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**UNC Workgroup 0636 Minutes**  
**Updating the parameters for the NTS Optional Commodity Charge**  
**Wednesday 21 March 2018**  
**at Joint Office at Pure Offices, Lake View House, Tournament Fields,**  
**Warwick CV34 6RG**

**Attendees**

Chris Shanley (Chair)	(CSh)	Joint Office
Helen Cui (Secretary)	(HCu)	Joint Office
Andrew Pearce	(AP)	BP
Carlo Rossini	(CR)	Energy-Link
Christiane Sykes*	(CSy)	Shell
Chris Warner	(CW)	Cadent
David Tennant* (636 Legal Text)	(DT)	Dentons
Debra Hawkin	(DH)	TPA Solutions
Graham Jack	(GJ)	Centrica
Jeff Chandler*	(JCh)	SSE
John Costa	(JCo)	EDF Energy
Julie Cox*	(JCx)	Energy UK
Kirsty Ingham	(KI)	ESB
Mark Rixon*	(MiR)	ENGIE
Matthew Hatch	(MH)	National Grid NTS
Nick Wye	(NW)	Waters Wye
Richard Fairholme	(RF)	Uinper
Sean Hayward	(SH)	Ofgem

**Apologies**

Charles Ruffell	(CR)	RWE
Mike Ronan	(MRo)	Anghinish Alumina
Steve Pownall	(SP)	Xoserve

\* *via teleconference*

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0636/220318>

The Workgroup Report is due to be presented at the UNC Modification Panel by 19 April 2018.

**1.0 Introduction and Status Review**

**1.1. Approval of Minutes (28 February 2018)**

The minutes were approved.

**2.0 Consideration of New Alternative 0636C**

CSh introduced the modification raised by Anghinish Alumina Limited and confirmed this had been referred from the March UNC Panel with no specific questions, therefore this will follow the assessments contained within the current Terms of Reference. It was clarified that the OCC rate change for this modification will not apply to Interconnector Points (IPs).

CR questioned with the Workgroup if the modification didn't include entry would this then prohibit exemption from TO/SO charges, it was also queried if TAR has an impact on entry would modification 0636C work.

It was suggested that IPs would be exempt to the amendment of the OCC charge (amendment only) and the modification should include the IP entry and exit points. DH provided a view that

the SO commodity charge is at the exit point. However, GJ provided a differing view that both the entr and exit point are covered.

NW suggested that the modification would benefit from further clarity to tie up that an entry and exit point which makes an application linked to an IP will incur the current OCC rate. NW suggested a business rule is formed to make it clear of how this will apply to IPs and the treatment of the OCC rate to ensure they get the same rates that they currently get today.

It was clarified that 0636C will exclude IPs so that where the entry point or the exit point is an IP it will have the OCC under the current formula.

DH explained that the rate that is calculated is based on the exit point and is a single unit charge. DH also explained that some exit points will have different rates depending on where the gas has flowed from. In theory there would need to be two formulas.

It was explained that UNC 0636C is trying to keep 0636 for non IP points and have a second regime for IP points. MH believed this could be quite complex, to allow the system to run different calculations for the charging mechanisms.

It was clarified that UNC 0636C was simply about the OCC charge. NW explained where an application is made for OCC the offtake can use the current OCC in the event it is linked to an IP.

JC explained that if an exit point is associated with an IP (i.e. being fed from the Interconnector) the current formula will continue to apply, i.e. where an OCC route contains an interconnector point (either entry or exit) it will continue to use the current formula.

The Workgroup considered if entry points are to be counted would this require an amended modification to be explicit that if either the entry or exit point is associated with an IP.

It was agreed that where either the entry point, exit point or both is not associated with an IP the revised formula will apply, under the proposed changes to the formula, which is the same as that proposed for Modification 0636.

RF suggested that as there would be no changes to the application process for the OCC, this should be clarified in the solution. It was clarified that the process for applying for the OCC will remain the same but UNC 0636C would require two formulas.

MH confirmed now he was clear as to what 0636C was trying to achieve, he would need to assess the impacts and undertake the required analysis.

**Action 0301: National Grid NTS (MH) to undertake an impact analysis for UNC 0636C.**

CR enquired if further clarity should be added for the avoidance of doubt section that the exemption for IPs should apply until the TAR has been implemented. JCo also asked for clarification that this could apply to a Power Station if it was connected via a IP.

DH suggested that each entry and exit point would have to have two formulas at every entry and exit point. From a system perspective there would need to be changes to allow this. MH believed this would make the process more complicated.

JCo enquired if further information should be added to the relevant objectives section and whether this modification would be legally binding with the TAR code, it was questioned if this was a way of side stepping the proposal and to ensure compliance. SH did not want to fetter Ofgem's discretion and provide an indication at this point or provide a legal view, however he assured the Workgroup that the modifications will be assessed on their merits.

