

Capacity working group 3 - 13 January 2011

Minutes of the third GD1/T1
capacity working group

Date of Meeting
Location

13 January 2011
Ofgem 9 Millbank
London SW1P 3GE

1. Present

Ofgem : Paul Branston; Lewis Hodgart (phone); Brett Everett, Robert Beavis; Mathieu Pearson
National Grid (NTS): Steve Fisher; Elaine Calvert; Eddie Blackburn
National Grid (distribution): David Mitchell
Scotia Gas Networks: Steve Sherwood
Northern Gas Networks: Haren Thillainathan
Wales and West Utilities: Chris Clarke; Robert Cameron-Higgs (phone)
ENA: Clare Cattle-Jones

2. Agenda

1. Company feedback/questions on the capacity elements of the GD1 and T1 [RIIO](#) documents.
2. Development of measures of system flexibility on the NTS.
3. NTS/GDN interactions
 - a. here we would likely to identify the areas (from the list previously identified) for the focus of attention as part of the price control and a timetable for doing so.
4. Development of capacity measure
 - a. For GDN we would like to outline a timetable for them developing a proposal for a capacity output measure based upon the principles outlined in the strategy document, this would most likely be a high level primary output measure based on baseline capacity or headroom against to 1 in 20 standard with secondary utilisation measures.
 - b. For NTS, we would like to consider the timetable for the development of a system flexibility monitoring regime. We would like to consider which measures it would be appropriate to use, how these might interact with the submission of detailed data tables, and how this data might be interpreted in relation to system flexibility needs.
5. Other
 - Inclusion of real option value in the interruptible contract price.

3. Introduction / overview

Ofgem set out that the meeting should aim to produce a reasonably clear idea of what the group was to deliver and by when and how. More detail of this are provided in the section on the agenda items.

It was agreed that the group was to focus in the future on the area of GDN/NTS interactions with the other aspects of the group dealt with largely in other for a but with progress reported back to the group.

4. Company feedback/questions on the capacity elements of the GD1 and T1 RIIO documents.

The companies were comfortable with the elements of the elements of the GD1 and T1 methodology documents that touch on capacity issues. Ofgem clarified that it did not intend to include a reopener for interruption related capital expenditure in the price control and that the interruption reopener in the last price control related to expenditure resulting from the first set of interruption auctions only.

5. Development of measures of system flexibility on the NTS.

Ofgem noted that as part of their well justified business plans we expect the NGG NTS to fully justify any capex proposals in respect of 'system flexibility'. This should make reference to the system wide flexibility indicators the NGG and developed/were developing.

NGG presented on the area of system flexibility and provided an overview of some of the works that they were doing and highlighted some of the trends on the NTS. The key impact on the need for system flexibility . NGG noted that there was a limit to how the flexibility indicators could be used in justifying investment as the trend were relatively new and there were new thing happening, including the aforementioned change in entry patterns that would not be reflected in the trend and the impact that they would have on the flex measure was uncertain.

6. NTS/GDN interactions

Ofgem noted that for the T1 and GD1 process their main concern was that progress was made on the area of provision of incremental flexibility capacity by the NTS where this was more efficient than expenditure on the GDN networks. The other areas that were noted in the first working group were longer term considerations which, at least, would not be practical to solve by the time of business plan submissions.

Ofgem stated that as part of their well justified business plans we expect the GDNs to justify any capex proposals with reference, where appropriate, to options for alternative NTS investment. Ofgem were keen detailed consideration of NTS alternatives be incorporated in business plans.

NGG noted that given the rollover their were resource constraint in providing detailed information to GDN regarding investment alternative given the rollover and T1 requirements. They also noted that they would need detailed information requirements for GDNs to identify appropriate investment solutions given the example that the provision of flex capacity would provide additional volume and pressure and that these were to some degree substitutable. Exact details on the volume and pressure requirements of GDNs would allow NTS to identify appropriate solutions. NGG noted that there would be an interaction between the requirements of the GDNs and also other users to consider when identifying investment solutions.

The GDNs expressed some concern that the offering of a new incremental flex product to the GDNs might be in conflict with the Ofgem views published during the development of UNC195AV that any new flex product should be offered to all parties not just the GDNs.

Action for next group: GDN and NTS to consider scope of intersection for next price control and make a proposal for what will take place. Also to consider the nature of the incremental offering, including:

- **How long will NTS commit to providing the capacity;**
- **How will the NTS/GDNs be remunerated for the investment through the price control;**
- **Will it require a separate definition to the existing flex product?;**
- **Will there need to be consequent changes to the NTS charging methodology?;**

7. Development of capacity measures

GDN presentation - the GDNs presented on a provisional proposal for primary and secondary capacity output measures. This consisted of a primary output measure of capability to meet their 1 in 20 peak demand requirement on aggregated and at and LDZ (or LTS zone) level backed up by a number of indicators covering the areas of: customers; embedded supplies; NTS interface and Diurnal management.

Action for next group: GDNs to provide historical data on proposed output measures.

NTS – see above comments on development of Development of measures of system flexibility on the NTS.

8. Other

Ofgem explained that the idea behind the inclusion of the real option value in the economic assessment of interruption bids was based upon the idea that the delaying investment whilst retain the option to undertake it was valuable especially where there is considerable volume uncertainty. Interruptible contracts gave GDNs this option and therefore this value might usefully be considered in the economic assessment of interruption bids.