

UNC Workgroup 0636 Minutes
Updating the parameters for the NTS Optional Commodity Charge
Monday 18 December 2017
at Pure Office, Tournament Fields, Warwick, CV34 6RG

Attendees		
Chris Shanley (Chair)	(CSh)	Joint Office
Helen Bennett (Secretary)	(HB)	Joint Office
Christiane Sykes*	(CSy)	Shell
Danishtah Parker*	(DP)	Cadent
David Cox*	(DC)	London Energy Consulting
Debra Hawkin	(DH)	TPA Solutions
Graham Jack*	(GJ)	Centrica
Henk Kreuze	(HK)	Vermillion
Jag Basi	(JB)	ESB
John Costa	(JCo)	EDF Energy
Matthew Hatch*	(MH)	National Grid NTS
Matt Hatch*	(MH)	National Grid NTS
Nick Wye*	(NW)	Waters Wye Associates
Nigel Sisman	(NS)	Sisman Energy Consultancy
Penny Garner	(PG)	Joint Office
Richard Fairholme	(RF)	Uniper
Robert Wigginton*	(RW)	Wales & West Utilities
Sean Hayward	(SH)	Ofgem
* via teleconference		

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0636/181217>

1.0 Welcome

It was agreed that approval for the minutes from the previous meeting held on 07 December 2017 would be sought at the next meeting to be held on 04 January 2018.

There was a short discussion on the quoracy status of the meeting and future meetings, it was agreed that this meeting was quorate and CSh added that quoracy is less of an issue for this workgroup unless we are making decisions.

2.0 Update on outstanding actions

CSh took the opportunity to review all outstanding actions prior to concentrating on the development of the Workgroup Report.

- 0636-1101 DH to provide required clarification as to what M relates to within the formula in section 5 Solution. **Closed**
- 0636-1102 DH to make amendments to the Modification adding further clarity and relevant detail to the proposition; solution and the avoidance of doubt section. **Closed**
- 0636-1103 Referring to 'For the avoidance of doubt' (i) in Modification 0636, if the site is new, when does it cease to be new – explanation to be included in the modification. **Closed**

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- 0636-1104 DH to provide an explanation for inclusion in to the Modification of what 'seasonal' represents. **Closed**
- 0636-1105 DH to arrange an offline meeting to gain a better understanding of the current process with National Grid and Xoserve, possibly separate meetings. Is this proposed solution possible and if so what will it take to achieve it in the most efficient way. **Closed**
- 0636-1106 CH to check if raw data can be provided for the workgroup report. **Closed**
- 0636-1202 CSy to summarise the point being made regarding Network access regulations and forward it in for the Workgroup Report. **Carried Forward**

3.0 Progress update

CSh advised the Workgroup that to make better use of the time allocated for this meeting it would be better to move straight on to Agenda item 4.

4.0 Development of the Workgroup Report

CSh explained that the initial Workgroup Report has been updated to reflect the changes that DH has made following the Initial Reps list update and that the report reflects the current version of the Modification. CSh added that lots of the information discussed by the Workgroup to date and the comments made in the Initial Reps had gone in to the draft report and the intention today is to capture the workgroups views and further develop the report by assigning action owners and contributors.

During an onscreen review of the Workgroup Report CSh began on page 7 of the initial report and advised that the Consumer Impact Assessment needs to be completed, it was agreed that DH would provide the information that will feed this table. It was mentioned that most of the sections within the Consumer Impacts table are covered elsewhere in the Workgroup Report.

New Action 1204: DH to update the Consumer Impact Assessment table and provide the text to be included.

JB asked, regarding the Impact on Consumers, does that include Northern Ireland. It was mentioned that Northern Ireland have their own regulator and that this Modification is looking at GB impacts and methodology. JB thinks that there may be EU obligations that may need to be honoured.

New Action 1205: SH will confirm if the Impact on consumers should include Northern Ireland

There followed a discussion around the use of the wording cross-subsidy. National Grid NTS were asked to provide an opinion on the Consumer Impacts section wording in the Workgroup Report, which states, 'If implemented, the modification will reduce an effective current cross-subsidy within the current charging methodology'. GJ suggest the text should read 'the Modification will lead to a redistribution of transportation costs among the shippers'.

New Action 1206: MH to confirm the National Grid NTS view on whether the current regime is a cross-subsidy and/or whether the re-distribution of shipper costs is more appropriate wording.

RW would like a statement inserted to say that if the discount is reduced it would increase the incentive for Users to build their own pipeline.

CSy agreed as long as it is reminded this is issue is about avoiding inefficient bypass.

RF advised that the latest discussions in the 0621 Workgroup is that National Grid NTS may not be including Optional Commodity Charge (OCC) within the Modification 0621 proposal and therefore Modification 0636 may not be an interim solution as intended.