JCo asked, not wanting Ofgem to provide a legal opinion, if the modification should consider the current baseline as of now. It was clarified that the modifications will be assessed on the status quo at the point in time.

JCx expressed concern about EU changes and making changes to certain areas which will be impacted by future EU changes. She enquired about past decisions and that Ofgem had taken notice of potential future changes and she suggested the Workgroup would like a steer from Ofgem, in particular to any relevance to Ofgem's decision with regards to P229.

SH explained Ofgem came to a view of P229 on receipt of the Final Modification Report (FMR) and undertook an impact assessment. They had weighed up the likely benefits and the time frame of when these benefits would be realised.

JCx recognised that the benefits were finely balanced and Ofgem had decided not to proceed based on changes that may or may not be made in the future. JCx acknowledged that the changes may only be in place for a year but there may be sufficient time to deliver benefits to customers. SH explained that Ofgem need to undertake an assessment and consider the extent of the benefits measured against the cost.

GJ noted that if implemented these modifications had no ends dates, given the industry know the EU law will change in October 2019, he questioned if these modifications are compatible with the future rules or if they would have discriminatory elements. If implemented now it may have a detrimental impact from October 2019. CSh asked if Ofgem could provide a view on future proofing. SH clarified that at this point in time Ofgem do not have a view on whether it would reject the proposals, and that a balanced view would be taken once the modifications have been fully assessed and ready for Ofgem consideration.

JCx enquired about the timeframes for the assessment of these modifications. CSh clarified Ofgem had indicated they would be undertaking an impact assessment and the required timeframe for this was expected to be 8 weeks.

NW recognised that by October 2019 things would have to change to reflect EU TAR and these modifications would only exist until a new regime replaces it. He expressed concern that the modifications could be rejected based on changes expected in October 2019. SH assured the Workgroup that the modifications would be assessed on their benefits. NW suggested, as at this stage there is an opportunity to provide a cut-off date, to ensure these modifications do not fall over, based on whether they would not be compliant with EU TAR code, He suggested an early view could be provided by Ofgem.

It was considered these would be enduring solutions and if Ofgem can provide a view that they will not be legitimate in a year time, there is an opportunity to amend these modifications to make them compliant. DH believed that the modifications can be progressed based on that changes can be subsequently made to ensure the UNC is compliant with future changes required under EU law.

It was questioned how the base legal text would be affected if Ofgem have not made a decision on 0636 before a decision on 0621. CSh recognised the complications of modifications changing legal text in the same area of the UNC and their assessment. JCx was concerned about the impact and compliance with TAR code. It was made clear that the basis and analysis of 0621 could be impacted due to a change to the baseline by 0636.

JCx clarified that if 0621 proceeds before 0636, 0621 would be okay. However if 0636 is implemented before 0621 or whilst 0621 is being consulted upon the basis that 0621 had been considered against would have changed and would need to be re-assessed.

NW expressed concern about delivering customer benefit and the timetable of when decisions are likely to be made. JCo also expressed concern about the decision timeline. CSh suggested that the Joint Office, National Grid NTS, and Ofgem, get together to consider the critical timescales.

RF asked if views can be invited early on, or a minded to decision can be provided by Ofgem, to allow work to progress. JCo also asked about the impact assessment being shortened to 4 weeks rather than 8 weeks. ~~SH believed Ofgem would not be able to expedite the impact assessment and they would require the full 8 weeks.~~ [SH pointed out that Ofgem's IA guidance document provides information on the timescales applicable to IAs. It includes information on when those timescales can be expedited from the usual 8 weeks.](#) JCo asked Ofgem to consider the merits of shortening the assessment period considering the complexities.

JCx asked for the interactions with other industry changes within the Workgroup Report to be made clearer, as she felt these were currently inadequate.

**Action 0302: Ofgem, NTS and Joint Office, to further consider the interactions of 0621 and 0636 and update the workgroup report accordingly.**

### 3.0 Consideration of ROM for 0636B

CSh confirmed that all the ROM requests have been submitted, the ROM for 0636C is being worked on, and should be available by the 05 April 2018.

CSh confirmed the ROM response for 0636B had highlighted that there were no system impacts and no costs. It would now be summarised and that a summary of each of the ROMs would be included within the Workgroup Report.

### 4.0 Consideration of Amended Modifications

CSh confirmed that modification 0636, 0636A and 0636B have all been amended.

0636: DH confirmed that where there could be a zero or negative value, a minimum value of 1 would be applied to avoid the formula falling over.

0636A: NW confirmed that following receipt of the ROM, additional information had been incorporated in the solution. NW confirmed the addition of business rules to clarify the transitional arrangements that will be required until a system solution can be delivered. GJ asked if the modification could be clear about the modification effective date and implementation date. NW agreed to make this clear within the modification.

