

UNC Workgroup 0860S Minutes
Clarify impact of exit capacity holdings on offtake rights
Monday 29 January 2024
via Microsoft Teams

Attendees

Eric Fowler (Chair)	(EF)	Joint Office
Harmandeep Kaur (Secretary)	(HK)	Joint Office
David Mitchell	(DM)	Scotia Gas Networks
Jeff Chandler	(JC)	SSE
Julie Cox	(JCo)	Energy UK
Lauren Jauss (Proposer)	(LJ)	RWE
Philip Lucas	(PL)	National Gas Transmission
Shiv Singh	(SS)	Cadent
Susan Helder	(SH)	Northern Gas Network

The Workgroup Report is due to be presented at the UNC Modification Panel by April 2024.

This Workgroup meeting will be considered quorate provided at least two Transporter and two Shipper User representatives are present.

Please note these minutes do not replicate/include detailed content provided within the presentation slides, therefore it is recommended that the published presentation material is reviewed in conjunction with these minutes. Copies of all papers are available at: <https://www.gasgovernance.co.uk/0860/290124>

1.0 Introduction and Status Review

1.1. Approval of Minutes (28 November 2023)

The minutes from the previous meeting were approved.

1.2. Approval of Late Papers

Eric Fowler (EF) noted the Workgroup discussion document was submitted late. The workgroup approved the late papers.

1.3. Review of Outstanding Actions

No outstanding actions.

2.0 Development of Workgroup Report

EF informed the Workgroup that the UNC Panel has suggested extending the period for development of the Workgroup Report and requested a report to the Panel in April 2024. EF proposed agreed reviewing the Report in the next Workgroup meeting.

Philip Lucas (PL) presented the themes related to the Modification discussed in the first Workgroup meeting and provided clarification on these points on behalf of National Gas. The workgroup considered the following points:

i) Risk of unavailability of Exit Capacity in short-term markets (day ahead / within-day) backed off by procurement of Exit Capacity in longer-term markets (annual):

PL noted that from the National Gas Transmission (NGT) perspective, the Firm Exit Capacity is only withheld from sale in the Day-Ahead and within-Day auctions where a constraint is forecast. Such action is enabled by paragraph 1.62 of the Exit Capacity Release methodology.

PL asked the Workgroup whether the specific risk for a user of lack of capacity in long-term annual auctions is limited to exit points where there is more than one shipper registered.

Jeff Chandler (JC) confirmed that as correct. Julie Cox (JCo) noted that NGT is saying this would not be an issue if everyone bought long-term annual, however, shippers have flexible procurement arrangements that support competition in the market and so it is a more complex issue.

Lauren Jauss (LJ) asked PL whether NGT believes that RWE as Power Station Offtaker, does not have the risk vulnerability. PL explained that he is trying to understand whether the risk for individual shippers of unavailability of short-term capacity will arise where there is more than one shipper at an exit point because if there is only one shipper at the exit point, they could have bought that baseline in the long-term auction.

LJ noted that from her perspective, there is a risk of unavailability of short term capacity if NGT thinks that there could be a risk of a constraint even if there is only one shipper at that exit point. That is a pre-emergency decision taken by NGT. JCo echoed that NGT can decide not to release capacity if they think there might be a constraint, without any evidence of the constraint.

LJ noted that NGT may be correct in the decision to not release capacity, however, the Offtaker has a risk if capacity is not provided. PL noted that NGT in their role as System Operator must make decisions aligned with the obligations of performing that role.

PL identified that under BAU conditions, there is only a risk of the unavailability of short-term exit capacity for a User at multiple shipper points. LJ highlighted that the issue is that the exit capacity is either bought annually or a day ahead and you do not know a day ahead whether it will be BAU.

EF clarified that in non-constraint situations, there is no issue, and the capacity is available up to the baseline, regardless of which mechanism is used to procure it. The issue hinges on the fact that shipper parties, do not know a year ahead, which days will be constrained. PL and JCo agreed with EF's articulation of the issue.

ii) Existing limitation on Transporters' obligations to make gas available for offtake to Exit Capacity held (TPD J3.10.5) is for commercial purposes only i.e. determination of payments under J3.5:

PL explained that NGT's view is that J3.10.5 appropriately limits NGT's obligation to make gas available for offtake (J3.2). If the limitation is removed, J3.2 becomes an absolute obligation which means the transporter would need to make gas available to offtake under any circumstances. Hence, NGT does not believe it is appropriate to remove the limitation.

