

Capacity working group 3 – 11 November 2010

Inaugural meeting of GD1-T1
capacity working group

Date of Meeting
Location

11 November 2010
Ofgem 9 Millbank
London SW1P 3GE

1. Present

Steve Fisher, Elaine Calvert, Eddie Blackburn – NG Transmission
David Mitchell, Mark Freeman, Steve Mallender – NG distribution
Steve Sherwood – SGN
Steve Edwards, Chris Clarke – WWU
Haren Thillainathan – NGN
Chris Watts, John Mackay, Lewis Hodgart, Mathieu Pearson - Ofgem

2. Background and terms of reference

CW outlined that the group was to fill the gap highlighted by the safety and reliability working groups, namely developing output measures for capacity on GDN networks and on the NTS. The aim of the group was to ensure that capacity outputs were delivered in the most efficiency way possible whether this be through investment in networks or storage, expenditure on interruptible discounts or by utilising available or incremental capacity on the other networks (whether these be transmission or distribution networks). CW noted that all alternatives for expenditure on managing capacity should be considered as part of the business plan and that allowed revenues would be linked to demonstrating this.

SE noted that as representatives of both GDNs and the NTS would attend the group it would be useful to expand the term of reference to include exchanging views on other aspects of the price control where NTS and GDN interest overlapped.

Action: MP to adapt TOR to include discussion of other area other areas of overlap of NTS and GDN interest in price control

NTS/GDN interactions

The group discussed the key areas where there were interactions between the GDNs and NTS which might be a barrier to efficient capacity management decisions being made. The areas were:

1. *Commercial arrangements' for GDNs booking NTS exit capacity*

The treatment of GDN capacity rights in the enduring NTS exit regime **may** encourage GDNs to book exit capacity conservatively to preserve their rights to existing capacity.

2. *Arrangements for providing assured pressures to GDNs.*

Current arrangements' could make GDNs reluctant to signal to NTS that assured pressure can be reduced as they have no guarantees that the pressure can be restored should it be needed. Further the NTS is cautious in its approach to

agreeing increases in assured pressures because it has to commit to them for the long term.

3. *Substitutability of flat capacity and pressure.*

Flat capacity and pressure are to some degree interchangeable in practice. However only flat capacity is chargeable so there is no incentive to efficient trade off between the two.

4. *Substitutability of capacity between LDZs*

GDNs are limited in their ability to substitute existing capacity rights between offtakes.

5. *Booking of flex capacity*

There are issues around the information on the availability of flex, particularly over the longer term and where requests are refused. Further where flex requests are refused opportunities for provision of incremental capacity are unexplored.

Action: Ofgem to consider what might be required to improve arrangements and any structural barriers to changes and what may be achievable as part of price control process before next meeting. N.b companies should also think about this and come prepared to discuss at the next working group.

Action: Companies to consider what they understand by “flex capacity” with a view to coming to common definition.

3. Development of capacity outputs measures

CW noted that the key use of a capacity output measures(s) would be to demonstrate what companies have delivered during the course of a price control. Ofgem's initial view is that the measure(s) should look at baseline capacity and utilisation and enable companies to effectively measure these (taking into account all aspects of capacity) across the price control period such that what the companies have delivered in terms of their management of capacity can be demonstrated.

Action: GDNs to meet prior to the next working group meeting to discuss how they currently measure capacity availability/utilisation including: how they weight different types of capacity; how they identify degree of utilisation and the need for reinforcement; and what metrics they use to measure capacity utilisation. GDNs to present on this at next group meeting.

4. Demand Forecasting

MP noted some concerns with the variability in demand forecasts over time and difference between forecast of GDNs and NTS. SS pointed out the inherent uncertainty in forecasting methodologies and that most of the difference between the GDN and NTS forecast would be within a reasonable range of statistical variation. MP suggested that they would seek to understand the differences as part of the price control process and may undertake some work of their own with regard to demand forecasting.

SE and SS pointed out that the likely materiality of the demand forecast on the companies business plan may be limited if there is limited amount of reinforcement that was expected to be included in the plans. CW suggested that it was important to have robust forecasting procedure (and output measures) in place given the uncertainties surrounding the gas demand and the longer length of price control. MP noted that the companies

should outline in their business plans the implications for forecast investment of other plausible demand scenarios.

Action: Ofgem to draw on companies recently published LTDS demand forecasts to provide a background to a discussion of demand forecasting at the next meeting.

Action: Although not discussed at the meeting could the companies come prepared to discuss how (if) recent customer behaviour validated (if it did so) companies peak demand forecasts.

5. Other aspects of regulatory regime

MP suggested that the companies would need to consider in their business plans if other aspects of the regulatory regime were resulting in sub-optimal investment decisions. Transportation charging and arrangements for contracting for interruptible capacity were mentioned as possible examples. SE noted that any changes in these areas could require significant work on the UNC.

6. Date of next meeting

A date in approximately 3 weeks was suggested. Please indicate availability and preference for a meeting either between 9.30 and 12.30 on the 29 November or the morning or afternoon on 3 December.