

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

Tuesday 25 November 2014

31 Homer Road, Solihull, B91 3LT

Attendees

| | | |
|------------------------|-------|--------------------------|
| Les Jenkins (Chair) | (LJ) | Joint Office |
| Helen Cuin (Secretary) | (HC) | Joint Office |
| Alice Mitchell* | (AM) | Ofgem |
| Anna Shrigley | (AS) | ENi |
| Charles Ruffell | (CR) | RWE |
| Colin Hamilton | (CH) | National Grid NTS |
| Colin Williams | (CW) | National Grid NTS |
| Debra Hawkin | (DH) | TPA Consultants |
| Francisco Gonçalves | (FG) | Gazprom |
| Graham Jack | (GJ) | British Gas |
| Jeff Chandler | (JCh) | SSE |
| Gerry Hoggan | (GH) | Scottish Power |
| John Costa* | (JC) | EDF Energy |
| Jonathan Trapps | (JT) | Northern Gas Networks |
| Julia Haughey* | (JH) | EDF Energy |
| Julie Cox | (JCo) | Energy UK |
| Karin Elmhirst | (KE) | National Grid NTS |
| Laura Butterfield | (LB) | National Grid NTS |
| Peter Bolitho | (PB) | Waters Wye |
| Rachel Turner | (RT) | BG International |
| Richard Fairholme | (RF) | E.ON |
| Richard Pomroy | (RP) | Wales and West Utilities |
| Roddy Monroe | (RM) | Centrica Storage |
| Sue Ellwood | (SE) | Gas Terra |
| Thomas Dangarembizi | (TD) | National Grid NTS |

* *via teleconference*

Copies of all papers are available at: www.gasgovernance.co.uk/0517/251114

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

1.0 Review of Minutes and Actions

1.1. Minutes

Minutes approved.

1.2. Actions

1101: CW to produce a table of supply assumptions for both option 3 and 4 for each entry point.

Update: CW provided the [Analysis on Review of the Merit Order](#) presentation and summarised the options reviewed and the justification of why option 3 was selected over and above the other options. See item 2.2. **Complete.**

1002: CW to provide information on the positive Entry charges shown under options 3 and 4 at the next meeting.

Update: See item 2.2. **Complete.**

1003: CW to include two further options in the options analysis

Update: See item 2.2. **Complete.**

2.0 Workgroup Report

2.1. Charging Obligations and Relevant Objectives

National Grid NTS (KE) provided a short presentation on the charging obligations and relevant objectives that National Grid is required to set charges and consider changes to charging methodologies in accordance with. In addition to those listed it was noted by JCo that there were other obligations in National Grid's Licence in relation to allowed revenues and that charges are set with the aim to not over or under recover. It was recognised that the modification needed to be measured against the relevant Charging Methodology Objectives.

RP highlighted that the modification needs to recognise that there is a significant material impact to DNs. RP asked National Grid NTS to consider the disparity between how the two licence conditions work within the modification. RP highlighted this would have Cash flow implications for DNs. The timing of the charging notices was considered to establish if the two-year delay for DNs could be reduced with the provision of an early notice.

DH enquired if DNs are able to approach Ofgem about waiting two years before the Licence allowance regarding Exit Capacity charges from the NTS can be collected. It was agreed that this must be clearly documented within the Workgroup Report to ensure all parties are aware of the impacts.

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

2.2. Analysis on Review of the Merit Order

LB went through National Grid's presentation that updated the analysis to include new options 5 and 6 and highlighted the relevant objectives the mod was addressing in selecting option 3 as the favoured approach for Modification 0517.

JCo challenged that option 3 may not reflect reality and that options 5 and 6 may be more relevant. However CW disagreed, insisting that option 3 better reflects reality than the current process. PB believed it was reasonable to make small steps to better reflect reality with the possibility of taking further steps in the future.

