

Workgroup 0356 - Meeting 1

Minutes

Tuesday 08 February 2011

Energy Networks Association, Dean Bradley House,
52 Horseferry Road, London SW1P 2AF

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Asma Jalal	(AJ)	Centrica
Charles Ruffell	(CR)	RWE npower
Debra Hawkin	(DH)	National Grid NTS
Denis Aitchison	(DA)	Consultant representing SGN
Eddie Blackburn	(EB)	National Grid NTS
Graham Jack	(GJ)	Centrica
Jacopo Vignola	(JV)	Centrica Storage Ltd
James Thomson	(JT)	Ofgem
Julie Cox	(JC)	AEP
Rekha Theaker	(RT)	Waters Wye Associates
Richard Hounstlea	(RH)	National Grid NTS
Will Guest	(WG)	Northern Gas Networks

1. Introduction and Explanation of Workgroup Operation

Copies of all papers are available at www.gasgovernance.co.uk/0356/080211.

TD welcomed attendees to the meeting and explained the purpose and operation of the Workgroup.

2. Outline of Modification 0356 – Demand Data for the NTS Exit (Flat) Capacity Charges Methodology, and Assessment of Options

EB repeated the presentation made at the January NTSCMF Workgroup, reiterating that the current methodology is no longer workable since it does not recognise the possibility of assumed demand exceeding supply. The issue was the need to raise the modelled supply or reduce the modelled demand to revert to achieving a match. While consultation GCD09 generated suggestions that other issues should also be considered since they may help to achieve a balance, EB suggested that the methodology should be modified to ensure that it would work in all circumstances.

It was noted that capacity reductions may reduce the level of booked capacity. However, EB emphasised that this will not reduce the obligated capacity level (baseline plus incremental), and that is what the methodology specifies is to be modelled. JCx suggested Exit Substitution may reduce the baseline, especially beyond 2012. EB accepted that, depending on the exchange rate, substitution could reduce obligated levels but felt this was unlikely to have any impact over the next two years.

While some suggested that baselines were the problem and might usefully be revisited, there was consensus that this was not within scope and that the problem could not just be ignored.

EB then outlined the main points of the modification as proposed. EB confirmed to GJ that using undiversified peak demand was consistent with system planning assumptions. JCx observed that in the Significant Code Review (SCR) consideration was being given to putting in more demand side measures earlier in the process and was consequently concerned that this might not be representative of peak demand going forward.

Referring to the proposed capacity assumptions for different load types, GJ commented that it seemed odd that the categories would be treated differently. Responding to a question from TD regarding potentially undue discrimination, EB explained the various reasons for proposing to treat sites in different ways. JCx believed there should be a consistent approach and did not agree that they were different entities and should receive different treatment. EB reiterated that the data items referred to in the proposed modification were deemed the most appropriate in National Grid NTS' opinion. Others were at liberty to propose alternatives if they did not hold the same view.

Shipper representatives confirmed their preference for consistent treatment of all offtakes and suggested a strong case would need to be made to justify why different treatments should be applied, which JT supported. RT suggested a full explanation of the proposed National Grid approach would be helpful, identifying how and why peak demand was to be defined for each category.

EB pointed out the uncertainty surrounding any forecast of peak demand for NTS connected loads. TD commented that the issues surrounding forecasts had been cited as a key reason for not using them, and EB agreed this was a justification for modelling based on the obligated level. JCx stressed that, for various reasons, not all CCGTs would be expected to be operating in line with their baseline capacity on a peak demand day. GJ believed that using obligated capacity might be problematic as well – baseline reductions do take place, with Moffat being an example. JCx suggested charges could be based on network capability rather than connected load, and noted that EU regulations appear to be favouring this approach.

EB said that the current methodology assumes modelling based on 1-in-20 peak day demand. The problem with models based on technical capability/capacity at an exit point is that there is no unique method of assessing this. The costs of the entire network need to be allocated in some way and the methodology is trying to address this. Baselines are broadly reflective of network conditions and demands, but what is the actual technical capability? Commercially, a number has been made available but that does not equate with the physical reality.

RT asked Ofgem if, given the extent of distributional impacts resulting from the various alternatives, and the commercial impact (for example through user commitment implications), whether an Impact Assessment (IA) would be undertaken ahead of any decision. JT did not believe this would be practical given the suggested timeline, which was seeking an outcome by 1 May 2011. RT expressed disappointment, adding that the User Commitment implications were a concern for customers. TD suggested that adherence to a timeline within a modification did not seem a good reason to discount undertaking an IA if Ofgem felt it was merited otherwise.

