Workgroup 0356
Minutes
Friday 11 March 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
Jeff Chandler*	(JC)	SSE
Julie Cox	(JCx)	AEP
Mike Young	(MY)	Centrica
Paul O'Donovan	(POD)	Ofgem
Richard Hounslea	(RH)	National Grid NTS
Stefan Leedham	(SL)	EDF Energy

**via teleconference*

1. Introduction

Copies of all papers are available at: www.gasgovernance.co.uk/0356/110311.

TD welcomed attendees to the meeting.

2. Review of Minutes and Actions from the previous meeting

2.1 Minutes

The minutes of the previous meeting were approved.

2.2 Actions

The outstanding action was reviewed.

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

Update: EB reported that this was being done drawing upon extracts from three documents and would be published on the Joint Office website. **Action Closed**

3. Consideration of Initial Responses

TD confirmed that, while EDF had submitted a request for an additional option to be assessed, no formal representations had been received.

4. Assessment of Options

EB confirmed that National Grid NTS had completed the modelling that they were asked for, together with the additional analysis requested by EDF.

4.1 Indicatives Analysis

EB then gave a presentation describing and explaining the analysis that had been carried out. Responding to a question from JCx relating to the current booking position for 2012, EB confirmed that it was initialised but there could be further reductions. Tables were then displayed illustrating the assumptions and approaches used when considering the various options.

Analysis 1 – Exit Capacity Prices

Zone SE3 has no offtakes within it.

Taking the wider view, prices were reasonably consistent.

Set 9 has the highest Moffat demand. Sets 1 – 6 are based on actual data, ie exactly what happened on the 6 highest demand days. JCx believed the variations in charges demonstrated the sensitivities and the need to put in appropriate assumptions. Further analysis carried out by RH on Day 5 – 7GWs and Day 6 – 90 GWs amounted to about 1.8% of aggregate demand. In SW the peaks are primarily Moffat related; the rest are impacted by Isle of Grain. Responding to POD, EB confirmed that changes in price occurred when there was a change in the direction of flow and assumed flow at Isle of Grain impacted the change. JCx questioned what were the most appropriate inputs to the modelling to mitigate the effects, and added that she had concerns regarding the analysis in respect of power stations – AEP members were asking for analysis to be published in a spreadsheet rather than PDF form and required more time for review.

SL observed that Modification 0195AV was implemented to encourage parties to demonstrate User Commitment, book capacity to give long term signals to National Grid NTS, and book accurate volume. He was concerned that modelling based on bookings created some issues that were being used to justify disregarding bookings that were being relied on elsewhere. EB pointed out that 0195AV did not change the Charging Methodology, but the methodology had to be changed to come into line. EB wondered if forecast caps might be required? What is the most cost reflective price? The risk has arisen because the methodology has become unworkable, as the aggregate demand is greater than the supply. Therefore a change must be made to the arrangements at some point. JCx added that it should not be assumed that any change should necessarily have to be made to the methodology rather than anything else. SL was concerned that movement seemed to be towards forecasts simply because it gives the ‘right answer’; was it a question of ‘he who shouts loudest will get the methodology changed’?

EB explained that National Grid was trying to take account of all sorts of factors and cost reflectivity. St Fergus will have dropped off and there will be a real demand and time when the price is right; it would be if Moffat flows at 530, which it cannot do currently. Recognising there were issues of forecasting at Direct Connects and other issues, National Grid has to make a decision. Is it undue discrimination or not? Moffat is a connection to, and behaves more like, a Distribution Network, and is the only supply source into Ireland. Networks have obligation levels, DN bookings and forecasts. There were differences between National Grid’s forecasting and the Networks’ bookings; regarding obligated levels there was a big difference noted between booked and forecast levels.

The forecast for 2012 is new, and will reflect the connected load; there will be a requirement to make the obligated level available. SL observed that it was up to the DNs to book the correct level. Supply points with multiple Shippers appoint an agent to manage the bookings – but Moffat does not avail itself of this practice? JCx pointed out that Moffat is an interconnector and not a DN. EB, responding to a question from SL, explained that National Grid plans, designs and builds for forecast demand at Moffat and DNs and obligated levels at Direct Connects. SL believed that this called into question 0195AV, that it was erring towards being discriminatory, and suggested using booked capacity (going back to GCM05). EB explained that GCM05 assumed that the obligated level sells out.

JCx referred to the new universal firm status and the obligated booking level in the DNs – there would be spare booking level available and this will affect the charges in effect paid by Shippers, and this did not feel right. She referred to the Transportation Model, using forecasting to get LRMC and scaling to recover revenue; all the 'spare bits' in the DNs (unbooked) would contribute to the commodity charge. SL asked if this would address Ofgem's concerns regarding the 'revenue foregone' issue. POD observed there may potentially be 'free riders' on the system and the approach needed to be designed to avoid this.

SL repeated that his preference was to use booked capacity for developing charges.