EF asked whether this forms part of NGT's objection to the proposal being self-governance. PL noted that given that the Modification is seeking to make the transporters' obligations to supply gas more absolute, in the absence of any limitations, NG believes that this Modification should be an Authority Directive. PL further noted that J3.10.5 relieves NGT of an obligation to make gas available for offtake, this does not prohibit making that gas available for offtake i.e. if operational conditions allow this.

LJ highlighted the need for further clarification on the circumstances where NGT could not make gas available. LJ asked whether this means that there is no gas at all, which would be an emergency, or do NGT has a contractual agreement to maintain pressure to a certain level. LJ asked for clarification on the risk for users if gas is not available.

PL noted that the responses from the December webinar concern one of the tools available for NGT in the event of a constraint is to look to oblige and enable flows down to the level of capacity to help users. One of the tools they could use is Capacity Buyback which is deemed to be the most efficient and effective course of action to alleviate the constraint. It would be contractually odd for NGT to have the capability to Buyback capacity while having an obligation elsewhere in the code to make unlimited gas available for offtake.

JCo pointed to Section B of the code that says you do not have to hold capacity in order to flow adding that this is a fundamental principle. JCo noted that even if somebody held capacity, and NGT bought it all back, that does not stop the User from flowing. PL asked whether the

suggestion is that Buyback should be used as a constraint measurement tool. JCo stated that they may work if people do not wish to overrun, however, the penalties for an overrun can be low, and somebody may be willing to bear the penalties.

David Mitchell (DM) enquired whether there is a plan for Class 1 sites with the obligations being discussed as there needs to be visibility in the DN networks

LJ noted that when procuring capacity, NGT has an obligation to make gas available. LJ asked what changes operationally with this purchase of capacity and suspected that NGT do not do anything differently. PL explained that they have the obligation to make gas available up to that capacity level and if there is no limitation on them providing gas, they will allow greater flows.. JCo agreed with PL that it is a fundamental obligation, however, linking back to 'not having to hold capacity for gas to flow', holding of capacity becomes irrelevant. JCo noted that transporters need tools to manage the system and those are called emergency tools.

iii) Messaging from the December 2022 webinar was that OPNs are not validated against a User's Exit Capacity holding:

PL explained that it is important to note that the responses to the questions were provided in the context of BAU conditions. PL clarified that under BAU conditions, an OPN will not be rejected due to insufficient capacity being held.

For further information on the responses, please refer to the published slides.

PL noted that the presence of contractual constraints in the UNC on volumes to offtake present within the OPN, remains a key tool for the management of capacity constraints, therefore, NGT does not support the proposal for that capability to be removed. PL further clarified that the key thing for NGT from a System Management point of view is that they need to have the contractual ability to limit the OPNs to capacity levels with the purpose of bringing the flows down.

JCo noted that we have previously established that you do not have to have the capacity to hold flow and stated that they will agree to disagree on this point. LJ suggested that most of the Code and the Operating Arrangements assume that most of the time we will be operating under BAU and there is an assumption that people will procure capacity to match their flow but there is a gap between BAU and potential for emergency and constraints which leads to the inconsistencies. There is a risk of not having access to the capacity and need to mitigate those risks. JCo agreed with LJ.

PL noted that NGT cannot physically stop parties from taking gas but there is an expectation that they will reduce offtake. JCo agreed that there is expectation and noted that the gap between BAU and emergency needs to be articulated.

PL referred to J4 as a potential remedy. Jeff Chandler (JC) stated that J4 is not enough as if a gas emergency is declared and action is taken by ESO, they have the right to flow gas without exit capacity.

LJ enquired whether 4.2.1 and 4.5 are related to capacity or whether it is only related to exit provisions. PL clarified that 4.2.1 and 4.5 relate to capacity.

PL concluded that NGT would not physically prevent offtake gas other than in an emergency.

Legal Text:

LJ presented the amendments made to the Legal Text. For further information, please refer to the published papers.