In discussion regarding the timeline, DH pointed out that indicative prices would have to be issued on 1 May based on something other than the existing methodology, which simply does not work. An element of judgement could be used but National Grid would prefer to have an approved methodology in place

such that indicative charges were more likely to be representative of the final position. Given progress so far, EB acknowledged that it was very likely that National Grid NTS would be setting indicative charges before the Modification 0356 process has been concluded, and therefore there would be time available for Ofgem to conduct an IA should they believe this to be appropriate. JT indicated that, given this, he would expect an IA to be undertaken.

JCx asked about the scale of demand supply mismatch within the existing methodology. RH believed it to be around 200GWh a day. JCx then suggested preparing indicative prices using existing data rather than on something completely different. EB pointed out the charge for a new product was required – no current price exists that could be rolled forward. He added that actual charges did not need to be set until 01 August 2012 (at the latest), with indicative charges again being required in May 2012. JCx noted that indicative charges set the User Commitment amount, and the 4 year User Commitment was a key tenet of exit reform. It would be preferable to ensure the methodology is robust given its impact rather than rushing into a solution ahead of May 2011. When the mismatch is relatively small (200Gwh), a complete change of direction should not be adopted lightly.

TD summarised that there appeared to be nervousness about using forecast numbers and also about discrimination, and asked those present if there were any alternatives that could be considered.

The geographic impact of the modification over 2012/2013/2014 was illustrated with various graphs. JCx asked, if Moffat was reduced to a physical capacity number what would be the difference. RH thought it was a fairly small difference and JCx observed that it might almost fill the gap if this one change was adopted.

Reviewing the Scottish numbers TD observed that there appeared to be a big switch with a small methodology change and that this did not 'feel right' – it was counterintuitive to see such a big swing. BE explained that this reflected the direction of assumed flow – the model switches to assuming flows travel a relatively short distance from the North rather than the area being supplied from more southerly entry points. JCx opined that more stability was needed in exit charges and time should be taken to establish this.

EB suggested an aim should be to establish a stable forecast, whether based on obligated or other capacity levels. JCx did not believe that many directly connected loads will take the obligated level, so there may be another approach that would be more cost reflective. JCx added that 'Two Shifting' among CCGTs would become more common going forward, and that running at 60 or 70% of capacity might reasonably be assumed.

TD asked whether December 2010 data could be used as an indicator of peak demand for modelling purposes. This had been the coldest December for over 50 years - six of the ten days with the highest gas demand had been seen. As such, this might be a reasonable guide to likely demand in a 1:20 situation, and would avoid the need to use forecasts or assumptions since actuals could be observed.

It was agreed that National Grid NTS would:

- 1) Model charges using as demand the highest daily offtake at each exit point on any day in December 2010.
- 2) Looking at the six highest demand days in December 2010 individually; assess the actual supply position and compare this to the model assumptions. Consider using actual supply figures for modelling as well as actual demand.

- 3) Consider the impact of “Two Shifting” for power stations’ demand - JCx to provide supporting data to use for the analysis.

EB then displayed the graphs that demonstrated the potential impact of modifying the charging methodology by class of NTS Exit Point, and these were briefly discussed. EB also presented graphs relating to TYS2009 and TYS2010 prevailing and proposed methodologies and the indicative impact on the TO Exit (Flat) Commodity Charge.

GJ observed that there would be a fairly sizeable TO exit charge which could be undesirable and merited consideration. This appeared to be driven by DN booking decisions. Any analysis could usefully be broadened to include the TO Commodity element in order to present a full picture. GJ also suggested addressing statements regarding the basis on which charges should be set – the modification appeared to be moving away from the previous stance.

JCx suggested that the whole situation should be reviewed after the reduction window to assess whether and by how much NTS connects and DN Offtakes have amended their bookings.

EB then gave a presentation on some modelling of alternative approaches, including graphical information for indicative Exit Capacity Prices by DN Exit Zone. For 2012/13, booked and obligated produce one set of prices and the other options produce very similar numbers. When the obligated level is unravelled to reach the DN forecasts, all are producing the same numbers. The issue to address might be the transparency and stability of the data? The same effect was apparent for 2013/14, and reasonably consistent.

JCx was concerned that it was misleading looking at these forecasts, and that ‘stability’ was only apparent because of the fact that the same data is being used each time – it was not a true demonstration of the alternative options. She asked if National Grid NTS had looked at forcing Moffat down to make the demand/supply match in order to see what the effects might be. EB believed this had been looked at before. However, JCx could not recall it being presented in previous years, and said that different constituencies needed to be recognised, eg Moffat, DNs, etc, and suggested that ‘stress’ tests should be performed to inform current understanding and facilitate the work of this Workgroup.