EB said that it had been assumed only the flow was changing, and explained how the calculations had been made. MY referred to Entry and the need for some correction mechanism, and questioned if the obligated level was the best way to divide up the allowed revenue – there is a risk of creating at Exit the problem that exists at Entry. This was briefly discussed.

Referring to the boxes on the charts, TD questioned if the charges would still be the same if SL's suggestion was followed. EB replied that if booking was used, charges would be higher; SL asked what was used for modelling flows, etc, and wondered if it was better to wait for Exit Reform.

MY questioned whether the focus should be on capacity or commodity charges, and felt a need to establish principles. Is it appropriate to have a TO commodity charge for Exit if that is no more than a 'fudge'. EB briefly explained a range of possible outcomes. JCx agreed that the TO Exit commodity charge appeared to be a fudge and ought to be addressed now, bearing in mind that more time was available than had first been envisaged. EB confirmed that the deadline was August 2012.

TD commented that the analysis demonstrated charges could flip between high and low in areas that were assumed to receive gas from one or another extremity of the system. An alternative which might help avoid this could be to allow supply to vary in the model rather than demand. MY observed that correction should be minimal and should avoid enormous variations, and DH added that she was not expecting to see a big TO exit commodity charge. MY pointed out that the current regime had driven certain behaviours, and there was a big under recovery in certain areas which was a worry. EB believed there was a level of protection against this at exit. Referring to POD's earlier observation, TD reiterated that this implies that, in principle, everyone should pay something, and there should be no 'free riders'.

It was suggested that stability helps provide predictability, which is key for Shippers. EB reiterated that 0356 was only looking at the flow level most appropriate to use to achieve cost reflectivity and to ensure the Charging Methodology works, and he believed the NTS modification was the most appropriate approach.

Analysis 1 – Supply Situation

The variation in Bacton flows was highlighted, and it was noted that this did not seem to create volatile charges.

Analysis 2 – Exit Capacity Prices 2012/13

SL suggested that there is a problem using forecasting because of its unpredictability - it would be a good idea to be moving away from this, especially as it had created areas of instability in the past. He questioned whether any stress testing and assessment of volatility had been done; historically capacity bookings may not have changed as much as forecast. Obligated or booking levels would be more stable, and if a move was made to forecasting then the same problem would be likely to be faced again in 6 months' time.

EB responded that National Grid's forecasting at Moffat had been more stable than booking levels. The question could be: How do we allocate costs incurred across entry and exit? A cost allocation tool is required, ie the Transportation Model. Price variability used to be driven by how supply changed, not demand. Gas coming from different areas is now driving changes to charges. At Moffat we can use forecasting only; at DNs forecasting or booking levels can be used; at Direct Connects obligated levels or forecasting can be used. Forecasting is appropriate to use to achieve a consistent approach.

Analysis 2 – Supply Situation 2012/13

EB explained the differences between the information shown on this slide and slide 6, and pointed out that an undiversified Peak Day will never be seen. JCx commented that power stations would not all be running at full capacity at the same time. A diversified Peak Day was used for energy balancing purposes. When the location was important, undiversified was used. A justification for this would be helpful.

It was noted that the models demonstrate prices very similar to what is shown with forecasting. TD commented that it was useful to see the variations and effects but also to consider the principles involved.

SL pointed out that the DNs have flexibility in their systems regarding bookings, investment, and contracting mechanisms.

EB referred to quantity multiplied by price – what is the right flow? The price that changes more than anything in the system is Moffat. National Grid's primary relevant objective is cost reflectivity. Scaling the obligated level to supplies is the route to least change between indicative prices.

SL believed that forecasting for DNs will be problematic for various reasons, and suggested that it was better to look at their bookings. EB said that booking at Moffat is far in excess of forecasting and would result in high prices in Scotland and the North. Consistency between what (forecasting) is used for entry and exit is quite important. EB stated that he was happy to amend the proposal if parties believed this to be necessary.

DA asked if National Grid had looked past 2014 over the next 5 years to see what charges might look like, eg Scotland, when flow is increasingly South to North. EB replied that some scenarios had been looked at for combinations of Moffat and St Fergus and RH added that some are included in GCD09.

Action WG0301: Provide web link to presentation on Moffat prices related to St Fergus flow as described in GCD09.

EB added that if specific analysis further out were required, then National Grid would be happy to do this, eg 3 scenarios over 10 years.

SL believed that there were fundamental flaws to using forecasting which makes it an undesirable method and stated that, if Modification 0356 is to remain unchanged, EDF Energy would expect to raise an alternative modification based on booked capacity.

JC also voiced concerns regarding discrimination that may result from treating parties differently. He shared SL's concerns and would have difficulty supporting Modification 0356. An alternative based on bookings would therefore be very much welcomed.

4.2 Revenue Analysis

EB gave a second presentation describing and explaining the analysis that had been carried out.

EB pointed out that there may be an issue regarding timings, whereby the application window may/may not be taken into account depending on the date of availability relative to the publication of charges.

