1.2	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.	Wales & West Utilities (RP) and National Grid NTS (CW)	<b>Closed</b>
0201	10/02/15	1.2	WWU and National Grid NTS to agree volumes and charges in each WWU exit zone. It was requested that Baglan Bay Power Station be used for the relevant zone.	Wales & West Utilities (RP) and National Grid NTS (CW)	<b>Pending</b>
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)	<b>Pending</b>
0203	10/02/15	2.1	<i>Modification 0517B</i> - SSE to articulate the scope of the modification and the rationale why.	SSE (JCh)	<b>Pending</b>
0204	10/02/15	2.1	<i>Modification 0517B</i> - National Grid NTS to produce data on actual prices compared to average prices for the Workgroup to see the effect of smoothing.	National Grid NTS (CW)	<b>Pending</b>
0205	10/02/15	2.1	<i>Modification 0517B</i> - National Grid to show how commodity charges are calculated and the interaction of capacity and commodity in setting charges.	National Grid NTS (CW)	<b>Pending</b>