

Minutes Review Group 0329

Review of Industry Charging and Contractual Arrangements – DM Supply Point Offtake Rates (shqs) and DM Supply Point Capacity (soqs)

Monday 10 January 2011

at the ENA, 6th Floor, Dean Bradley House,
52 Horseferry Road, London. SW1P 2AF.

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Alison Meldum	(AM)	TATA
Denis Aitchison	(DA)	Consultant representing SGN
Eddie Proffitt	(EP)	Major Energy Users Council
Joanna Ferguson	(JF)	Northern Gas Networks
Joel Martin	(JM)	Scotia Gas Networks
Jonathan Wisdom	(JW)	RWE npower
Phil Broom	(PB)	GdF Suez
Phil Lucas	(PL)	National Grid Distribution
Steve Brown	(SB)	Ofgem
Steve Ganney*	(SG)	xoserve

1. Introduction and Status Review

1.1. Minutes from previous meeting

The minutes from the previous meeting were approved.

1.2. Review of action from previous meeting

Action 0329/003: All to consider UNCG5.5.3 Referral Spreadsheet to be reviewed and consideration given to the referral process.

Update: PL confirmed that no additional feedback had been provided since the original release. **Closed**

Action 0329/004: All to consider alternative options on how to incentivise the provision of accurate SHQs.

Update: Please refer to item 2.0 below. **Closed**

Action 0329/005: Transporters to provide a post-meeting note to confirm whom has access to the data provision provided on the bulletin board.

Update: PL confirmed that the bulletin board data provision is still available and shippers can access hourly data, posted every 4 hours. JM added that SGN provide equivalent information via email. **Closed**

Action 0329/006: JM to assess the feasibility of producing SHQ usage reports on all DM sites to the relevant Shippers.

Update: JM advised that he is procuring a report (by shipper) that should indicate the highest/lowest actual hourly consumption (SOQ) per site. When asked, JM indicated he would look into whether or not, 'contracted consumption' information could also be provided. He anticipates contacting shippers to discuss in more detail in due course. TD suggested that the Networks might like to consider providing a full suite of related information to avoid undue enquiries.

Carried Forward

Action 0329/007: Transporters to write to Shippers to address SHQs that are currently out of sync.

Update: Similar to action 006 above, JM anticipates contacting shippers to discuss requirements in more detail in due course. JF and PL confirmed their position was similar, with contact to be made when full data is available.

Carried Forward

2. Potential changes to UNC rules governing the setting of SOQs / SHQs

Copies of all papers are at www.gasgovernance.co.uk/0329/100111.

2.1. MOD 329 – Analysis & Potential Changes presentation

JM presented on behalf of SGN, the main discussion points being:

Slide 3 – Potential changes to the UNC Rules governing the setting of SOQs & SHQs

JM remarked that he is uncertain as to why there is a need for differentiation of the NTS Supply Point Component.

Slide 6 – Potential changes to the UNC Rules governing the setting of SOQs & SHQs – current rules 3

When asked about whether or not potential changes could be seen to disadvantage customers, EP raised his concerns about significant changes which removed existing rights and/or substantially increased costs. Supporting this, AM indicated that SHQs provide an element of security (i.e. flexibility to 'ramp up' when required) and as a consequence, she too would struggle to support a change to the current charging regime. In response, JM suggested that there is a cost associated with the provision of flexibility, especially on an hourly basis, to the larger users. DA added that, in essence, it boils down to the question of whether or not we are apportioning costs accurately and fairly across users.

EP went on to criticise the apparent lack of dialogue between the various participants (Networks/shipper/suppliers/customers), believing that sensible conversations could address data uncertainties. SB suggested that any proposed change to the current charging regime which promotes improvements in the communications between parties, should be seen as beneficial. He went on to add that as part of the CAPEX re-opener deliberations the Authority had considered the potential impact on all users, regardless of their size. The primary aim was to work towards a

cost reflective charging regime. Furthermore, he believed that the majority of customers would be financially better off as a consequence of the proposed regime change.

PB felt that it would be better to examine analysis of the within day shape changes over various time periods to 'tease out' potential root causes. DA acknowledged that bi-lateral discussions may be preferable to charging changes which in themselves, must not be unduly discriminatory.

EP went on to suggest that recent capacity 'tensions' stem from the Networks taking on other loads to the system, which is having a knock on effect on existing customers. In response, DA pointed out that whilst some customers would witness an increase in their charges as a result of the outlined changes, others would see a reduction. AM suggested that undertaking a desk study may be a viable alternative to changing charges. TD suggested that outstanding action RG0329 007 is largely that desk exercise.

JW pointed out that he is in constant dialogue with his customers and would also welcome a desk exercise as an initial solution. PB added that he too has a vested interest, as ultimately it is his responsibility to explain any charging changes to his customers. In his opinion it is the potential introduction of an additional 'layer' to the charging process that is of most concern and would like to see further justification before this is taken further.

Slide 7 – Potential changes to the UNC Rules governing the setting of SOQs & SHQs – current rules 4

SB suggested that, in the NDM sector, the AQ review process has the ability to (indirectly) provide information that enables parties to manage their respective SOQs. However, in the DM sector there is no such mechanism. PL also pointed out that, under the UNC, users are obliged to provide information on any increases/decreases in their AQs.

Slide 9 – The current UNC SOQ Ratchet Regime 2

JM remarked that the second bullet does not necessarily reflect any network maintenance related issues. EP suggested that excluding the June to September period could have a significant bearing on the figures produced.

