

Workgroup 0391 - Distributed Gas Charging Arrangements
Workgroup Minutes
Monday 27 February 2012

via teleconference

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Andy Manning	(AM)	British Gas
Colin Thomson	(CT)	Scotia Gas Networks
Joanne Parker	(JP)	Scotia Gas Networks
Joel Martin	(JM)	Scotia Gas Networks
John Edwards	(JE)	Wales & West Utilities
Lesley Ferrando	(LF)	Ofgem
Richard Pomroy	(RP)	Wales & West Utilities
Steve Armstrong	(SA)	National Grid Distribution
Steve Sherwood	(SS)	Scotia Gas Networks
Will Guest	(WG)	Northern Gas Networks

Copies of all papers are at: www.gasgovernance.co.uk/0391/270212

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: SA advised that work would commence on the business rules once the preferred way forward has been agreed. **Carried Forward**

WG0391 01/001: National Grid Distribution (SA) to identify implementation costs associated with Options 1 and 1b.

Update: SA advised that implementation costing information is available within the presentation (see 2.1 below). **Closed**

2. Discussion

2.1 Mod 0391 Workgroup - Assessment of Options presentation - update following 23/01/12 meeting

SA provided an overview of progress made to date, focusing on options 1, 1b and 3. SA pointed out that under any of the options, exit based transportation charges would continue as per current arrangements. He then went on to explain the rationale behind the proposed approach. SA noted that discussions around connection plant and equipment ownership are taking place within the

Energy Market Issues for Biomethane Projects (EMIB) group, and that the charging options were able to accommodate whichever approach is adopted.

Examining the 'Entry Facilities provided and operated by Connectee' slide, SA said the three examples exclude odourisation costs. In considering the 'Total for Distributed Gas' example figures of -£197,176, SA suggested that these payments could take the form of a one-off payment to the connectee at the time of connection, while option 3 would amount to an ongoing negative charge being applied to the shipper(s).

In considering the 'Assessment of Invoicing Costs for Options' slide, SA advised that the assumptions are based around an initial Xoserve Rough Order of Magnitude (ROM) estimate. The capitalisation approach in option 1 is based on the existing exit regime and so should be relatively simple to implement for entry. For option 1b, there may be additional Shipper costs associated with the invoices – AM agreed but did not anticipate these being a major issue.

Looking at the 'Assessment of Charging Options – Wider Considerations', and specifically the ongoing credits under option 1b of around £2.8 million pa, SA indicated that this figure assumes connectees own and operate the entry facility. When asked, SA confirmed that the potential Xoserve costs may be regarded as the principal difference between the options. He also accepted that volatility associated with entry connection costs was a possible weakness with option 1b since charges may change over time.

Bearing in mind experience of the equivalent electricity model provisions, AM felt that consideration of what rights are being inferred upon a connectee under each option would be necessary – especially if these were evergreen in one option but not others. SA noted that issues around rights being evergreen or otherwise have not emerged under the deep connection regime that already exists for exit, and this regime would remain fundamentally unchanged under all the proposed options. However, clarity regarding what parties are paying for, and what contractual arrangements are in place or required, would be beneficial.

Considering entry transportation credits under option 1b, SA suggested that the aim is to provide an equitable, cost reflective approach. Most connections will be made at the medium pressure tier level and, while there may be no cost savings for the GDN, cost reflective charges should consider the tiers being used. TD summarised that, in essence, exit charges should be lower if gas is being delivered from a lower tier, with the cost of using the LTS being excluded.

SA went on to advise that he is now proposing a commodity rather than capacity based credit, which is a subtle shift in focus from previous discussions designed to ensure inappropriate incentives are avoided and that payments reflect actual usage. In terms of forecasting entry-related OPEX, SA felt that it may be appropriate to adopt a standard annual figure, updated to reflect inflation and other market influences. This would be site specific and could be reviewed periodically to ensure it remained appropriate.

The Workgroup discussed how to progress both EMIB and 0391 Workgroup matters and whether or not it is necessary to propose changes to the Condition 4B (connection charge) statements – a consensus was reached there is no necessity to change the statements, and any clarificatory update should be put forward after Ofgem's decision has been received regarding whether Modification 0391 should be implemented. It was also considered that it would be helpful for the next 0391 meeting to be held prior to the next EMIB meeting, such that any conclusions could be reflected in the EMIB report.

TD noted that care would be needed to avoid any discriminatory aspects of the proposals, especially relating to any constraints in network capacity and the allocation of costs when investment is undertaken to support entry – such as

compression. RP felt that it is highly likely that there could be winners and losers, whilst SA believed that consideration of a socialised cost approach may prove beneficial in future.

LF felt that the proposed way forward seemed reasonable and reflected discussion undertaken to date - she had no show-stopping issues to raise at this stage. SA agreed to seek updated cost information from Xoserve in light of the discussions.

Action WG0391 02/001: DNs (SA) to seek updated cost information from Xoserve, including whether a lower cost approach might be feasible

3. Any Other Business

None.

4. Diary Planning for Workgroup

It was agreed to combine the next Workgroup meeting with a DNCFM meeting, at which Scotia Gas Networks will present views on development of the customer charge. This could precede the already booked Distributed Gas Group meeting (subject to the room being a suitable size) scheduled to take place at the Energy Networks Association, 52 Horseferry Road, London on Thursday 29 March 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 to be provided. Carried Forward
WG0391 01/001	09/01/12	2.1	Identify implementation costs associated with Options 1 and 1b.	National Grid Distribution (SA)	Update provided. Closed
WG0391 02/001	27/02/12	2.1	Seek updated cost information from Xoserve, including whether a lower cost approach might be feasible.	DNs (SA)	Update to be provided in due course.