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

Review Group 0329 Minutes

Tuesday 23 November 2010

at 31 Homer Road, Solihull, B91 3LT

Attendees

Tim Davis (Chair)	TD Joint Office
Helen Cuin (Secretary)	HC Joint Office
Alan Raper	AR National Grid Distribution
Brian Durber	BD EON UK
Denis Aitchison	DA Scotia Gas Networks
Jemma Woolston	JWo Shell Gas Direct
Joanna Ferguson	JF Northern Gas Networks
Joel Martin	JM Scotia Gas Networks
Jonathan Wisdom	JW RWE npower
Simon Trivella	ST Wales & West Utilities
Steve Brown	SB Ofgem
Steve Mulinganie	SM Gazprom

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 0329/001: Ascertain how notifications of changes to Offtake Rate are held and used.

Update: JM summarised the process, with the information being entered into network models rather than being held within UKLink. SB asked if there was any provision for the DNs to record extreme NDM cases, and JM confirmed that individual NDM SHQ are stored in UK Link. SM suggested that there is no direct requirement to hold the hourly rate and there is no link back to shippers that uses the information. JM added that there is a linkage between siteworks and the network analysis model for the SHQ. It was noted that while there is a UNC requirement for registered users to report relatively significant increases in the maximum hourly rate, the UNC does not require any action to be with respect to the information. It was also suggested that Users might not be aware of the allocated SHQ, especially following a change of supplier. SB expressed concern about demand forecasting and network investment since inaccurate SHQs may lead to networks being sized larger than is actually required. **Complete.**

Action 0329/002: Joint Office to invite Ofgem to attend meeting 3 to present their concerns and views on SHQ incentives.

Update: Steve Brown attended for Ofgem. **Complete.**

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

Update: Attendees had no follow up issues to raise. **Closed.**

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

Update: Suggestions were raised during the meeting. **Carried Forward.**

2. Review Group Discussion

JM provided a presentation on the current UNC DM supply point requirements. He briefly summarised the introduction of UNC0275 to allow capacity reductions. The current UNC rules ensure that SOQ/SHQ changes with a greater than 16x relationship will result in an automatic referral to the network. The values may still be accepted following enquiries after the referral, depending on the circumstances in each case.

BD suggested that some unusual load patterns might be legitimate, such as burning gas to test engines, which may lead to almost all the maximum capacity being offtaken in a single hour. JM explained that this would be accepted and the pattern across the day is taken into account for network planning purposes.

JM highlighted some examples of current discrepancies between contracted and observed SHQ. He suggested such inconsistencies should be addressed for both safety reasons and efficient allocation of capacity. SM enquired about the specific safety issues, and BD suggested that the network upstream might be starved. It was clarified that higher contractual SHQ (with a low actual SHQ) could be regarded as hoarding capacity, leading to potential network over-investment. A high actual SHQ (with a low contracted SHQ) is a potential safety issue if network planning is based on the contractual value.

SB surmised that the examples demonstrated that the regime to control SHQs is not working and that SHQs are not being managed properly. SB was concerned that this could have a significant effect; incorrect SHQs could be leading DNs to make inappropriate decisions, and these ultimately create risks or unnecessary costs for customers.

It was questioned whether failure to book appropriate SHQs could lead to sites paying charges below the cost reflective level. JM explained that SOQ should drive SHQ. However, SOQs are used for pricing and the SHQs are used for planning. SM argued that some sites may choose to retain a high SOQ, and pay associated charges, because they wished to retain the option of increasing gas usage.

SB accepted that there may be cases where the disparity between SOQ and SHQ bookings are intentional, and there is nothing wrong with this so long as UNC rules are followed and the system costs incurred are reflected in charges

paid. However, SB was also concerned that un-necessarily holding onto capacity may restrict other sites gaining access to capacity due to network constraints, and this could be inequitable. He evinced that higher than required SHQs impact on networks planning decisions, and it is especially important if additional capacity is needed by others. Such customers may not be sufficiently exposed to the costs of reserving high SHQs.