Slide 10 – DN to Shipper (suggested) SHQ Amendment Process – for discussion

JM suggested reviewing the information with a view to providing feedback at the next meeting. He went on to add that this builds upon their (SGN's) previous presentation and is not necessarily suggesting a form of bottom-stop review.

Exclusion of the 'summer window' was discussed with SB suggesting that this could potentially skew the results. EP suggested that inclusion of the

summer figures should be supplemented by the addition of overall figures. He went on to suggest that customers are reluctant to give up their capacity and doubts if a change in the pricing elements would drive a change in their behaviour. SB advised that how best to incentivise behaviours via investment signals is being considered.

In addition to consensus that an immediate desk exercise would be worthwhile, it was felt that this process could become a regular review. SB suggested that provision of the potential timescales involved would be beneficial to moving this matter forward, especially identification of when any proposed 'window' would close.

There was some debate around whether the suggested desk exercise based approach could be incorporated within the UNC. TD suggested that could work by placing an obligation on the Transporters to undertake a review – a view supported by SB, as this would provide a means to incentivise the Transporters to not forget to progress matters one year to the next. He would have concerns surrounding adoption of any open-ended approach that would not provide sufficient incentives. TD noted that the more 'codified' you make the solution, the more rigid it becomes, and a balanced approach should be sought. SB added that as interruptible loads 'drop off' the system over time, more system flexibility may become available.

JM then agreed to look into the approach in more detail and invited others to provide their views at the next meeting.

2.2. MOD 329 – SHQ Charging Proposals

DA opened the second part of the presentation on behalf of SGN and advised that all the DNs had been involved in the development of the proposed options. Moving on, he pointed out that options 1 & 2 attempt to adjust the SOQ based charges to reflect SHQ variations.

Option 1

DA provided a brief overview of this option suggesting that on first acquaintance, this may appear slightly counter-intuitive. When asked if the percentage differences were based on the total charges, DA advised that these figures relate to the capacity charge elements only. TD noted that this option would incentivise users to not overstate their SHQs.

Option 2

DA pointed out that this option demonstrates a more 'peaky' relationship between SHQs and SOQs.

Looking at the adjustment percentage DA indicated that this could be any arbitrary figure but, for this example, 25% was selected. In practice, different percentages could be applied at a network level in order to reflect network specific conditions.

SB noted that the apparent jump between 10.9% and 28.8% in the example provided could be seen to incentivise parties to react appropriately - a flatter profile may not. He also felt that the level of transparency surrounding the setting of appropriate, and different, percentages in each DN would be of paramount importance, with a trade-off between flexibility and cost-reflectivity.

JM pointed out that the Wales & West Utilities DM/NDM Elective modification proposal could possibly impact on the view of SHQs and SOQs going forward.

Option 3

DA suggested that this would be a more radical solution.

EP suggested that the example was fundamentally flawed. He questioned the sense of a regime whereby charges are allocated on hourly figures but applied on a day basis, with daily balancing. SB suggested that this reflects the physical effect of site usage on an hourly basis, but 'smoothed out' over a whole day - it boils down to not driving network investment based on inaccurate information.

When asked, DA confirmed that further consideration is being given to the site SHQ/SOQ ratios, especially for DM sites. He went on to suggest that you could adopt an approach whereby you would have charges based on the total collectable revenue and seek to review these annually.

Again responding to a question about the potential for ratcheting charges within option 3, DA indicated that analysis could be undertaken on an hourly basis as this would work towards avoiding everyone opting for the 1:24th band, although it would be down to xoserve to analyse and police this.

In summing up the presentation, DA suggested that option 2 might be preferred as it provides the basis for including the SHQ factor within the charges, although considerable debate surrounding the adjustment percentage setting requirements would be required.

TD reminded those present that in previous meetings parties had wondered if these, or similar proposals, could also filter down into the NDM market sector as well, especially considering the ongoing work in AMR/Smart Metering areas. In response, SB suggested that until we start recording readings on an hourly basis (especially for larger NDMs), this would be difficult to achieve.

In closing, AM indicated that she would like to know what WWU make of the proposed options whilst EP indicated that he would like more detail providing on the adjustment percentages and the relationship between the complexity and provision of a flexible solution.

New Action RG0329 008: All to consider the potential changes to the UNC Rules governing the submission of SHQ's, including the

Transportation Price Incentive solution and provide feedback at the next meeting.

3. AOB

None.

4. Diary Planning for Review Group

The next meeting will take place at 10:30 on 14 February 2011 at the ENA, 52 Horseferry Road, London. SW1P 2AF.

Review Group 0392 Action Log:

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0392 0003	21/10/10	2.1	UNCG5.5.3 Referral Spreadsheet to be reviewed and consideration given to the referral process.	All	Update provided. Closed
RG0392 0004	21/10/10	2.2	All to consider alternative options on how to incentive the provision of accurate SHQs.	All	Update provided. Closed
RG0392 0005	23/11/10	2.0	Transporters to provide a post meeting note to confirm whom has access to the data provision provided on the bulletin board.	Transporters	Update provided. Closed
RG0392 0006	23/11/10	2.0	JM to assess the feasibility of producing SHQ usage reports on all DM sites for the relevant Shippers.	Scotia Gas Networks (JM)	Pending
RG0392 0007	23/11/10	2.0	Transporters to write to Shippers to address SHQs that are currently out of sync.	Transporters	Pending
RG0392 0008	10/01/11	2.0	Consider the possible changes to the UNC Rules governing the submission of SHQs, including the Transportation Price Incentive solution and provide feedback at the next meeting.	All	Update due at February meeting.