The Workgroup considered recent history and the current merit order, levels of LNG and the impact of a 1 in 20 peak day. RM believed the current arrangements were wrong and that the industry needed to establish a justifiable supply stack.

FG enquired about the supply stack, peak days and spikes in price, he believed LNG needs to be in the terminals in an instant with long term price signals. JC explained that storage stocks of gas are available, if enough LNG is stored for one days delivery the storage can be turned on for full delivery fairly quickly.

JCh enquired what the impact on Exit Capacity prices would be on the options, LB explained that the current exit price will not match the QSEC original prices. Exit prices in the analysis have been produced using QSEC models as requested through previous NTSCMFs. KE explained the current exit prices and the QSEC exit prices have different supply and demand forecasts so the prices will differ.

It was requested that National Grid NTS run the relevant NTS Exit Capacity models for the options. The Workgroup asked NTS to provide an estimate of what impact the options would give when looking at the NTS Exit Capacity charging models.

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

JCo asked for clarity on the big changes where the flow direction is changed, the South West feeder power stations and DN exits points, and whether the supply level from Milford Haven, Wales meets the 1 in 20 peak level. JCo suggested that demands are below the supply levels coming in and that it would be helpful if NTS explained how the Transportation Model worked for the South Wales system.

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

National Grid NTS noted a number of spreadsheets had been published for reference on the QSEC Entry Prices, Exits Prices and Supply Data.

3.0 Next Steps

Recognising the tight timeline to deliver a Workgroup Report to the January Panel and the potential for alternative proposals, members agreed it would be helpful if early drafts could be brought to the next meeting. LJ explained that the Proposer needed to make the case for change by filtering the plethora of data produced so far into a concise and balanced case for change that could be inserted into the Workgroup Report to evidence the furthering of the Relevant Charging Objectives.

The Workgroup agreed to consider: any drafted alternatives, the impacts of the modification on cash flow and costs for impacted DNs and consumers, the Transportation Model in South Wales; and the case for change at the next meeting, with the intention of completing the Workgroup Report. A further provisional meeting on 06 January 2015 was planned in case further work was required on the Workgroup Report before reporting to Panel on 15 January 2015.

4.0 Any Other Business

None.

5.0 Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/Diary

Workgroup meetings will take place as follows:

| Time / Date | Venue | Workgroup Programme |
|-------------------------------------|------------------------------------|--|
| 10:00 Monday 15 December 2014 | 31 Homer Road, Solihull B91 3LT | <ul style="list-style-type: none"> • Draft Alternatives • South Wales Transportation Model • Case for Change • Review of Impacts of Costs and Cashflow |

| | | |
|-------------------------------------|------------------------------------|--|
| | | <ul style="list-style-type: none"> • Completion of Workgroup Report |
| 10:00 Tuesday 06 January 2015 | 31 Homer Road, Solihull B91 3LT | <ul style="list-style-type: none"> • Finalisation of Workgroup Report |

Action Table

| Action Ref | Meeting Date | Minute Ref | Action | Owner | Status Update |
|-------------------|---------------------|-------------------|--|------------------------|----------------------|
| 1001 | 31/10/14 | 2.2 | CW to produce a table of supply assumptions for both option 3 and 4 for each entry point. | National Grid NTS (CW) | Complete |
| 1002 | 31/10/14 | 2.2 | CW to provide information on the positive Entry charges shown under options 3 and 4 at the next meeting. | National Grid NTS (CW) | Complete |
| 1003 | 31/10/14 | 2.2 | CW to include two further options in the options analysis. | National Grid NTS (CW) | Complete |
| 1101 | 25/11/14 | 2.1 | Workgroup to undertake further analysis of the modification impacts for both NTS and DN licencees and the impact of the charges on the allowances. | All | Pending |
| 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) | Pending |
| 1103 | 25/11/14 | 2.2 | National Grid NTS to provide an illustration for the Transportation Model for South Wales | National Grid NTS (CW) | Pending |