
UNC Workgroup 0671 Minutes
Relief from User Commitment obligations when NTS exit capacity
substitution is permitted
Thursday 01 November 2018
at Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA

Attendees

Rebecca Hailes (Chair)	(RH)	Joint Office
Karen Visgarda (Secretary)	(KV)	Joint Office
Alex Nield*	(AN)	Storengy UK
Andrew Blair*	(AB)	Interconnector UK
Andrew Pearce	(AP)	BP
Angharad Williams	(AW)	National Grid NTS
Anna Shrigley*	(ASh)	Eni Trading & Shipping
Bethan Winter	(BW)	Wales & West Utilities
Bill Reed	(BR)	RWE Supply & Trading GmbH
Colin Hamilton	(CH)	National Grid NTS
Dave Adlam	(DA)	Cadent
David Cox*	(DC)	London Energy Consulting Ltd
Edward Fyfe*	(EF)	SGN
Emma Buckton*	(EB)	Norther Gas Networks
Gerry Hoggan	(GH)	ScottishPower
Graham Jack*	(GJ)	Centrica
Jeff Chandler*	(JCh)	SSE
John Costa	(JCo)	EDF Energy
Julie Cox	(JCx)	Energy UK
Kamila Nugumanova*	(KN)	ESB
Kay Riley	(KR)	South Hook Gas
Lea Slokar*	(LS)	Ofgem
Mark Rixon*	(MR)	Engie
Paul Youngman*	(PY)	Drax
Penny Jackson*	(PJ)	Npower
Richard Fairholme	(RF)	Uniper
Shiv Singh*	(SS)	Cadent
Steve Pownall	(SP)	Xoserve
Steven Britton*	(SB)	Cornwall
Terry Burke	(TB)	Equinor

Apologies

Phil Hobbins	(PH)	National Grid NTS
Nick King	(NK)	CNG Services

*via teleconference

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0671/011118>

The Workgroup Report is due to be presented at the UNC Modification Panel by 21 February 2018.

1.0 Outline of Modification

Bethan Winter (BW) introduced the modification and explained that it proposed changes to the User Commitment obligations in TPD Section B to improve the efficiency of NTS Firm Exit Capacity bookings.

She explained that the current process allowed a User to request additional Firm Exit Capacity and that it also allowed a User to reduce its Exit Capacity, however when an increase was requested that would then result in National Grid NTS having to release additional Incremental Obligated Exit Capacity then National Grid NTS could consider substitution (Exit Capacity Substitution and Revision Methodology Statement paragraph 32).

BW then overviewed the Modification 0671 User Commitment presentation that can be viewed at: <http://www.gasgovernance.co.uk/0671/011118>

She explained there were currently two problems, these were:

- *A User cannot suggest a flow exchange between two offtakes it has to request an increase and decrease separately, the process doesn't really allow for Users who want to optimise for commercial or operational reasons. These may be between two adjacent offtakes on the same 'leg' of the NTS.*
- *User commitment remains at an offtake even if the capacity has moved to another offtake.*

She then said that due to these problems this meant that it was both risky and probably not commercially viable to try and move Firm Exit Capacity between offtakes, and the first problem could be solved by a new process and that the second problem could be solved by changes to the User Commitment regime for flow exchanges. She added that Wales & West Utilities (WWU) were not proposing a fundamental review of the User Commitment.

BW explained the new process was proposing that the user would be able to suggest a capacity exchange between two offtakes during the July to September window, and that the NTS would then analyze this to see if it was possible without additional National Grid NTS investment, if so, then any existing User Commitment would move with the capacity exchange.

BW then said from the User Commitment perspective, if the Incremental Obligated Exit Capacity was provided, then the User Commitment would then be applied to the whole of the Firm Exit Capacity at that offtake. She said this could rapidly build up into a big User Commitment that would mean a user got no benefit from offering Firm Exit Capacity reductions because they still had to pay the User Commitment. She added that this potentially could lead to inefficient hoarding of capacity, meaning other Users could not make use of it. She then overviewed the User Commitment schematics within the presentation for 2018, proposed for 2019, 2020 and beyond.

A lengthy general discussion then took place in relation to the whole topic of User Commitment and Julie Cox (JCx) proposed that the User Commitment rules should be moved into the UNC and not be in the methodology statement.

Graham Jack (GJ) said that the exit and entry capacity incentives provided gains and losses by the DN and BW said that there were protections from National Grid NTS prices with regards to a set price amount for the entry capacity, and that this got shared back, if less capacity was required. GJ said he wanted to know what the impact and materiality would be to consumers, as he was not clear about the revenues that levy through the networks. He said this information would be helpful, if it could be included within the modification, specifically from a material impact perspective.