Workgroup Impact Assessment

a) Background and context around GCD11

Moving on to the Workgroup Impact Assessment, MH stressed that the information presented must state that a conclusion was not drawn from the GCD11 project. CSh confirmed that this had been captured but comments on this section from NTS were welcome.

b) Governance around the current methodology for the OCC

GJ disagreed with the proposer's view that there is enough detail around the methodology and suggested there needs to be standalone methodology to help users understand how the proposed formula has been arrived at instead of referencing the GCD11 document which is now 2 years out of date.

Some members requested a clear statement of how the short haul formula was derived should be included in the proposal/UNC due to the significant amounts involved.

However, the proposer felt that the spreadsheet to be included as an appendix clearly explains the steps taken to build up the proposed formula. RW highlighted that DN Entry within Section Y could provide ideas of how to provide further details to aid understanding to Users.

New Action 1207: DH to look at the section Y (DN Entry) and the description of the formula to see if this approach could be adopted to provide additional detail to support the proposal.

c) Issues with GCD11 incl. GCD11 Formula not subject to full stakeholder review

There was disagreement as to whether the provision of cost data and views on cost inputs for the OCC was feasible. DH confirmed that some information was made available as part of Modification 0621 discussions and she would consider how this could be included in the report.

Post Meeting Update: *The proposer will provide GNI pipeline information and German information from the Modification 0621 Workgroup meetings which may be included as an appendix.*

d) Pipeline Sizes: Inclusion of larger and smaller sizes

NW mentioned that the analysis provided by National Grid NTS was provided as an illustration and this proposal has adopted that analysis, even though the analysis was never fully explored.

DH talked the Workgroup through the table on page 11 which shows 1998 Original Portfolio of pipeline sizes and the GCD11 Option 2 proposed pipeline sizes. Some members felt the need for further information/justification around the suggestions from GCD11 for option 2.

New Action 1208: MH to provide further justification on the pipeline size suggestions that were used as part of Option 2 (GCD11).

e) Assumptions underlying allocation of pipeline sizes to flow/distance

With regards to the statement of 'transparency of Maximum NTS Exit Point Offtake Rate (MNEPOR) values needs to be considered' DH indicated she does not feel there is a lack of transparency around the MNEPOR and advised this data is published on the National Grid Website.

CSh agreed to check to see who provided this comment originally, with the intention of removing this section if no issues existed.

f) Cost Data

DH agreed to provide wording for a) Use of Steel Index and b) Application of RPI.

In relation to the section on costs of building a pipeline, GJ believes there is a mothballed offshore pipeline that could be used to deliver gas from the UKCS to Bacton which would bypass the NTS. Therefore, there could be instances where Users decide to take pipelines out of the mothballed state if the OCC rate was reduced. RF confirmed EON had built a bypass before 1998 and it was now mothballed.

The point was made that information concerning 'mothballed' pipelines could be provided to Ofgem if it could not be included in the report for confidentiality reasons

Consider the links, relationship and impacts with the relevant elements of modification 0621 – Amendments to Gas Transmission Charging Regime.

GJ mentioned that his understanding was that Modification 0636 was intended to be an interim step but it could now be an enduring solution due to Modification 0621 including none or less rules relating to the OCC than originally envisaged.

MH confirmed that unless Modification 0621 puts something in place that counteracts Modification 0636, then Modification 636 will technically be the enduring solution. GJ feels there is a serious omission in Modification 0636 and CSh advised that this section of the Workgroup Report will be updated to reflect the comments made.

Assessment of alternative means to achieve objective

Not discussed.

Development of Solution (including business rules if appropriate)

Not discussed.

Assessment of potential impacts of the modification

a) Interim Changes

RF and JB reiterated the point that they 'thought' OCC would be static until 2019 and the proposed changes were significant. RF felt that this should be changed to a 'reasonable expectation'.

GJ also said that there was a general expectation as a result of statements in GCD11 that OCC would be reviewed and changed for October 2019.

Some members felt that the timeframe for implementation needs to provide a decent amount of notice prior to any changes taking effect.

DH mentioned that updates could be made to the charges twice a year and, with regards to the notice period, the Charging regime always had a view that once things are on the table that it is the start of a notice of change.

GJ responded that there needs to be a decent amount of notice to change, as a large number of Shippers need to know what the change will be and when it will start from so that they can make changes to their commercial arrangements. Shippers need time to react to this big change.

GJ also mentioned that it is a serious omission that the solution does not address IPs post 2019, which the TO commodity charge will no longer apply.

DH to provide some text for this section which was read out in the meeting and CSh will make some changes to reflect the comments made.

b) Determination of cost recovery redistributed to Non-OCC Users from OCC Users[cross-subsidy]

JB mentioned impacts on the costs of power would need to be considered, as this could impact on CCGT investment.

DH clarified that this is redistribution of costs from one group of customers to another.

NS felt that the current arrangements provided a two-tier charging regime – those on the OCC and those on standard commodity charges. The cost of underlying pipework and potential bypass was no longer an issue as NTS tariffs were low.

c) Analysis of OCC utilisation and OCC rates

DH agreed to provide further information and text for this section.

