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**UNC Workgroup 0636 0636A Minutes**  
**Updating the parameters for the NTS Optional Commodity Charge**  
**Friday 02 February 2018**  
**at Elexon, 4<sup>th</sup> Floor, 350 Euston Road, London NW1 3AW**

**Attendees**

Chris Shanley (Chair)	(CS)	Joint Office
Mike Berrisford	(MB)	Joint Office
Andrew Pearce	(AP)	BP
Charles Ruffell	(CR)	RWE Supply & Trading GmbH
Debra Hawkin	(DH)	TPA Solutions
Graham Jack	(GJ)	Centrica
Jag Basi	(JB)	ESB
Jeff Chandler*	(JCh)	SSE
John Costa	(JC)	EDF Energy
Julie Cox*	(JCo)	Energy UK
Matthew Hatch	(MH)	National Grid NTS
Nahed Cherfa	(NC)	Statoil
Nick Wye	(NW)	Waters Wye Associates
Nigel Sisman*	(NS)	Sisman Energy Consulting Ltd
Richard Fairholme*	(RF)	Uniper
Richard Miller*	(RM)	Ofgem
Steve Pownall	(SP)	Xoserve

\* via teleconference

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0636/020218>

The Workgroup Report is due to be presented at the UNC Modification Panel by 15 March 2018.

## **1.0 Introduction and Status Review**

In welcoming everyone to the meeting, CS provided a brief explanation of the proposed approach to the meeting highlighting that the main focus would be the continued development of the (draft) Workgroup Report.

### **1.1. Approval of Minutes (19 January 2018)**

The minutes of the previous meeting were approved.

### **1.2. Pre-Modification Discussions**

#### **1.2.1. 0636B – Updating the parameters for the NTS Optional Commodity Charge**

JCh confirmed that SSE had now formally raised the modification, which is due to be considered at the 15 February 2018 Panel meeting.

## **2.0 Consideration of Legal Text**

MH explained that discussions are still ongoing with the respective Proposers of the modifications (0636, 0636A and 0636B), with the key points being:

- 0636 legal text is now close to completion;
- 0636A legal text is not yet being considered on the grounds that the Proposer is still examining the transitional aspects with a view to amending the modification in due course, and until such a time as the modification is amended, production of the legal text remains difficult;
- it is National Grid NTS's view that based on the above discussions 'transitional' requirements should be included within all of the 0636 suite of modifications, although it acknowledges that this is ultimately up to the respective Proposers, and
- should any of the 0636 suite of modifications be amended, National Grid NTS would accommodate requirements within the legal text in due course.

Concluding, MH advised that he would be providing an update at the 15 February 2018 Panel meeting as to why the provision of suitable 0636A legal text might possibly be delayed.

### 3.0 Development / Completion of Workgroup Report

An onscreen review of the draft Workgroup Report (v1.2, dated 26 January 2018) was undertaken by the Workgroup, during which CS made changes in response to views being expressed and concerns being raised, as follows.

CS also explained that once 0636B has been considered at the 15 February 2018 Panel, it too would be added to the (draft) Workgroup Report.

When DH questioned whether the information contained within Section 5 was an accurate reflection of the respective modifications (0636 and 0636A), CS agreed to double check.

**New Action 0201: Reference Workgroup Report Section 5 – Solution - Joint Office (CS) to double check whether the text breakdowns actually reflect the 'original' modification text.**

During consideration of the 'Consumer Impact Assessment' table, CS advised that this would be enhanced in the next iteration of the Workgroup Report to reflect today's discussions. When asked, CS advised that the 'liquidity concerns' voiced previously in Workgroup discussions has been captured elsewhere in the document.

Moving on to page 17 of the document, CS pointed out the placeholder for Ofgem's response to its outstanding action (0106), which would be updated in due course.

CS advised that the red text ('Notification of changes to the OCC.....basis') on page 18 would be updated to better reflect Workgroup discussions in the next draft version of the document.

CS pointed out that he would look to enhance the 'Impact on number of sites and distances' statement in due course.

