

Workgroup 0391 - Distributed Gas Charging Arrangements

Workgroup Minutes

Monday 09 January 2012

at the ENA, 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
Erika Melen	(EM)	Scotia Gas Networks
Gareth Mills*	(GM)	Northern Gas Networks
Joel Martin	(JM)	Scotia Gas Networks
John Baldwin*	(JB)	REA
John Edwards	(JE)	Wales & West Utilities
Lesley Ferrando	(LF)	Ofgem
Richard Pomroy	(RP)	Wales & West Utilities
Steve Armstrong	(SA)	National Grid Distribution
Will Guest*	(WG)	Northern Gas Networks

* via teleconference

Copies of all papers are at: www.gasgovernance.co.uk/0391/090112.

1. Introduction and Status Review

TD welcomed all to the meeting.

1.1 Review of minutes

The minutes of the previous meeting were approved.

1.2 Review of Actions

WG0391 11/001: National Grid Distribution (SA) to prepare a set of draft business rules based on workgroup discussions and any feedback ready for consideration at a follow up meeting in early 2012.

Update: Deferred pending further discussion of options.

Carried Forward

2. Discussion

2.1 Proposal for DN Entry Charging – Discussion and Assessment of Options

SA provided an overview of the 'Proposals for DN Entry Charging – Analysis of further options' presentation.

SA explained the rationale behind providing the presentation as a means of progressing towards the resolution of outstanding action WG0391 11/01. Discussions between National Grid and Ofgem in December 2011 had identified two further possible options (1b and 3b) for which additional analysis had now been undertaken and included in the presentation.

SA provided a high level appreciation of the definitions for a shallow and semi-shallow connection boundary before moving on to review the options previously considered, confirming that option 3 was previously identified as the preferred option.

In looking at the 'Full Options to Consider' slide, SA explained that for consistency purposes, the (new) numbering (1b and 3b) reflected the

discussions with Ofgem. However, he questioned whether option 3b was practical.

Looking at the detail behind the various options (1, 1b, 3 & 3b) it was noted that where an entry facility impacted transportation charges, these would be implemented through the relevant Shipper. JB suggested that he would advise parties who develop biomethane plants to establish pass-through arrangements for transportation charges.

Examining the cost and charges for Distributed Gas Entry, SA confirmed that the one-off £300k full entry facility capital cost reflected the latest available information on the potential scale of costs. SA pointed out that the -£10,386 is in essence a credit applied for gas using the entry point, reflecting that only downstream assets are used to transport the gas - the Transportation charges of £83,230 are reflective of what a shipper would be expected to pay for a selection of domestic supply points. SA also suggested that the £294,495 NPV Costs of entry could be collected by either an upfront payment or an ongoing charges and that, once a preferred option was selected, a more detailed examination of the charging requirements would be undertaken.

SA noted that the principle is to adopt a fair approach whereby Users pay a rate that reflected their system usage. i.e. those who utilise more of the system, pay a higher cost. He went on to add that the DNs are not looking to develop a point-to-point charging system, preferring to concentrate on the physical rather than commercial gas requirement.

Moving on to consider the examples for ongoing charges for the various options it was acknowledged that there may be issues associated with where a connectee does not remain in the market place for the 25 (or other prescribed period i.e. 20 years as per the RHI) years used to establish annualised charges. Consistency with the assumed RHI period was felt to be worthwhile.

SA believed that option 1b may be preferable to 1 as it appears to be more reflective of ongoing system utilisation, although administration cost issues would need to be resolved along with possibly relating it to a parties firm capacity level.

In looking at option 3, SA pointed out that there would be no upfront charge applied to shippers, as charges would be applied on an ongoing basis. JB suggested that development and adoption of a schedule of charges (i.e. reflective of a minimum to maximum entry connection facility model) could potentially reduce the circa £300k capital cost element even further. When asked who would be paying for the entry facility provision in this example, SA advised it would be the shipper, possibly in the form of an additional entry charge although it could easily be based on a (nominated) capacity aspect – further consideration of entry agreement arrangements may be required in due course.

In discussing option 3b, TD questioned whether there could be a case for adoption, at least in part, of a 'socialised' cost approach for items such as network compression. LF would be reluctant to support such an approach. In the end, parties supported removal of option 3b.

Considering the comparison between options 1, 1b and 3, RP felt that longer term reinforcement considerations need appreciating, especially their impact upon the Transporter licence (charging) obligations. Network peak utilisation analysis going forward remains a challenge and RP felt that the EMIB group would need to consider the implications of new plant coming on stream, and old plant going off.

Looking at the larger facility example along with the level of costs for potential biomethane facilities, SA observed that whilst the entry flow may be 66%

higher, with entry costs 40% higher than the previous example, it does result in a lower unit cost.

In considering the choice between the three main options (1, 1b and 3), RP emphasised the need to consider the range of potential distributed gas sources (i.e. LNG, coal bed methane, etc). JB voiced his concern relating to potential process delays along with possible design cost issues. In response, RP reiterated the previous statement that the DNs support the concept of a competitive market for provision of entry facilities, whilst SA observed that the finer points of the requirements would need discussing at EMIB meetings.

JB suggested that as far as compressor considerations are concerned, it is highly unlikely that you would find both the (biomethane) digester and compression plant occupying the same geographical site due in part, to the physical size constraints involved with these. Once again RP reminded those present, that there is a need to consider all distributed gas requirements, and not just concentrate on the biomethane aspects. JB suggested that we would need to ensure that EMIB is made aware and acknowledge the various aspects of the proposed compressor requirements and to also engage with the UKUGA.

From a shipper perspective, BD suggested that the key issue is development of a simple workable solution. SA agreed to approach Xoserve and seek to identify potential implementation costs under the options, with a view to establishing the practicality of each. LF indicated that option 1b was her preferred solution as things stood, she recognised that option 1 could be a more practical option. Option 3 would require a strong justification in order for Ofgem to support it - options 1 and 1b appear more consistent with the current exit arrangements and provide better locational signals. LF added that a clearer indication of who is paying for connection costs would be beneficial, although JM suggested that this would fall under the commercial arrangements between the connectee and their shipper.

It was agreed that a teleconference be held to consider Xoserve's feedback on potential implementation costs, and to seek to identify a preferred option for development. It was also recognised that completion of the Workgroup Report may be difficult in time for the March Modification panel, and hence an extension to the timetable may be desirable.

Action WG0391 01/001: SA to approach Xoserve and identify implementation costs associated with Options 1 and 1b.

3. Any Other Business

None.

4. Diary Planning for Workgroup

It was agreed to meet via teleconference at 10:00am on 23 January 2012.

Action Log – UNC Workgroup 0391

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
WG0391 11/001	15/11/11	2.1	To prepare a set of draft business rules based on workgroup discussions and any feedback ready for consideration at a follow up meeting in early 2012.	National Grid Distribution (SA)	Update provided in due course. Carried Forward
WG0391 01/001	09/01/12	2.1	Identify implementation costs associated with Options 1 and 1b	National Grid Distribution (SA)	Update to be provided on 23/01/12