0636B: JCh confirmed that the RPI aspects of the solution was a simple lift and shift from 0621. Detailed discussions have also been held with National Grid NTS, about including the OCC methodology in the UNC and it has been agreed that a separate OCC methodology statement will be developed instead. MH confirmed that National Grid have started to work on this new methodology statement, the governance approach does need to be considered but it is anticipated to be a light touch approach with a requirement for a periodic review. It was considered that for completeness the methodology statement should be provided at the point of consultation. RF suggested that the legal text and modification solution will need to be in sync. MH hoped to develop the statement, review this with JCh and present at the next meeting. The Workgroup considered the updated Relevant Objectives and if increasing the shorthaul rate was more cost reflective than the current regime. They also briefly reviewed the Implementation Section changes and key dates.

### 5.0 Legal Text for Modification 0636 0636A 0636B

DT presented the legal text and legal text commentary for Modifications 0636, 0636A, 0636B and explained the changes.

0636A: JG enquired about section 24.1.2. and that the notification would be provided as soon as reasonable practicable following the effective date. The distinction between the effective date and the UNC contract arrangement changes was discussed. It was clarified that the effective date is the date at which the approval to implement has been provided. It was suggested this may need to be made clear in the modification and text. It was confirmed the effective date will be the date the changes will take effect (e.g. 01 July 2018) when the legal text will be changed within the UNC however the date that this process will apply will be from a future date (i.e. 01 October 2018).

RF enquired about the measurement of distance and if this was “as the crow flies”. DT clarified this would be a straight-line basis as detailed within Section 3.12.11.

0636B: RF enquired about the text relating to the Value of the Gas Year and the actual reference to 2018/2019. JCh sought views on whether the reference to 2018/19 could be removed. DH challenged taking out the reference to 2018/19. DH believed the dates can still stand as this was the year the RPI indexation had been updated to. DT explained if the modification is implemented during the gas year 2018/19 the rates in the table apply. RF believed the dates needn't be presented if the values are an enduring solution (adjusted by inflation).

MH suggested two points; 1) the use of values for the initial gas year, year on year adjusted by RPI; and 2) not a fixed implementation date, the date of the 1<sup>st</sup> of the calendar month with two months' notice.

DH expressed concern that if the reference is changed to the initial gas year this could lead to confusion as to what the initial gas year would be for the purpose of indexing for RPI. It was agreed to leave the reference to 2018/2019 in the end.

## 6.0 Completion of Workgroup Report

CSh provided an overview of the current drafted Workgroup Report for Modifications 0636, 0636A, 0636B. He confirmed amendments would need to be made in line with today's discussions, in addition to adding 0636C. He confirmed that the legal text would be published alongside the report and a summary of the ROMs would be included, along with the concerns discussed about the timescales. The legal text for 0636C still needs to be provided.

SH raised some issues on the content relating to things that might be missing and would benefit Ofgem. SH particularly highlighted the Workgroup Reports Impact Section and the impacts on customer categories. He suggested that there is not an equivalent scope of analysis for the parties that may lose out as part of the changes. He requested the Workgroup covered a detailed analysis of who might be impacted and any evidence that would support this.

CSh highlighted that the impacts were covered in the report but members had found it difficult to expand on the points raised/provide supporting evidence; in some cases, this was because the information was confidential. NW highlighted that the market is reporting that there are impacts and there are certain assertions. SH asked if there was any evidence that could be added. NW expressed that the scope of this analysis would be beyond the scope of this modification. JC believed there is a general economic theory and there is anecdotal evidence, with lots of subtleties. Assumptions are made that parties prices are based on their costs but they need to stay competitive. When pricing up costs there are sometimes too many variables and it is difficult to associate isolated changes having a direct impact.

JCo explained the use shorthaul may increase the cost of exports. NW suggested the industry cannot look solely at an entry point and how they are using OCC and the benefit of shorthaul to consumer or producers as the amount of swapping gas can't be linked directly. Impacts will be depend on the structure of individual contracts and whether these costs are passed on or not.

NW explained the secondary impacts of supply or production costs increasing and how this impacts the gas price, but it would be expected to see an increase on the NBP. JCx explained that gas price is marginal, depends on the margin of CCGTs and if they are on shorthaul or not.

CSh suggested if any party has any additional information they would like included within the Workgroup Report, they should ensure this is presented as soon as possible.

It was suggested that the Workgroup should also consider recommending a set of questions which may tease out some evidence to support the analysis of the modifications.

### **Action 0303: Workgroup to consider the modifications' impacts on all parties and provide any further wording and supporting evidence for inclusion in the workgroup report (by Thursday 29 March).**

SH enquired if the Workgroup Report considers the total flow of gas through the NTS or looks at the demand. CR explained that for large industrial users demand would change. He also explained that CCGTs provide other service lines due to the low margins.

