

## Minutes Review Group 0329

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

Monday 14 February 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
Brian Durber	(BD)	E.ON UK
Denis Aitchison	(DA)	Consultant representing SGN
Joel Martin	(JM)	Scotia Gas Networks
Jonathan Wisdom	(JW)	RWE npower
Phil Lucas	(PL)	National Grid Distribution
Steve Armstrong	(SA)	National Grid Distribution
Steve Brown	(SB)	Ofgem
Steve Mulinganie	(SM)	Gazprom
Simon Trivella	(ST)	Wales & West Utilities

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

**Update:** JM advised that he had encountered difficulties in obtaining the information required for the report from his DM Service Provider and work is ongoing. When asked, the other DNs indicated a similar position to SGN but anticipate having the information in time for the next meeting.

**Carried Forward**

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

**Update:** Related to 006 above, JM advised that he is awaiting information before proceeding.

**Carried Forward**

**Action 0329/008:** All to 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.

**Update:** Covered under agenda item 2.1.

**Closed**

## **2. Further Consideration of the potential changes to UNC rules governing the setting of SOQs / SHQs**

*Copies of all the materials are at: <http://www.gasgovernance.co.uk/0329/140211>.*

### **2.1. UNC Rules governing the submission of SHQs**

JM indicated that he anticipates raising a 'light touch' modification to support a review process. SB enquired if the timeline might usefully mirror the current annual AQ process. JW suggested that this may not be the best option for Shippers, but suggested working to a timetable that would allow the networks to review their investment requirements in a timely fashion.

Moving on, JM suggested that SHQ 'spikes' are less of a concern than underlying trends. ST questioned why the Transporters were getting involved if customers are not breaching their SHQs, especially as Shippers are aware of maximum SHQs. SB suggested that the question boils down to concerns surrounding the potential to overbook capacity and how the DNs demonstrate that investment is efficient.

When asked, JM confirmed that his intention in any modification would be to focus on winter hourly consumption data provision. However, he went on to state that a one off 'out of parameter SHQ' exercise may be needed. BD added that provision of maximum SHQ information along with identification of maximum/minimum triggers would be beneficial.

SM pointed out that DME hourly data availability remains a concern. In response, ST suggested the proposal relates to the DM Mandatory (DMM) process, rather than DM Elective (DME) or DM Voluntary (DMV). Both JM and ST suggested that focusing primarily on the DMM sites would ensure that any solution is proportionate – a view that met with support of the Shipper representatives present. SB voiced concern that if the Transporters are proposing to treat DMM, DME & DMV differently they will need to ensure that they can justify this. In particular, this may need further consideration with regard to the potential impact of geographically sensitive high SHQ loads potentially triggering inappropriate network investment(s).

When asked how many DMM sites are involved, ST advised that it's in the region of 500. He pointed out that all the DMV sites demand equates to only 3.9% of the national network demand. It was agreed to target predominately DMM sites with a caveat that Transporters could add 'other' sites if deemed appropriate. SB suggested that if the DNs could demonstrate as part of the proposal that they are not expecting to incur any additional CAPEX expenditure with the suggested coverage, then this could be sufficient.

SM felt that provision of a twelve-month block of historical hourly SHQ information would assist his Contract Managers during discussions with their customers – and this would be especially helpful in reviewing SHQs. BD suggested that where customers use only a percentage of their contracted SHQ, explaining that this may lead a network to interrupt them

earlier than otherwise in the event of an emergency provides a reason and incentive to review their SHQs.

When asked if he had sufficient information with which to draft a modification for consideration at the next meeting, JM responded positively and indicated that he would be proposing an April/May/June timetable for the SHQ review. PL remarked that the timing of the availability of the data would heavily influence the timeline. TD identified that it is already too late for any modification to reach fruition in 2011, so the aim should be for a 2012 implementation, which gives sufficient time to consider requirements in more detail.

JM added that he would also potentially be looking at the modification separating out any obligations for decreasing SHQs.

**New Action RG0329/009: Scotia Gas Network (JM) to prepare a draft modification to introduce a SHQ review process.**

## 2.2. Transportation Price Incentive

*The SHQ Charging spreadsheet model is available at: [www.gasgovernance.co.uk/0329/100111](http://www.gasgovernance.co.uk/0329/100111).*

DA repeated the analysis presented at the previous meeting, highlighting that this is not about the DNs collecting more money but focuses on the appropriate redistribution of charges.

In considering option 2, SA noted that it is aimed at maintaining the relationship between SHQ and SOQ and thereafter applies a percentage 'factor' to try and reflect how large a CAPEX influence the SHQ is having. As you go up the pressure tiers, the SOQ becomes the more dominant factor. However, it should be noted that if the percentage figure utilised is >70%, some perverse figures may be generated. A percentage figure of 25 was in the published example to seek to match the data in option 1 as closely as possible and enable meaningful comparison.

In response to a concern surrounding geographical variations, DA suggested that any methodology change was likely to be developed on a network-by-network basis, supported by some form of cost based rationale. SM observed that European Markets are moving away from a granular approach towards a broader market view, whereas the UK appears to be going the other way - seeking more and more detail.

Asked if they would support a monitor and review approach before committing to further developments based around these charging options, both the Shippers and Transporters agreed they would. DA added that he would be happy to keep these possibilities in reserve.

SB noted that Ofgem necessarily consider any modification on its own merits. Provided the DNs can justify their CAPEX positions, he could envisage this solution being a positive step (i.e. proportionate and fit for purpose).

When asked if the modification would fall under User Pays, ST responded that the networks would expect to include the costs of providing the service under their DM Service Provision, although the current 'tariff cap' would presently prevent any price increase. This will need further discussions with Ofgem in due course.

### **3. DN Transportation Charges & Recovery**

JM noted there was an outstanding requirement to consider the process for decreasing DM SHQ/SOQ and the possible removal of the bottom-stop. ST suggested that a potential approach would be to remove the BSSOQ restriction, and remove the restriction on times when SOQs can be reduced. He would welcome further discussions on this at the next meeting. SB enquired if there was a suggestion that this could cause more GDN under/over recovery within year. ST pointed out that the DM proportion of Allowed Revenue is only around 3% and hence this should not be a big issue.

**New Action RG0329/010: DNs (ST) to present a possible way forward on the SOQ reduction process.**

### **4. AOB**

None.

### **5. Diary Planning for Review Group**

TD suggested that the following items are placed on the agenda of the next meeting, as follows:

- Consideration of decreasing DM SHQ/SOQ & removal of bottom-stop restrictions;
- Consideration of draft UNC modification proposal(s), and
- Preparation of draft Workgroup Report.

It was agreed that the next meeting take place on Monday 11 April 2011.

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**Review Group 0329 Action Log:**

<b>Action Ref</b>	<b>Meeting Date</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
RG0329 0006	23/11/10	2.	JM to assess the feasibility of producing SHQ usage reports on all DM sites for the relevant Shippers.	Scotia Gas Networks (JM)	<b>Pending</b>
RG0329 0007	23/11/10	2.	Transporters to write to Shippers to address SHQs that are currently out of sync.	Transporters	<b>Pending</b>
RG0329 0008	10/01/11	2.	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 provided. <b>Closed</b>
RG0329 0009	14/02/11	2.1	Prepare a draft modification to introduce a SHQ review process.	SGN (JM)	To be published by 1 April.
RG0329 0010	14/02/11	3.	Present a possible way forward on the SOQ reduction process.	DNs (ST)	To be published by 1 April.