

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

**Monday 15 December 2014**

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

**Attendees**

Bob Fletcher (Chair)	(BF)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Alena Fielding	(AF)	Ofgem
Charles Ruffell	(CR)	RWE
Colin Williams	(CW)	National Grid NTS
Debra Hawkin	(DH)	TPA Consultants
Graham Jack*	(GJ)	British Gas
Jeff Chandler*	(JC)	SSE
Julie Cox	(JCx)	Energy UK
Laura Butterfield	(LB)	National Grid NTS
Nick Wye*	(NW)	Waters Wye
Richard Fairholme	(RF)	E.ON
Richard Pomroy	(RP)	Wales & West Utilities
Thomas Dangarembizi	(TD)	National Grid NTS

\* via teleconference

Copies of all papers are available at: [www.gasgovernance.co.uk/0517/151214](http://www.gasgovernance.co.uk/0517/151214)

The Workgroup Report is due to be presented at the UNC Modification Panel by 15 January 2015.

**1.0 Introduction and Status Review**

**1.1. Minutes**

The minutes were approved.

**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:** CW confirmed that the presentation would address certain aspects from the NTS perspective; the DNs would need to provide analysis of impacts/pertinent aspects from their own perspectives. **Carried forward**

**1102:** National Grid NTS to run the exit capacity model 14/15 and 15/16 for all options.

**Update:** LB reported that the analysis had been published on the web page for this meeting and parties were encouraged to consider the information in relation to their own charges. JC questioned why the charges for 2015/16 for almost all the options were lower than for 2014/15. CW explained the reductions were related to the supply/demand balance (supplies for 15/16 were lower; the trend was downwards) and consideration in terms of allowed revenues. This was briefly discussed. **Closed**

**1103:** National Grid NTS to provide an illustration for the Transportation Model for South Wales.

**Update:** Provided in the presentation. **Closed**

## 2.0 Workgroup Report

### 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 raised by Wales & West Utilities (WWU) and it was hoped it would be considered by the December UNC Modification Panel as a short notice item. RP introduced the proposal and explained the drivers. It was recognised that the NTS model must be cost reflective but under Modification 0517 there were significant material impacts on Wales South (WS) LDZ and to a lesser extent on South West (SW) LDZ, and WWU believed it warrants a delay in implementation to avoid adverse unintended consequences on NTS directly connected sites and Gas Distribution Networks. There were concerns expressed regarding volatility of charges and adverse effects on cash flow. WWU appeared to be particularly affected; the change in other LDZs was deemed to be much smaller.

RP explained how 0517A proposed to change the NTS model and the potential effects of so doing. He believed that exit and entry should be treated in the same way and change in the same formula year. It was confirmed that the methodology was not being changed just the date it applied from. The proposal was discussed.

RP explained the issue in relation to WS and SW LDZs in respect of Modification 0517; there would be a very big change in exit capacity charges, which will exceed the DN's allowances - revenue would not be collected for 2 years. The material effect of this gives rise to an argument for delaying the methodology. If the allowances were increased sufficiently to the levels they were expected to be then they could be passed through.

NW asked if RP was able to give an idea of what the increase under Modification 0517 would mean for WWU's various customer types, so that the impact on the overall transportation charge and for individual sample customers could be gauged. RP agreed to provide a comparison under Modifications 0517 and 0517A and in the context of all the LDZ related charges.

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

The timing of 're-openers' for charges was discussed, together with the potential risks. RP observed that under Modification 0517 prices will change and be implemented in October 2015. The DNs cannot change prices until 2017. (If Ofgem did not agree then the DN would have to under-recover for two years, i.e. 2017-2019.) The DNs would seek to realign costs and allowances so there would be less volatility but it could not be removed. There would be a continual under-recovery if Ofgem did not approve the allowance, i.e. every year the DN would be recovering the under-recovery from two years ago. Modification 0517A was seeking to eliminate the under-recovery and address the volatility of the prices.

NW observed this was about prices increasing in the short or long term, and about the timing of changes; and he understood WWU's concerns regarding cash flows and potential financial exposure. However, he believed that concerns regarding volatility

should not be confused with concerns regarding impacts on WWU's charges/cash flows; it was about deferring when the charges were applied from so that the money is recovered.

RP observed that NTS Direct Connects would see an impact at a different time to those connected at LDZs so there is potentially a competition issue.

CW commented that not only should charges in excess of the allowance be considered, but also charges below the allowance.

RP reiterated that if the 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, SW and SE LDZs in particular was significant.

Responding to JCx, RP explained that an allowance was given for 8 years out at the start of the price control (based on indicatives at the time); this could only be changed through a reopener. CW confirmed the same value was rolled forward each year - it takes no account of any changes. DH added that prices in May are to get the 'fine tuning' right at an LDZ level (assuming there are no material changes). RP observed that the change in the Merit Order was going to have a significant effect, and he would analyse against the preferred option for the Merit Order model.

## **2.2. Amended Modification**

No amendments had been made to Modification 0517.

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

Not discussed.

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

Discussed under 2.1, above.

## **2.5. Transportation Model in South Wales**

LB gave a presentation addressing Action 1103. General principles of the NTS Transportation Model were highlighted and an example network was illustrated. High level details of the Entry and Exit Tariff Models were outlined.