Moving on to consider page 24, CS advised that as far as the 'Trading' bullet point is concerned he would look to expand the statement based on NW's feedback and should anyone else have any points they would like adding, please let him know asap. CS also suggested that the 'Contractual arrangements' statement could be enhanced in due course, subject to any 0636A amendments (i.e. Traders and mid year implementation concerns etc.).

In focusing on the 'Rough Order of Magnitude (ROM) Assessment' on page 25, SP advised that the information provided by Xoserve within the 0636 ROM is indicative only, which could potentially be impacted should DH amend 0636 to include any interim (transitional) aspects.

Some parties voiced their concerns that potentially the ROMs would not accurately reflect costs in terms of the 0636 enduring solution elements, especially when 0621 developments potentially impact as well.

**New Action 0202: Reference the Rough Order of Magnitude Assessment - Joint Office (CS) & Xoserve (SP) to consider how the ROMs could / should be provided in order to best accommodate ALL requirements for the suite of 0636 modifications.**

In considering the Relevant Objectives, parties debated the options on how best to quantify and justify the potential differences between the (three) 0636 modifications.

**New Action 0203: Reference the Relevant Objective Summations – Joint Office (CS) to consider how best to quantify the potential differences between the 0636 suite of modifications.**

Concluding discussions, CS advised that he would now look to update the draft Workgroup Report in line with discussions and feedback before publishing a revised version in time for consideration at the 19 January 2018 Workgroup meeting.

#### 4.0 Review of Outstanding Actions

**Action 0101:** Joint Office (CSh) to add the wording in respect of the Ofgem Impact Assessment to provide clarity.

**Update:** CS explained that a link to the Ofgem Impact Assessment guidance had now been included within the (draft) Workgroup Report. **Closed**

**Action 0104:** SSE (JCh) to discuss with National Grid NTS (MH) how the RPI formula provisions could be updated to include the indexation from 2015 and what supporting analysis could be provided to quantify the impact on charges/parties of the suggested approach.

**Update:** JCh explained that he has been in discussions with National Grid NTS (MH) over the last few weeks and has concluded that he would ensure that 0636B follows a similar short haul based path to Modification 0621, but with the facility to update year on year.

When JCh went on to explain that he is currently awaiting provision of the data before including this within an amended version of the modification, MH advised that he hopes to be in a position to provide the required information by the middle of w/c Monday 05 February 2018. **Carried Forward**

**Action 0105:** SSE (JCh) to discuss with National Grid NTS (MH) the best approach to develop the methodology to be included in the UNC and consequently consider the appropriate level of methodology detail and associated timelines to include in Modification 0636B.

**Update:** JCh explained that he has only had an opportunity for a brief discussion with MH on this matter and outlined that it is heavily dependent upon provision of supporting information, however the aim remains to keep any information at a high-level in order to minimise the impact on the production of legal text.

When asked who would be developing the information, JCh indicated that he would work closely with MH to ensure appropriate alignment with Modification 0621 developments and minimal lead times. **Carried Forward**

**Action 0106:** Ofgem (SH) to discuss with his Ofgem colleagues in order to look to provide guidance around the whether the suite of 0636 modifications need to be compliant with the EU law changes from the outset.

**Update:** In Sean Hayward's absence, RM advised that following a brief discussion with his colleague, he is struggling to fully understand what the Workgroup members concerns might be.

NW once again highlighted the concerns stated at previous Workgroup meetings with regards to the fact that the EU Law is now in place and due to come into effect in May / October 2019 whereby any changes proposed by the suite of 0636 related modifications would potentially be non compliant with the known EU Law requirements, in the event that UNC Modification 0621 (or any of its variants) are not implemented in due time.

CS noted that this had been the subject of a very extensive debate at the 19 January 2018 Workgroup meeting that concluded with the Workgroup seeking an Ofgem view on the matter.

In looking to provide more clarity around the concerns, NW reiterated his concern that all of the 0636 modifications are 'time contingent' and should nothing else change prior to May /

October 2019, the GB industry could potentially fall foul of EU Law – in short, as the law is already in place, do we (the GB industry) need to be cognisant of this fact.