NW explained this depends on price sensitivity and demand. Large industrial users are price sensitive due to costs and high production costs will reduce gas consumption. If costs are too high, the cost of producing make the cost of the product too high making that product less competitive.

NW clarified domestic consumers will not respond to high gas prices in the same way as industrial consumers as their demand will be influenced by weather rather than the price of gas.

DH expressed there needs to be a parity on the demand and on the price. She further expressed that if the industry needs to be dealing with different networks, the ability to bring

gas into the market and greater use of the networks this was outside the scope of UNC changes and should be discussed as a strategic change at government level.

SH also asked for the report to include the pros and cons of each modification. JCo suggested this could be covered when considering the relevant objectives.

## 7.0 Review of Outstanding Actions

**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:** Completed. **Closed**

**0205:** Xoserve (SP) to investigate the process for UK-Link nomination/confirmations and confirm if the in-flight offers would be updated by the system following the introduction of 0636 or 0636B.

**Update:** CSh referred to the presentation provided by Xoserve to explain what rate would be applied to in-flight supply point nomination offers and confirmations. AP believed that Xoserve used to update an offer if it was affected by a price change. **Closed**

**0206:** National Grid NTS (MH) and TPA Solutions (DH) to discuss the process if a full year of exit data was not available.

**Update:** DH confirmed that where there is not a full year of exit data the process will be to use the existing data. **Closed**

**0207:** National Grid NTS (MH) to investigate how the process works in relation to an outstanding offer, see if this is mentioned in the UNC elsewhere and make any necessary changes to the 0636 Legal Text.

**Update:** It was believed this was connected to Action 0205. It was agreed to close the action and provide a Post Meeting Note. **Closed**

**0208:** National Grid NTS (MH) and TPA Solutions (DH) to develop appropriate wording for the Legal Text regarding the formula including a default of 1 and not zero.

**Update:** Completed. **Closed**

**0209:** National Grid NTS (MH) and SSE (JCh) to discuss the development of the Legal Text for Modification 0636B.

**Update:** Discussed. **Closed**

## 8.0 Next Steps

CSh said his aspirations at the next meeting were to complete the Workgroup Report, together with reviewing the 0636C ROM and Legal Text. It was understood that there would be some further modification amendments, and some analysis from National Grid to understand the impacts of 0636C.

## 9.0 Any Other Business

NW and AP advised they would not be available on 5<sup>th</sup> April.

## 10.0 Diary Planning

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

Time / Date	Venue	Workgroup Programme
Following Transmission Workgroup 12.30 Monday 05 April 2018	Elaxon, 350 Euston Rd, London NW1 3AW	Standard agenda items plus: <ul style="list-style-type: none"> <li>• 0636C Legal Text</li> <li>• 0636C ROM</li> <li>• National Grid NTS Analysis for 0636C</li> <li>• Completion of Workgroup Report</li> </ul>

**Action table as at 21 March 2018**

<b>Action Ref</b>	<b>Meeting Date</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</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>Closed</b>
0205	28/02/18	2.0	Xoserve (SP) to investigate the process for UK-Link nomination/confirmations and confirm if the in-flight offers would be updated by the system following the introduction of 0636 or 0636B.	Xoserve (SP)	<b>Closed</b>
0206	28/02/18	3.0	National Grid NTS (MH) and TPA Solutions (DH) to discuss the process if a full year of exit data was not available	National Grid NTS (MH) and TPA Solutions (DH)	<b>Closed</b>
0207	28/02/18	3.0	National Grid NTS (MH) to investigate how the process works in relation to an outstanding offer, see if this is mentioned in the UNC elsewhere and make any necessary changes to the 0636 Legal Text.	National Grid NTS (MH)	<b>Closed</b>
0208	28/02/18	3.0	National Grid NTS (MH) and TPA Solutions (DH) to develop appropriate wording for the Legal Text regarding the formula including a default of 1 and not zero.	National Grid NTS (MH) and TPA Solutions (DH)	<b>Closed</b>
0209	28/02/18	4.0	National Grid NTS (MH) and SSE (JCh) to discuss the development of the Legal Text for Modification 0636B.	National Grid NTS (MH) and SSE (JCh)	<b>Closed</b>
0301	21/03/18	2.0	National Grid NTS (MH) to undertake an impact analysis for UNC 0636C.	National Grid NTS (MH)	<b>Pending</b>
0302	21/03/18	2.0	Ofgem, NTS and Joint Office, to further consider the interactions of 0621 and 0636 and update the workgroup report accordingly.	Ofgem, Proposer, Joint Office	<b>Pending</b>
0303	21/03/18	6.0	Workgroup to consider the modifications' impacts on all parties and provide any further wording and supporting evidence for inclusion in the workgroup report (by Thursday 29 March).	All	<b>Pending</b>