ST highlighted that the example demonstrated in JM's presentation suggested that observed behaviour would create issues for planning, and outlined a real WWU example whereby investment had been avoided through identifying that a customer's SHQ was above the level required. SM asked if the example within the presentation could include the SOQ for each site – this would help all to better understand the high/low SHQs. Shippers generally supported this view, feeling SOQ information was necessary to determine to impact of under/over SHQ offtake, especially given that charges are SOQ based. ST believed that adding the SOQ data would do little more than reveal winners and losers without informing the underlying issue of non-representative SHQs.

It was highlighted that the example provided illustrated that there is a potentially a breach of contract. SB suggested that this needs to be looked at in order to determine what a reasonable solution would be. TD suggested there may be two diametrically opposed options: to conclude that SHQs are unimportant and stop collecting the information, relying on other planning approaches; or to recognise the importance of SHQs and make the regime work such that accurate data is available.

JM highlighted that part of problem is that the hourly information is not readily available to Shippers such that they cannot identify and rectify issues.

SM asked if DNs could provide a view of the aggregate effect in terms of volume, which would help understanding of the materiality. JM explained that volumes may not demonstrate materiality – for example, changes to loads on network extremities in Scotland may have a material impact on investment even if the volume involved looks small on a wider scale. However, SM explained that he wanted to understand the materiality of the issue to help understand and measure the cost of change - he did not want customers to be penalised.

JW asked if there were any examples of Shipper contact and/or cases where action had been taken against a customer. ST briefly explained a case where a customer had to be contacted in a different context, and suggested the subsequent SHQ change had meant that a potential investment of approximately £3m was no longer under consideration.

SB asked about the assumptions DNs would make during a pressure survey, particularly if a site were offtaking more gas than its SHQ during this pressure test. ST explained that DNs would account for the offtake within the model, but SB highlighted that DN assumptions could therefore result in an exaggerated statement of demand and consequently potential over-investment. JW believed that a simple phone call to the Shipper in these cases might explain any unexpected offtake rates.

SM suggested that there is a natural limit on the meter capacity and this would ultimately provide a constraint to SHQ offtake rates. However TD challenged that if meter capacities are used as the ultimate system constraint, the DNs may want to invest to the size of meters, which could be very costly. SB also explained that meters are only made in certain sizes so a meter's capacity could be higher than the contractual SHQ or even that meters can be driven to operate incorrectly outside their design parameters/specifications (Q_{nom}/Q_{max}).

Shippers confirmed that, despite the DNs explaining the planning process, they were yet to be convinced about the importance of accurate SHQs. The Transporters explained how reductions could prevent the need for investment and ultimately save costs for customers. ST explained that DNs have to plan around the best indication of gas that customers are likely to be taking at any time.

Discussion moved to how to incentivise customers to have the right SHQ, especially when the SHQ currently does not directly affect charges. BD challenged if, given the DN explanation of investment drivers, charging should be based on SHQ rather than SOQ. SB suspected that such a change would be extensive and therefore possibly high cost solution and, as such, unlikely to be justified.

DA indicated that the DNs had been looking at the use of parameters and ratios to create a link between SHQ and SOQ in the charging methodology. This might provide sufficient incentive to remove the most extreme mismatches between booked and observed SHQs. DA suggested that such ratios could lead to increased cost reflectively due to imposing higher (or lower) charges to sites with SHQs far away from (in line with) observed offtake rates. JW expressed concern about the costs of introducing any such change. SB felt that any assessment might usefully look at the impact of changing the existing UNC ratios as well as looking at differing mechanisms for charging. This could include SHQ/SOQ ratios tighter than the current 4 to 16 range, increased referral ranges and provision to re-visit the ratios more frequently than solely at nomination/confirmation as at present.

ST expressed concern about forcing sites to comply with a fixed range of ratios, which could fail to accurately affect the true pattern of gas usage. He saw merit in any ratios being accepted from 1 to 24 - ultimately he would prefer accurate SHQ and SOQs and a cost reflective charging mechanism such that those booking either SHQ or SOQ faced appropriate price signals.