Providing a counter argument, DH suggested that in the event that the 'industry' remains non-compliant by May / October 2019, National Grid NTS would / should be expected to step in and address any issues. MH had previously raised this point that the GB industry (as a whole) would need to develop a UNC proposal if such scenario in relation to 0621 is not implemented in due time and that National Grid NTS would be involved in any such proposal.

When GJ suggested that as the suite of 0636 modifications are clearly predicated on the suite of 0621 modifications this generates significant concerns, CS attempted to summarise the concerns as relating to the fact that any 0636 provisions would be compliant only up to May / October 2019 (i.e. transitional in nature), subject to 0621 provisions being implemented as well, which then means that potentially any 0636 provisions could / would potentially become non-compliant in May / October 2019.

RM agreed to discuss the matter in more detail with both his colleague S Hayward and Waters Wye Associates (NW) offline and look to provide a more definitive (and industry wide generic) view at the next Workgroup meeting (i.e. if we know that a modification is compliant now, but may not be in May / October 2019 should the respective Workgroup (and industry) take these factors into consideration at the time of developing the modification to enable Ofgem to make an informed decision on said modification). **Carried Forward**

**Action 0107:** *Reference UNC Modification 0636A* – Waters Wye Associates (NW) to discuss with National Grid NTS (CW) what information could be provided to support of the 18 January 2018 Panel questions (i.e. Workgroup is asked to consider how the level of the distance cap was decided and how many supply points are affected).

**Update:** In referring to page 4 in the modification, NW indicated that in his opinion the modification (0636A) clearly covers off the 115km distance cap aspects, although if Workgroup participants believe there would be benefit in adding more clarity he would be more than happy to amend the modification.

When some parties voiced their concerns around the accuracy of some of the information being quoted, GJ outlined how changing the point of entry of gas ~~effects~~ affects the distances involved, which can be up to 260km in some examples – in short, bypass lengths can be variable depending upon the entry point and therefore these are subjective assessments.

When asked, MH explained that National Grid NTS are not expecting to provide any more detailed distance related information over and above what has already been provided on the grounds that the 115km figure allows for sufficient distance between two reference points one below and one above the 115km, such that there is a clear cut off of sites on the OCC.

When asked, GJ indicated that he remains unsure as to what figure would / could be deemed more appropriate when all the modification (0621C) is seeking to do is to improve current provisions rather than introduce a radical, all singing solution.

Concluding, CS advised that these points would be captured within the (draft) Workgroup Report in due course. **Closed**

**Action 0108:** *Reference UNC Modifications 0636A* – Waters Wye Associated (NW) to discuss with National Grid NTS (CW) whether analysis could be provided (similar to that provided for 0636) on the impacts of 0636A and provide a view on the potential implications of the April 2018 revenue changes (i.e. allowed revenue drop) and how these might impact upon the 0636 and 0636A proposals.

**Update:** MH provided a brief overview of the spread sheet provided prior to the meeting during which attention focused on four columns (the 'Contracted Pathway on OCC', the 'Unique Pathway on OCC', the 'Offtake on OCC' and the 'Offtakes removed from OCC').

The Workgroup consensus was that the difference between the 49 unique pathways on OCC and the 45 offtakes on OCC represents the difference in the entry points at the same site (possibly involving the same or different shippers). When asked what 'Gas Year' was utilised for the presented figures, MH indicated that he believes that it was 2016/17 data, but would

double check with his colleagues back at National Grid NTS. When then asked whether or not the figures could be updated to 2018/19 data, MH questioned the real benefits behind such an exercise, especially when it is already known that revenues are reducing by circa 16% (TO) and 3% (SO).

In the end, MH agreed to check the impact of revenue movements on the 2018/19 figures and thereafter add a footnote to the spread sheet.