DH explained the breakdown by load sizes in section C which is new analysis, which was requested at the last workgroup meeting to illustrate the benefits to different customer groups/load sizes. The new table highlighted that the savings for domestic customers were small (few pounds) but could be large (thousands of pounds) for industrial sites/embedded power stations.

There followed discussion regarding some of the Industrial data provided and what kind of customers were in the I1 to I5 bands and how these relate to EUC bands used in the UNC. RW agreed to support the proposer in this regard.

RF felt that there is an assumption is that benefits are not being passed through to customers and stated some contracts were linked to the OCC. DH felt that OCC savings were not available to customers connected to the GDNs and therefore her simple analysis was justifiable.

RF said that a caveat needs to be put in against the analysis being discussed. There are many things that may have an adverse impact such as higher electricity prices and gas prices.

CSh will make some changes to reflect the comments made.

d) Contractual arrangements

After reviewing the wording in the report, a discussion was had on the contractual arrangements in place. RF confirmed some contracts are in place that will be impacted by this proposal; some are multiple year and some were struck based on view that no changes were expected before October 2019. DH commented that she expected some Gas Year basis contracts but was surprised to know that some contracts had been struck as far out as October 2019.

A discussion was had on the value of including specific question in the consultation to gather supporting evidence for the workgroup report or whether it needed to be provided to Ofgem direct.

Assessment of implementation costs

When asked, DH confirmed the ROM from Xoserve has been completed and that there are no issues with regards to systems. DH advised the ROM quoted between 4 and 6k.

Assessment of legal text

There followed a short discussion regarding legal text including that there has been some good suggested legal text provided by the proposer.

A formal request will be made to the December Panel for legal text to be provided and it is hoped it will be available for review on the workgroup on the 04 January 2018.

New Action 1209 MH to advise the National Grid NTS team that legal text will be required by 4 January 2018 for review by the workgroup.

Post Meeting Update: The proposer has provided additional text for the Workgroup Report and this will be shown in the next version of the report.

5.0 Any Other Business

No AOB presented

6.0 Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/Diary

Time / Date	Venue	Workgroup Programme
13:00 Thursday 04 January 2018	Elaxon, 4th Floor, 350 Euston Road, London, NW1 3AW	<ul style="list-style-type: none">• Workgroup 0636, to take place after completion of Transmission Workgroup• Completion of Workgroup Report
10:00 to 13:00 Monday 08 January 2018 (provisional)	Teleconference	<ul style="list-style-type: none">• Completion of Workgroup Report (if not completed on the 04 January)

Action table as at 18 December 2017

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
0636-1101	06/11/17	2.2	DH to provide required clarification as to what M relates to within the formula in section 5 Solution.	TPA Solutions (DH)	Complete
0636-1102	06/11/17		DH to make amendments to the Modification adding further clarity and relevant detail to the proposition; solution and the avoidance of doubt section.	TPA Solutions (DH)	Complete
0636-1103	06/11/17		Referring to 'For the avoidance of doubt' (i) in Modification 0636, if the site is new, when does it cease to be new – explanation to be included in the modification.	TPA Solutions (DH)	Complete
0636-1104	06/11/17		DH to provide an explanation for inclusion in to the Modification of what 'seasonal' represents.	TPA Solutions (DH)	Complete
0636-1105	06/11/17		DH to arrange an offline meeting to gain a better understanding of the current process with National Grid and Xoserve, possibly separate meetings. Is this proposed solution possible and if so what will it take to achieve it in the most efficient way.	TPA Solutions (DH)	Complete
0636-1202	07/12/17	2.1	CH to check if raw data can be provided for the workgroup report.	NG-NTS	Complete
0636-1203	07/12/17	2.1	CSy to summarise the point being made regarding Network access regulations and forward it in for the Workgroup Report.	Shell	Carried Forward
0636-1204	18/12/17		DH to update the Consumer Impact Assessment table and provide the text to be included.	Proposer HK/DH	Pending
0636-1205	18/12/17		SH will confirm if the Impact on consumers should include Northern Ireland	Ofgem (SH)	Pending

0636-1206	18/12/17		MH will confirm the National Grid NTS view on cross-subsidy and confirm what the current regime is with regards to cross-subsidy or re-distribution of costs.	National Grid NTS (MH)	Pending
0636-1207	18/12/17		DH to look at the section Y (DN Entry) and the description of formula to see if there can be anything added that will aid the approval from the Workgroup to be able to move forward. To provide some additional detail.	Proposer HK/DH	Pending
0636-1208	18/12/17		MH to provide further justification on the pipeline size suggestions that were used as part of Option 2 (GCD11).	National Grid NTS (MH)	Pending
0636-1209	18/12/17		MH to advise the National Grid NTS team that legal text will be required by 4 January 2018 for review by the workgroup.	National Grid NTS (MH)	Pending