Analysis 1 - Capacity Revenues by pricing methodology options

EB commented on patterns and exceptions. Scotland could be high or could be low; others are all reasonably similar. Moving from a high Scotland price to a low one represents a 20% increase on average in Direct Connect prices. May 2010 becomes a high Scottish scenario; Scotland DN is the reason - most of the Direct Connects are not in Scotland.

EB confirmed that assumptions were based on current bookings. The obligation was on National Grid to produce prices 2 months ahead of their application. SL asked if this allowed enough time to build in reductions. What was the potential for Moffat to reduce bookings, which could have an impact on these charges. EB indicated that this was not a simple answer; incremental could not be surrendered nor could initialised. Further consideration was required.

SL questioned the timetable and whether any change in bookings would be reflected in charge modelling. EB responded that it could be worked out what the critical level will be, but it would be difficult to assess if reductions will hit that figure. If there was a methodology based on bookings and indicative charges had to be produced in May, a range would have to be provided. DH added that National Grid would have to pick out what was felt to be most appropriate.

JCx commented that similar graphs were presented at the last meeting; the Ten Year Statement 2010 had obviously moved on from there.

Action WG0302: Consider what the potential might be for Moffat to reduce bookings.

Analysis 1 – Capacity & Commodity Revenues by pricing methodology options

EB explained where this was drawn from and was looking where revenue recovery was shifting around.

Analysis 2 – Capacity Revenue by pricing methodology options

JCx asked if EB could do analysis based on actual prices today (capacity and commodity).

Action WG0303: Provide capacity and commodity breakdown by offtake category at actual prices.

5. Consideration of Alternative(s)

TD confirmed that none had been formally raised to date. During discussions at (3) above it was noted that EDF Energy would be seeking to raise an alternative modification based on booked capacity.

TD summarised that it had been beneficial to see the analysis of a wide range of alternatives for doing things, and asked if any other alternatives might be forthcoming.

MY commented that parties needed to review the numbers to see what the position could be, and noted that high TO commodity charges would give cause for concern. EB suggested that it could be made purely forecasting capped at obligated level with changes to UNC TPD Section O to enable publication of forecasts.

6. Workgroup Report

SL raised concerns on timing and asked if the Workgroup Report was to be concluded by the next month. EB said that the next relevant deadline was May or August 2012. SL had concerns that the July application window results could have an impact on the content of any formal responses to industry consultation, and consideration might therefore need to be given to an appropriate start date for commencement of consultation.

TD confirmed that, under the present timescales the Workgroup Report was to be submitted to the UNC Modification Panel at its meeting on 21 July 2011; an extension may therefore need to be requested, if it was accepted that significant data would be available in July which would need serious assessment, and that the outcome could affect formal responses. EB agreed there was no value in rushing to submit the Report to an early Panel and suggested it was better to look at August or September.

The next step would be to compare the three main alternatives against the relevant objectives, and TD questioned whether the July bookings results would be required in order to do this.

7. Any Other Business

7.1 Legal Text

As a result of the implementation of recent modifications, EB explained that relevant text from the Charging Methodology had been inserted into the UNC, but that it had not been provided in the conventional legal style of the UNC. National Grid's lawyers had produced a more acceptable version reformatted to reflect UNC conventions, and had also taken the opportunity to correct an identified error with the merit order under UNC TPD Section Y Appendix C 2.5.1.

Responding to TD, POD indicated that Ofgem would be likely to carry out an Impact Assessment on the modification. On this basis, TD then suggested that there was an argument for any attempt at rectification of any errors to be made separately, and this should be divorced from the text provided for in this modification.

Comments on the text would be welcomed by EB.

Action WG0304: Consider raising a self-governance modification to update text at UNC TPD Section Y Appendix C 2.5.1 The Transport Model, to rectify error identified under 'Model Inputs'.

Action WG0305: Review and revise draft Suggested Text to more closely reflect the intent of the modification, with particular attention to adding clarity to definitions.

The Workgroup will then review and consider the revised text.

8. 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 Tuesday 10 May 2011, at Energy Networks Association, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF.

Action Log - Workgroup 0356: 11 March 2011

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
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)	Closed
WG 0301	11/03/11	4.1	Provide web link to presentation on Moffat prices related to St Fergus flow as described in GCD09.	National Grid NTS (RH)	
WG 0302	11/03/11	4.2	Consider what the potential might be for Moffat to reduce bookings.	National Grid NTS (EB)	
WG 0303	11/03/11	4.2	Provide capacity and commodity breakdown by offtake category at actual prices.	National Grid NTS (EB)	
WG 0304	11/03/11	7.1	Consider raising a self-governance modification to update text at UNC TPD Section Y Appendix C 2.5.1 The Transport Model, to rectify error identified under 'Model Inputs'.	National Grid NTS (EB)	
WG 0305	11/03/11	7.1	Review and revise draft Suggested Text to more closely reflect the intent of the modification, with particular attention to adding clarity to definitions.	National Grid NTS (EB)	