When asked whether or not he would also like to see the 0636B data added to the spread sheet, JCh confirmed that he would. **Carried Forward**

**Action 0109:** *Reference UNC Modifications 0636A* – Waters Wye Associates (NW) to discuss with Xoserve (SP) how to best address the potential system issues, and whether it would be more appropriate to 'cover off' requirements via contractual changes. NW to include National Grid NTS (MH) in the loop with regards to any charging or notification related aspects.

**Update:** NW explained that following several conference calls between himself and Xoserve (SP) the matter remains unresolved, although a few key factors are now apparent, namely:

- an enduring solution is unlikely to be delivered by October 2018;
- an interim solution will be needed for delivery by October 2018;
  - a distance cap will need to be imposed;
  - All those shorthaul parties over the 115km Distance cap would need to be managed through contractual remedies and manual workaround(s); between National Grid, Xoserve and the affected shippers
- consideration of what manual workaround processes will be required remains ongoing including what processes National Grid NTS needs to adopt to ensure responsibility resides with Shippers to remain on a OCC rate or the standard rate. MH is discussing internally with National Grid NTS lawyers to ensure clarity can be provided within any legal text.

MH provided some additional clarification by explaining that in the context of both the 0621 and 0636 suites of modifications, all parties would be taken off their short haul arrangements (i.e. not on current OCC rate(s)) and would then be invited to re-nominate on the UK Link / Gemini systems. This proposed approach 'covers off' National Grid's legal requirements whilst also allowing parties to make informed decisions. MH also reminded everyone present that Modification 0621 (and alternates) is looking at very similar transitional validation requirements, and as a consequence, National Grid NTS anticipates amending its (0621) modification accordingly, including any notification related process requirements.

When asked if the proposed process requires parties to end their contracts, MH explained that we are not talking contracts per se, rather we are focusing on rates.

In explaining that National Grid NTS is looking to refine the options in order to provide a suitable basis for provision of supporting legal text, MH provided a high level overview of the key potential legal steps within the processes, whether automated (system) or manual (workaround).

In highlighting that an allowance would be needed in order to enable Shippers to speak to their respective 'counter parties' GJ suggested that consideration of the potential impacts of the 150 day notification requirements is needed. In acknowledging the point, MH pointed out the importance behind having the transitional steps that parties would have to undertake as part of the change.

In recognising the various points being put forward by Workgroup participants, NW explained that he believes there is little benefit in amending 0636A until the more complex back office aspects are better understood. When NW went on to advise that he does believe that there maybe a need for a form of withdrawal notice and distance matrix type of approach, others suggested that whilst this may well work for 0636A, it does not necessarily work for 0636 or 0636B.

In indicating that he would now look to amend the modification (0636A) to better reflect Workgroup feedback and the additional information now becoming available, NW advised that he would not be able to provide a Rough Order of Magnitude (ROM) at this time until even more supporting information is developed, or forthcoming.

When asked why a party with a distance cap of 115km could still continue to receive a 'system offer', NW responded by explaining that this is due to the automated nature of the offer and that the system cannot be changed in the next 8 months to add this validation feature, hence the need for a workaround process. MH observed that UNC Modification 0621 had recently been amended (but not formally released to the industry at this time) to try to cater for some of these aspects.

When asked why the system solution appears to be so complex, MH referred to the 0621 changes before explaining that it is not a simple solution, and this is why a new distance cap related report would be needed going forwards in order to 'audit' the manual workaround processes ensuring sites that should not be re-nominated against are able to be checked and dealt with. SP explained how UK Link (SAP) calculates the shorthaul rates following receipt of a file provided by National Grid. These new shorthaul rates are then transferred into Gemini. Gemini calculates the shorthaul adjustment invoices, before returning the information to UK Link (SAP). MH explained that in essence, all parties are off and should they not reapply then they would default to the standard tariff. GJ provided a brief explanation around how the current distances are calculated and how these relate to the current tariffs.

When asked whether one option could be to simply remove the current UK Link system and associated processes, SP responded by advising that none of the 0636 mods required removal of the NTS shorthaul arrangements. There was a further question as to the requirement for changes to UK Link file formats (new Reason Codes) to which SP indicated there is potentially a 6 month lead time through the DSC Change Management Committee.