TD commented that it sounded arbitrary to scale Moffat, and suggested grouping into ‘demand groups’ and scaling (mirroring the Supply approach) might be more reasonable. JCx agreed that there were lots of different ways to do things that could be considered as potential options. TD reiterated that demand needed to be brought down to what was required; to discover if the DNs or Moffat were driving the observed results, he suggested taking the current methodology and scaling everything down in turn, and then assessing which was the most methodologically ‘pure’, ie with no unintended consequences.

JCx believed that this modification placed more charges on DCs, and questioned why this should be ‘the answer’, pointing out that the DNs had more flexibility in their bookings. Arguably, this was taking the Moffat cost and distributing the effect elsewhere; capacity prices were only part of the problem. It was unknown if the different methodologies and prices change booking behaviour. Prices can look good or bad and commodity charges might be the opposite. There will be a step change – bookings after July this year that will need to be taken into account, ie (likely) reductions.

DA gave a brief explanation of the DNs’ NTS capacity booking process – the costs of which are passed-through to Shippers. While there is no financial apparent incentive to reduce capacity bookings at resent, this may be a feature of the next price control. The DN bookings inform NTS investment and all will

consequently benefit from any cost reductions. It was noted that while the DNs will pay NTS capacity charges from 2012, they would not pay commodity charges. GJ commented that since, unlike commodity charges, exit capacity charges are not postalised, the balance between capacity and commodity charges can give a significant distributional impact.

TD summarised that the consensus was that there was a need for further commodity charge analysis to show the effect on different classes. It was agreed that National Grid NTS would:

- 4) Provide Revenue analysis by class of customer, considering both exit capacity and commodity charges.
- 5) Scale the baseline and incremental demands to meet 1-in-20 peak day demand (undiversified).
- 6) Reduce the demand at Moffatt such that a supply and demand balance is achieved in the model.

Actions from the NTS Charging Methodology Forum in relation to Modification 0356 were then reviewed.

Action NTS0101: National Grid NTS to confirm that the exit capacity release obligations in the UNC operate as intended.

Response: EB reported that in his understanding it did. **Action closed**

Action NTS0102: Explain (in regard to exit capacity charging) why the Irish Regulator's number for demand offtake at Moffat is not being used for exit capacity charge setting.

Response: EB/DH explained that this was because of the desire to be consistent for both Moffat and the DNs. **Action closed**

Action NTS0103: The analysis to be repeated using the 2010 Ten Year Statement forecast demands for Direct Connects.

Response: Completed. **Action closed**

3. Consider Terms of Reference

The Workgroup considered the Terms of Reference. TD drew attention to the particular items that the Panel had requested be considered.

If the proposed May implementation date was not achieved EB confirmed that National Grid NTS would endeavour to produce appropriate indicative charges. Strictly, the obligation to apply the charging methodology was to the setting of charges and hence National Grid NTS believe there is some latitude in determining how to calculate indicative charges. Consequently, while having a revised methodology in place by 1 May was desirable, it was not essential.

The Terms of Reference were accepted and approved.

4. Assessment of Options

Covered in discussions under Section 2, above.

With respect to the raising of alternatives, TD requested that any formal modifications be submitted as soon as possible to enable the Workgroup's timely consideration.

EB confirmed that legal text was being drafted and should be available next week.

RT asked National grid NTS for an explanation of ‘diversified’ and ‘undiversified’ load as described during the meeting and requested that definitions be provided of the data items being modelled in order to ensure consistency and aid everyone’s understanding.

Action WG0201: National Grid NTS to provide definitions of the data items being modelled in order to ensure consistency and aid everyone’s understanding.

5. Any Other Business

None raised.

6. Diary Planning for Workgroup

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

The next Workgroup 0356 meeting will take place on Friday 11 March 2011, at Energy Networks Association, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF.

Action Log - Workgroup 0356 (including residual actions from the NTS Charging Methodology Forum 06 January 2011): 08 February 2011

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
NTS 0101	06/01/11	2.1	Confirm that the exit capacity release obligations in the UNC operate as intended.	National Grid (NTS) (EB)	Closed
NTS 0102	06/01/11	2.1	Explain (in regard to exit capacity charging) why the Irish Regulator’s number for demand offtake at Moffat is not being used for exit capacity charge setting.	National Grid (NTS) (EB)	Closed
NTS 0103	06/01/11	2.1	The analysis to be repeated using the 2010 Ten Year Statement forecast demands for Direct Connects.	National Grid (NTS) (EB)	Closed
WG 0201	08/02/11	4.0	Provide definitions of the data items being modelled in order to ensure consistency and aid everyone’s understanding.	National Grid (NTS) (EB)	By 11/03/11