New Action 1101: WWU (BW) to provide further detail and clarification how the exit capacity incentive works and the impact on consumers and the associated materiality perspective.

A further general discussion then took place in relation to the substitution and Colin Hamilton (CH) agreed to investigate how the proposed modification would encompass the current substitution methodology.

New Action 1102: National Grid NTS (CH) to explain how the proposed modification would encompass the current substitution methodology and how that would impact on the incremental capacities.

Dave Adlam (DA) wanted to know what the criteria was for User Commitment and did that need to be reviewed? Also when it was originally instigated, did this criteria still apply now and CH said this would be investigated.

Both BW and Richard Pomroy (RP) said they would produce a timeline with process flows for the next meeting to provide more clarity on the forthcoming stages regarding the modification and the specific items for discussion.

New Action 1103: WWU (BW & RP) to provide a timeline plan, process flows and worked examples for discussion at the forthcoming Workgroup meetings.

2.0 Initial Discussion

2.1. Issues and Questions from Panel

None raised.

2.2. Initial Representations

Julie Cox (JCx) Energy UK (Submitted 24 October 2018) as detailed below:

JCx said she had provided this information along the lines of an 'initial thoughts document'.

Initial representation for Modification 0671 - Relief from User Commitment obligations when NTS exit capacity substitution is permitted

This modification was discussed at pre-modification stage and it seems WWU have taken on board comments that the proposal should apply to Shippers too. This is welcomed.

There are a number of other issues that need to be considered by the workgroup, they are somewhat inter-related and overlapping:

The proposal seems to suggest that this process can only occur where the baseline at the donor point decreases by the same amount as the recipient point increases. It is not clear whether this means there is a pre-condition for this substitution of there being a 1:1 exchange rate or whether this is a new rule of some kind

If stating this as a rule, moving capacity up the system to a lower priced point would normally increase the amount of capacity available, so the exchange rate would not be 1:1.

If 1:1 exchange rate is a pre-condition would the points where this is applicable need to be known in advance? It would seem reasonable for this to be known in advance

If a proxy for 1:1 exchange rate is the points having the same price nothing would be gained financially.

Are there actually any / many nearby Exit points where the price is identical? Especially under CWD model...

The lead time for substitution is currently 2 years, this seems to be suggesting reducing that to 0 although this issue is not explicitly addressed, rather implied by the suggestion of moving capacity in response to price signals at short notice.

Is a 0 user commitment appropriate when capacity requests are met by substitution? If there are points where this can be used is there a risk of opportunistic bookings and surrender at no cost.

Should the user commitment be less than 4 years when not backed by investment?

Should a reduced level of user commitment be limited to where the exchange rate is 1:1 or should it apply to all substitution?

Are there interactions with PARCAs, application fees, security, termination fees etc.

2.3. Terms of Reference

The standard UNC Workgroup Terms of Reference will apply and is available at <https://www.gasgovernance.co.uk/mods>

3.0 Next Steps

RH confirmed that her aspiration for the next meeting would be to review the amended modification, together with the timeline plan, process flows, and examples that would be supplied by WWU.

4.0 Any Other Business

None.

5.0 Diary Planning

Further details of planned meetings are available at: <https://www.gasgovernance.co.uk/events-calendar/month>

Workgroup meetings will take place as follows:

Time / Date	Venue	Workgroup Programme
10:00 Thursday 06 November 2018	Elxon 350 Euston Road London NW1 3AW	Detail planned agenda items. <ul style="list-style-type: none"> Amended Modification Consideration of Business Rules Review of Impacts and Costs Review of Relevant Objectives Consideration of Wider Industry Impacts Consideration of Legal Text Development of Workgroup Report

Action Table (as at 01 November 2018)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
1101	01/11/18	1.0	WWU (BW) to provide further detail and clarification how the exit capacity incentive works and the impact on consumers and the associated materiality perspective.	Wales & West Utilities (BW)	Pending

Action Table (as at 01 November 2018)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
1102	01/11/18	1.0	National Grid NTS (CH) to explain how the proposed modification would encompass the current substitution methodology and how that would impact on the incremental capacities.	National Grid NTS (CH)	Pending
1103	01/11/18	1.0	WWU (BW & RP) to provide a timeline plan, process flows and worked examples for discussion at the forthcoming Workgroup meetings.	Wales & West Utilities (BW & RP)	Pending