SP went on to explain that Xoserve would prefer all the associated business rules to be identified within the respective 0636 modifications in order that they might apply a consistent approach to production of the ROM(s). **Carried Forward**

**Action 0110:** *Reference UNC Modification 0636 0636A - Waters Wye Associates (NW)* to discuss the proposals with Traders and thereafter provide feedback to the Workgroup of any potential impacts.

**Update:** NW explained that having discussed the matter with Traders, the consistent view being fed back is that future trading would carry on for existing short haul, although there would be a need to a sufficient notice period.

Traders point out that a mid year change has a higher impact than a change undertaken in October (the start of the gas year) and that any post October change potentially has a significant impact on contractual arrangements (i.e. unwinding trade hedges for a mid year change etc.).

CS advised that a 'placeholder' has been placed within the (draft) Workgroup Report in order to ensure this is considered. **Closed**

**Action 0111:** *Reference development of the Workgroup Report – National Grid NTS (MH)* to look to double check and clarify the 49 sites / 62 shipper routes (short haul contracts) relationship figures (i.e. how many of each).

**Update:** Please refer to item action 0108 above for more details. **Closed**

**Action 0112:** *Reference UNC Modification 0636 Relevant Objectives – TPA Solutions (DH)* to discuss with the National Grid NTS Charging Team in order to ascertain whether it is appropriate to enhance/change the relevant objectives wording to reflect 0636.

**Update:** DH explained that following discussions with National Grid NTS after the 19 January 2018 Workgroup meeting, she remains of the view that the relevant objectives justifications for her modification (0636) remain valid. CS advised that the various Workgroup views relating to the relevant objectives for each (0636) modification would be captured within the (draft) Workgroup Report in due course.

GJ once again reiterated his charging methodology related concerns and the relationship to UNC requirements. In short, he believes that it hinges on having adequate governance in place and as a consequence he remains of the view that including the methodology aspects would be beneficial.

MH advised that National Grid NTS would be looking to update the industry on the methodology requirements for 0621 that could then potentially be incorporated into 0636 modification(s) in due course. **Closed**

## 5.0 Next Steps

CS highlighted that a number of useful actions had been noted and he expected that they would lead to further development of the workgroup report.

## 6.0 Any Other Business

None.

## 7.0 Diary Planning

Further details of planned meetings are available at: [www.gasgovernance.co.uk/Diary](http://www.gasgovernance.co.uk/Diary)

Workgroup meetings will take place as follows:

Time / Date	Venue	Workgroup Programme
10.00 to 15.30 Monday 19 February 2018	Elaxon, 4 <sup>th</sup> Floor, 350 Euston Road, London NW1 3AW – <i>to be confirmed in due course</i>	Standard agenda items plus: <ul style="list-style-type: none"><li>• Consideration of Legal Text</li><li>• Development / Completion of Workgroup Report 0636 0636A</li></ul>
10.00 to 15.30 Wednesday 28 February 2018	Elaxon, 4 <sup>th</sup> Floor, 350 Euston Road, London NW1 3AW – <i>to be confirmed in due course</i>	Standard agenda items plus: <ul style="list-style-type: none"><li>• Consideration of Legal Text</li><li>• Completion of Workgroup Report 0636 0636A</li></ul>