A pipeline diagram of the SW area reflecting the flows in the 2014 Exit Capacity Transportation Model was displayed. CW explained the diagram and why the prices in SW were quite low (supplies from Milford Haven flowing eastwards); flow change in polarity in the model, i.e. from east to west/west to east, generates the charges in relation to LRMCs.

The table of Exit Prices in South West Area was then considered (slide 12). JCx observed that the figures did not explain why flows at Milford Haven were no longer sufficient - more clarity was required as she was under the impression that Milford Haven Gas did reach as far as England. CW indicated this was because of the revenue adjustment factor (added to every exit point, a dominant effect on prices) and gave a more detailed explanation of how the figures had been arrived at. The effect of the revenue adjustment factor was discussed. It was questioned if this proposal (0517) was then a movement away from cost reflectivity to something dominated by this revenue adjustment factor? JCx was not convinced that the figures made sense. NW observed that in effect it was engineering a price that does not truly reflect the LRMC? Additive differences were discussed, but parties indicated that they were still failing to understand why there was such an extreme effect apparent in SW and WS LDZs (effects in the region of £3.7m and

£2.8m, based on October prices), especially when there were still sufficient flows from Milford Haven?

Grouping impacts (slides 14 and 15) were then considered and discussed. JCx repeated that she still did not understand the South Wales issue - intuitively it did not make sense; why were charges going up so much? She referred to null points - no reference was made to these in the models? It was not just the distance from the node, something else appeared to be forcing higher charges? The interaction of effects needed clarification - did it involve proximity to exit points? The model was not easily understood?

Referring to slide 15, JC asked why Interconnector charges had decreased so much. Bacton has gone to minimum price. East and inland areas are decreasing where more storage flows are coming in; the North West shows smaller decreases. In places where there is no storage charges are going up. JCx believed the effects were still not properly clear or understood from this illustration - it still did not make sense. In previous models they had been given more information on null points and the way the network operated so that charges were easier to understand.

NW referred back to the Pembroke issue and attempted an explanation; flows from Milford Haven and into Pembroke cancel each other out (null point?), charges upstream therefore are nowhere near as significant as those downstream? JCx thought that if that was true it might explain it, but she was not sure that was actually the case. The figures for Wales entry and exit points were discussed, but it was thought a null point would be located east of these points (somewhere in England?); this was not consistent with why these points were exhibiting such marked increases? JCx suggested that National Grid NTS needed to provide further clarity and compare with other places to give comfort that the model is behaving as it should; perhaps Northern points could be looked at for comparison.

**Action 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.**

## **2.6. Review of Relevant Objectives**

To be considered at the next meeting.

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

National Grid NTS' analysis had been published on the web page for this meeting and parties were encouraged to consider the information in relation to their own portfolios.

## **2.8. Consideration of Legal Text**

*Modification 0517*

Suggested Text had been provided with the modification. CW confirmed this was likely to remain the same in response to the eventual request by the UNC Modification Panel.

BF reminded that a commentary must be provided to accompany the legal text.

The Workgroup reviewed the Suggested Text and the content of 'Model Inputs, paragraph (c)' was discussed. It was suggested that the Ten Year Statement data referred to needed to be checked, and perhaps more closely defined/specified. Clarity would also be welcomed on the scenarios being used; how adjustments will be carried out; how

reductions managed; how capabilities would be defined, etc. CW noted these points for further consideration.

## 2.9. Implementation

Aspirations were briefly discussed. It was suggested that industry views should be sought, and that this might be a formal question to be included in the Consultation.

BF suggested that a proposed timeline would be a useful addition to add clarity and aid understanding of any impacts. CW will provide appropriate timeline(s) taking into consideration timing changes to methodology (April/October), exit capacity, and QSEC arrangements.

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

It was confirmed that the Modifications 0517 and 0517a were true alternatives and could not be implemented together.

## 3.0 Next Steps

It was noted that the reporting date to UNC Modification Panel was 15 January 2015, and the next Workgroup 0517 meeting is to be held on Tuesday 06 January 2015. The aim will be to conclude the Workgroup's report at its January meeting. It was recognised that this would then mean a late submission to the UNC Modification Panel with a request that it be considered at short notice.

Assuming that Modification 0517A was sent to this Workgroup for assessment, and in order to expedite the report, it was agreed that RP should provide supporting analysis, and that National Grid NTS provide legal text and associated commentaries for both modifications (reviewed in light of the discussions), and a potential implementation timeline in time for the January Workgroup to consider. Both modifications will also be considered in relation to how the relevant objectives might be facilitated.

BF will recommend that the December UNC Modification Panel request the provision of formal legal text for Modifications 0517 and 0517A.

An extension to the reporting date might be considered.

### ***A Further Alternate Modification***

JC advised the Workgroup that SSE was considering raising a further alternate UNC Modification (potentially 0517B), to be based on a simple averaging process, which may impact the reporting date of the Workgroup.

## 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 Tuesday 06 January 2015	31 Homer Road, Solihull B91 3LT	<ul style="list-style-type: none"> <li>• Consideration of alternate modification(s)</li> <li>• Finalisation 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	Carried forward
1102	25/11/14	2.2	National Grid NTS to run the exit capacity model 14/15 and 15/16 for all options.	National Grid NTS (CW)	Closed
1103	25/11/14	2.2	National Grid NTS to provide an illustration for the Transportation Model for South Wales.	National Grid NTS (CW)	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)	Pending
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)	Pending
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)	Pending