

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

Friday 31 October 2014

31 Homer Road, Solihull, B91 3LT

Attendees

Les Jenkins (Chair)	(LJ)	Joint Office
Ian Hollington (Secretary)	(IH)	Joint Office
Colin Hamilton	(CH)	National Grid NTS
Colin Williams	(CW)	National Grid NTS
Debra Hawkin	(DH)	TPA Consultants
Francisco Goncalves	(FG)	Gazprom
Jeff Chandler*	(JCh)	SSE
Julie Cox	(JCo)	Energy UK
Karin Elmhirst	(KE)	National Grid NTS
Laura Butterfield	(LB)	National Grid NTS
Nick Wye	(NW)	Waters Wye
Nigel Sisman	(NS)	Sisman Energy Consultancy
Richard Fairholme	(RF)	E.ON
Richard Pomroy	(RP)	Wales and West Utilities
Ricky Hill*	(RH)	Centrica
Sue Ellwood*	(SE)	Gas Terra
Thomas Dangarembizi	(TD)	National Grid NTS

* *via teleconference*

Copies of all papers are available at: www.gasgovernance.co.uk/0517/311014

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

1.0 Outline of Modification

LJ introduced the modification and explained the timescales following which LB gave an outline of the background and the aspects that had been considered. These focused on the date that the current Merit Order was established and that it was considered reflective of the supply situation at the time but had not been reviewed recently.

LB went on to discuss the proposal which intended to update the Merit Order in line with current trends and advised that the LNG and MRS sources of supply had been the main points / areas analysed.

2.0 Initial Discussion

2.1. Initial Representations

None received.

2.2. General Discussions

RP asked about the order of the items under consideration and LB replied that she believed it was appropriate and placed emphasis on the items that were most affected. RP went on to query the stability of the highest demand days and NW advised that, in their analysis, a range of days had been used, and this had

confirmed that the peak day was appropriate. He noted that this information was available in a published report.

JCo asked about the model taking an arbitrary split from all storage facilities rather than the areas that needed it most. NW answered that there is a bias towards South Hook as this is the main gas provider but he noted that the model does not reflect that going forward, a point which JCo commented was something that needed looking into as she felt that the balance of providers was changing and by following this model charges could become inaccurate. NW discussed this issue citing the difficulties in looking forward over a two to three year period and the high volatility created by too much sub division. JCo agreed but despite NW's belief that the model was at the right level continued to express concerns that it needed improving in this area.

In response to a comment from RH, KE and LB noted that where there are insufficient supplies of LNG, gas has to come from other sources to meet demand not met by nearby LNG.

The four options considered for amending the merit order were discussed with option 3 being put forward as the most appropriate. JC asked about the evidence of the impact of following either option 3 or 4 and whether it could be looked at for current and future scenarios. CW agreed to produce a table of supply assumptions for both option 3 and 4 for each entry point, (mid range, storage and LNG).

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

The workgroup discussed the supply sources used in the model and how reflective they were of the supply sources in practice and the need to keep the scenarios used under review. LJ advised of the need for the Modification to demonstrate a positive effect on the Relevant Charging Objectives to allow it to proceed.

NW reiterated the need for a review of the Merit Order as it has not been looked at for some time. NS agreed that there is a need for a straightforward mechanism in order to keep prices stable as the market does not welcome unpredictability. NW advised that peak flow from the interconnectors was assumed and that process correlated with demand and interconnector supply into the UK.

LJ reminded the meeting that the modification process required the workgroup to assist the Proposer to develop the Modification as presented, and if they believed that there was a better solution to raise an alternative before the Workgroup Report was completed.

CW summed up the discussion as there being a need to look at this in terms of current and short term future demand scenarios with National Grid keeping the situation under review and remaining open to further alterations to the merit order as proved necessary.

JCo agreed that there was a need to explore the possibilities to ensure that a sensible and workable alternative could be put forward. LJ asked if the Proposer wished to come back with an amended modification and CW replied that the intention was to put something in place that was an improvement on the existing system with an acceptance of the possible effect on prices. He agreed to look at providing information on how option 3 had been developed maintaining that it was the preferred solution and the concerns expressed had effects that would be seen only in the long term.

LJ noted that all views will be documented and put to Panel, who will consider any issues raised before determining the next step, which may involve returning the Modification to the workgroup for further consideration before it could be issued to consultation. CW clarified the desire to gain approval before the qualification date

for Charging Statement updates such that the next round of entry auctions include the most appropriate prices.

JCo asked about the entry charges which under both options 3 and 4 were nearly all positive and CW agreed to provide a reply with evidence to the next meeting.

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

JCo asked if an option 5 could be looked at which took into account beach terminals and everything else, excluding short range storage, and an option 6 which took into account beach terminals and Long Range Storage (LRS) with everything else excluding Short Range Storage

CW agreed to include these in the options analysis.

If time allows CW also agreed to provide information on future indicatives.

New Action: 1003 CW to include two further options in the options analysis.

RP voiced concerns over volatility being reflected in the model due to its effect on cash flow and consequentially on prices to Wales and West Utilities' customers. CW advised that the change made in April 2013 was in order to try and reduce volatility, with the group then discussing the timetable of setting charges and CW confirmed that the timescales were set out in National Grid's licence.

3.0 Next Steps

LJ led a discussion on the timeline and it was decided that a meeting would be required in December. The 5th was proposed as this would enable the Modification to be tabled at the December Panel meeting. This meant that the deadline for receipt of an alternative Modification would also be 5th December. After further consideration of the timeline it was decided instead to present the Modification at the January Panel and for the next meetings to be held on 25 November and 15 December 2014.

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 Tuesday 25 November 2014	31 Homer Road, Solihull B91 3LT	<ul style="list-style-type: none"> • Amended Modification • Consideration of Business Rules • Consideration of User Pays • Review of Impacts and Costs • Review of Relevant Objectives • Consideration of Wider Industry Impacts • Consideration of Legal Text • Development of Workgroup Report

10:00 Monday 15 December 2014	31 Homer Road, Solihull B91 3LT	<ul style="list-style-type: none"> To be confirmed
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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)	Pending
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)	Pending
1003	31/10/14	2.2	CW to include two further options in the options analysis.	National Grid NTS (CW)	Pending