**Action table as at 02 February 2018**

<b>Action Ref</b>	<b>Meeting Date</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
0101	04/01/18	2.0	To add the wording in respect of the Ofgem Impact Assessment to provide clarity.	Joint Office (CSh)	Update provided. <b>Closed</b>
0104	19/01/18	2.1	SSE (JCh) to discuss with National Grid NTS (MH) how the RPI formula provisions could be updated to include the indexation from 2015 and what supporting analysis could be provided to quantify the impact on charges/parties of the suggested approach.  <u>Update (02/02/18)</u> : analysis to be included within (and to mirror) data provided by National Grid NTS for 0636/A.	SSE (JCh) & National Grid NTS (MH)	<b>Carried Forward</b>
0105	19/01/18	2.1	SSE (JCh) to discuss with National Grid NTS (MH) the best approach to develop the methodology to be included in the UNC and consequently consider the appropriate level of methodology detail and associated timelines to include in Modification 0636B.	SSE (JCh) & National Grid NTS (MH)	<b>Carried Forward</b>
0106	19/01/18	2.1	Ofgem (SH) to discuss with his Ofgem colleagues in order to look to provide guidance around the whether the suite of 0636 modifications need to be compliant with the EU law changes from the outset.	Ofgem (SH)	<b>Carried Forward</b>
0107	19/01/18	3.0	<i>Reference UNC Modification 0636A</i> – Waters Wye Associates (NW) to discuss with National Grid NTS (CW) what information could be provided to support of the 18 January 2018 Panel questions (i.e. Workgroup is asked to consider how the level of the distance cap was decided and how many supply points are affected).	Waters Wye Associates (NW) & National Grid NTS (MH)	Update provided. <b>Closed</b>
0108	19/01/18	3.0	<i>Reference UNC Modifications 0636A</i> – Waters Wye Associated (NW) to discuss with National Grid NTS (CW) whether analysis could be provided (similar to that provided for 0636) on the impacts of 0636A and provide a view on	Waters Wye Associates (NW) & National Grid NTS	<b>Carried Forward</b>



			<p>the potential implications of the April 2018 revenue changes (i.e. allowed revenue drop) and how these might impact upon the 0636 and 0636A proposals.</p> <p><u>Update (02/02/18)</u>: MH agreed to check the impact of revenue movements on the 2018/19 figures and thereafter add a footnote to the spread sheet.</p>	(CW)	
0109	19/01/18	3.0	<p><i>Reference UNC Modifications 0636A</i> – Waters Wye Associates (NW) to discuss with Xoserve (SP) how to best address the potential system issues, and whether it would be more appropriate to ‘cover off’ requirements via contractual changes. NW to include National Grid NTS (MH) in the loop with regards to any charging or notification related aspects.</p>	Waters Wye Associates (NW) & Xoserve (SP) & National Grid NTS (MH)	<b>Carried Forward</b>
0110	19/01/18	3.0	<p><i>Reference UNC Modification 0636 0636A</i> - Waters Wye Associates (NW) to discuss the proposals with Traders and thereafter provide feedback to the Workgroup of any potential impacts.</p>	Waters Wye Associates (NW)	Update provided. <b>Closed</b>
0111	19/01/18	5.0	<p><i>Reference development of the Workgroup Report</i> – National Grid NTS (MH) to look to double check and clarify the 49 sites / 62 shipper routes (short haul contracts) relationship figures (i.e. how many of each).</p>	National Grid NTS (MH)	Update provided. <b>Closed</b>
0112	19/01/18	5.0	<p><i>Reference UNC Modification 0636 Relevant Objectives</i> – TPA Solutions (DH) to discuss with the National Grid NTS Charging Team in order to ascertain whether it is appropriate to enhance/change the relevant objectives wording to reflect 0636.</p>	TPA Solutions (DH)	Update provided. <b>Closed</b>
0201	02/02/18	3.0	<p><i>Reference Workgroup Report Section 5 – Solution</i> - Joint Office (CS) to double check whether the text breakdowns actually reflect the ‘original’ modification text.</p>	Joint Office (CS)	<b>Pending</b>

0202	02/02/18	3.0	<i>Reference the Rough Order of Magnitude Assessment - Joint Office (CS) &amp; Xoserve (SP) to consider how the ROMs could / should be provided in order to best accommodate ALL requirements for the suite of 0636 modifications.</i>	Joint Office (CS) & Xoserve (SP)	<b>Pending</b>
0203	02/02/18	3.0	<i>Reference the Relevant Objective Summations – Joint Office (CS) to consider how best to quantify the potential differences between the 0636 suite of modifications.</i>	Joint Office (CS)	<b>Pending</b>