SM suggested that if a Transporter passed details to the Shipper of unexpected ratios at any site, technology is available to monitor the site with a view to discovering the truth. AR explained that the problem is not about measuring, it is how to get the real numbers recorded. SM said he was particularly concerned about over use - Shippers have contractual obligations and would want to investigate this if made aware. Given this, he suggested Transporters report believed discrepancies to Shippers to investigate and address. While he would welcome a report on a regular basis, an initial data cleansing exercise seemed appropriate. JF suggested agreeing a limit on the scope of the report, for example reporting differences of more than 20%.

It was acknowledged that the SHQ is used for day-to-day network operation and for investment. BD asked if Transporters are able to indicate the potential national cost if investment was based on reality such that the benefits of any change could be assessed. It was suggested that this was not feasible since circumstances varied and true intentions are unknown, but overstatement by one site might typically create a £2/3m investment.

SB asked if the group had any initial views on incentives. A ratchet regime was suggested, whereby if the SHQ was not accurate there could be a process to correct this and encourage accurate data maintenance. SM suggested consideration could be given to a process which directly incentivises the correct SHQ in preference to any ratchets.

SB suggested there could be a two-stage approach. The first stage would seek to address current SHQ breaches - using the current rules to address and rectify cases where the contracted SHQ is too low. The second stage, for sites with usage below the contractual figure, would be to seek to resolve the issue by looking at what other rules and incentives may be appropriate.

It was suggested Transporters could prioritise sites where the SHQ/SOQ ratio has drifted outside 1:4. However, it was also re-iterated that potentially any ratio between SHQ and SOQ could be acceptable if a customer wishes to hold and be exposed to the costs of providing that capacity.

JM felt it would be relatively simple to report to Shippers actual usage against contracted SHQ at each site over a period. JM confirmed that SGN already produce within day information and make it available via their reporting systems.

AR questioned whether, if the industry could demonstrate that (apart from explainable exceptions) SHQs are accurate, and could then demonstrate that consideration would be given to identifying and resolving future anomalies, would this satisfy Ofgem?

SB said he would welcome any equitable proposed process or incentive that drove efficient and effective network investment. However, it would remain for DNs to justify their charging structures to meet their licence obligations and to ensure that their investment is economic and efficient. While the Group had focussed on DM issues, the DNs would need to demonstrate this by taking into account NDM loads as well as DM loads.

It was agreed that Transporters would write to Shippers to address SHQs that are currently out of sync. Shippers welcomed starting work on these sites to test the approach and see if the approach could make a demonstrable difference.

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

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

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

3. AOB

None.

4. Diary Planning for Review Group

The next meeting will take place at 10:30 on 13 December 2010 at ENA, 52 Horseferry Road, London, SW1P 2AF.

It was agreed that the Review Group would examine identified issues and consider potential solutions, over a number of meetings as below.

Meeting 4: 13 December 2010 - Potential changes to UNC rules governing the setting of SOQs / SHQs. To include:-

- the current SOQ / SHQ relationship (G 5.4.1).
- the current SOQ Ratchet regime.
- Bottom Stop SOQ
- Data availability and provision to support change
- Potential changes to network planning to address identified issues

Meeting 5: January 2011 - Impact on DN Transportation charges and recovery of such charges in relation to any changes to the SPOR / SPC regime (including the move to 100% capacity and its implications (if any))

Meeting 6/7: February/March 2011 –

Meeting 8: April 2011 – Conclude Review Group Report.

Review Group 0392 Action Log:

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0392 0001	21/09/10	3.0	Ascertain how notifications of changes to Offtake Rate are held and used	SGN (JM)	Complete
RG0392 0002	21/09/10	4.0	Invite Ofgem to attend meeting 3 to present their concerns and views on SHQ incentives.	JO (BF)	Complete
RG0392 0003	21/10/10	2.1	UNCG5.5.3 Referral Spreadsheet to be reviewed and consideration given to the referral process.	All	Carried Forward
RG0392 0004	21/10/10	2.2	All to consider alternative options on how to incentivise the provision of accurate SHQs.	All	Carried Forward
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	Pending
RG0392 0006	23/11/10	2.0	JM to assess the feasibility of producing SHQ usage reports on all DM sites to 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