LJ asked whether it would make sense to remove the requirement in 4.5.2. PL noted that would be a draconian step and suggested saying 'the transporter should be obliged to accept an OPN with the volume that exceeds the Permitted Offtake Rate'. PL pointed to the messaging from the webinar that under BAU conditions, NGT would not apply the rules, and where possible, they would enable parties to offtake volumes as they see fit for the network, but NGT requires the capability to limit the levels in certain conditions.

JCo highlighted that the limits should come through established rules. PL noted that all constraint situations will not be the same which requires some flexibility. JCo stated that she does not disagree with that, however, there needs to be some consistency with commercial arrangements.

PL noted that he is not supporting the removal of offtake provisions in the code, he is instead suggesting adding scope in that text that reflects that NGT is not obliged to accept an OPN where the rates exceed the permitted offtake rate. JCo asked whether PL agreed that they do not need the capacity to hold flows. PL stated that he agrees with that, however, he believes that there are circumstances when NGT needs the tools to manage the system and one of those tools is to constraint parties to flow to their capacity holdings. JCo disagreed with the second part of PL's statement.

JCo asked whether NGT wants to constraint flows in the potential case of an emergency without being certain that there is an emergency, costing their customers millions of pounds. PL asked whether there is a view that NGT inappropriately withholds capacity. JCo stated that they could hold capacity a day ahead without concrete evidence that an emergency was imminent. JCo noted that they are trying to ensure NGT will not limit flows without a certain case of an emergency.

PL noted that it is for the proposer to set out what changes they wish to make to the provisions. Jeff Chandler (JC) noted that the Code is unclear. It appears that NGT cannot stop offtake of gas by generators even if it thinks the system is tight. If there are instructions from the Electricity System Operator to generate, they will carry on generating at which point, NGT may need to declare an emergency.

LJ noted that when submitting OPNs, we would intend to give NGT the best view of what we intend to offtake so that NGT has that information to hand. PL stated that he is not in the position to support the removal of any linkage to the permitted offtake rate and expressed sympathy with the revision of 4.5.2 or afford flexibility to allow NGT to accept OPNs that do not comply with the offtake rate.

JCo noted that they do not expect PL to be in the position and accepted that NGT must defend its position. JCo enquired about the process of self-governance approval or the modification going to Ofgem. EF explained that the Panel may determine whether the Modification should be self-governance or should it go to Ofgem for approval. The Modification is currently self-governance, however, considering NGT's strong views, the panel may consider referring this to the Authority.

LJ presented the remainder of the amendments to the Legal Text. LJ raised a question about the difference between 'Maximum permitted rate' and the capitalised 'Maximum Permitted Offtake' and asked whether they should they be the same.

New Action 0101: NGT (PL) to clarify the difference between the Maximum permitted rate in accordance with paragraphs 3.10.2 and 3.10.3 and how is it different from the capitalised Maximum Permitted Offtake and whether they should be the same.

JCo pointed to Annex B3 6.1 (b) for the definitions related to the Maximum permitted rate and highlighted the need for defined terms. JCo noted that there appears to be a proliferation of terms that might require a clean-up.

3.0 Next Steps

The Workgroup expressed the need for additional time to reflect upon the different perspectives presented by NGT. EF agreed to find out whether the Workgroup meeting can fit into the March Transmission Workgroup, however, if that agenda is packed, he will consider a different date in March. The Workgroup agreed with a meeting in March.

Post meeting note – this Workgroup will next meet as part of the Transmission Workgroup on 07 March 2024

4.0 Any Other Business

None.

5.0 Diary Planning

0860 meetings are listed at: <https://www.gasgovernance.co.uk/0860>

All other Joint Office events are available via: www.gasgovernance.co.uk/events-calendar/month

Time / Date	Paper Publication Deadline	Venue	Workgroup Programme
10:00 Thursday 07 March 2024	5pm Wednesday 28 February 2024	Microsoft Teams	Development of Proposal Consideration of Legal Text Development of Workgroup Report

Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Target Date	Status Update
1101	29/01/24	2.0	NGT (PL) to clarify the difference between the Maximum permitted rate in accordance with paragraphs 3.10.2 and 3.10.3 and how is it different from the capitalised Maximum Permitted Offtake and whether they should be the same.	PL (NGT)	March 2024	New Action