

**UNC Workgroup 0667 Minutes
Inclusion and Amendment of Entry Incremental Capacity Release
NPV test in UNC**

Thursday 06 December 2018

at Elexon, 350 Euston Road, London, NW1 3AW

Attendees

Rebecca Hailes (Chair)	(RH)	Joint Office
Karen Visgarda (Secretary)	(KV)	Joint Office
Adam Bates	(AB)	South Hook Gas
Andrew Blair	(AB)	Interconnector
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
David Adlam	(DA)	Cadent
David Cox*	(DC)	London Energy Consulting
Debra Hawkin*	(DH)	TPA Solutions
Edward Fyfe	(EF)	SGN
Emma Buckton*	(EB)	Northern Gas Networks
Gerry Hoggan	(GH)	ScottishPower
Graham Jack	(GJ)	Centrica
Jeff Chandler	(JCh)	SSE
Julie Cox*	(JCx)	Energy UK
Lea Slokar	(LS)	Ofgem
Malcolm Montgomery	(MM)	National Grid NTS
Mark Rixon*	(MR)	Engie
Nick Wye*	(NW)	Waters Wye Associates
Nicky White	(NW)	npower
Phil Hobbins	(PH)	National Grid NTS
Richard Fairholme*	(RF)	Uniper
Richard Pomroy	(RP)	Wales & West Utilities
Shiv Singh*	(SS)	Cadent
Steve Pownall	(SP)	Xoserve
Steven Britton*	(SB)	Cornwall Insight
Terry Burke	(TB)	Equinor

**via teleconference*

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0667/061218>

The Workgroup Report is due to be presented at the UNC Modification Panel by 21 March 2019.

1.0 Introduction and Status Review

1.1. Approval of minutes (01 November 2018)

The minutes of the previous meeting were approved.

2.0 Review of Outstanding Actions

Action 1101: National Grid NTS (CH) to provide evidence as to whether the Duration Test was still appropriate and required.

Update: Malcolm Montgomery (MM) provided a presentation that explained the entry capacity NPV test contained both a financial and duration element. He said the financial element was explicit and the duration element was implicit based on the current incremental pricing. He said the financial element helped to provide a reasonable balance between user pays and socialisation for the project. He said the duration element provided 2 purposes; evidence of sustained user commitment to mitigate the risk of assets being underutilised and smooths cash flow (and consequently price changes). He then said this action could be closed. **Closed**

Action 1102: National Grid NTS (CH & MM) to look at the estimated product values in the Model and provide a view if they are representative of the costs they will face.

Update: MM gave an overview of the schematic as detailed below to explain the Model. He said the project cost may be calculated as:

- a) Project Values determined by the Long Run Marginal Cost Methodology.
- b) Project cost derived from the Generic Revenue Driver Methodology.

However, there have been no revenue drivers produced in the RIIO-T1 price control. (Everything has been satisfied using substitution for which NG gets no additional revenue allowance).

LRMC	steps	steps	GRDM
Marginal Cost (km) determined using Transportation Model for each increment.	Marginal Cost	Required Assets	project options identified by network analysis with regards to real world construction options.
Expansion Coefficient.			Unit Costs for pipelines and compressors; + project (phase 2) costs;
Average network parameters assumed on pipeline size & compressor frequency	Marginal Cost to £ Cost	Asset to Cost	other costs may be proposed customised to the specific solution (e.g. uprating, AGIs, multijunction modifications etc.)
Unit Costs for pipelines and compressor power; + 15% project costs			
			Additionally possible (downwards) adjustment for commercial solutions

He then agreed this action could be closed. **Closed**

Action 1103: Xoserve (SP) and South Hook Gas (KR) to discuss if any systems changes would be required and if a ROM would be needed.

Update: SP confirmed that no system changes would be required and so this action could now be closed. **Closed**

Action 1104: National Grid NTS (CH) to investigate the potential impacts and repercussions of removing the section of methodology and incorporating it into the UNC Code.

Update: MM said the immediate risk to manage would be a (temporary) conflict between the UNC and the Capacity Release Methodology and that the National Grid NTS preference was to avoid such a conflict arising. He said that in the event of the modification being approved then National Grid NTS would expect Ofgem to provide clear acknowledgement and direction regarding any such conflict. He further added that subject to the timing, then National Grid NTS would need to either: incorporate any approved modification rules into the current

Methodology Review or raise a further Methodology Change later in the year. He also said that the Legal Text was being drafted presently.

There was a brief general discussion about the Methodology and the Network Code overlap and MM said this would be considered by the Legal team regarding the Methodology and UNC Code. Lea Slokar (LS) said this area would be taken off line and discussed directly with National Grid NTS in due course.

It was then discussed that an extension would need to be gained from Panel due to the amount of discussions and investigations that still needed to be addressed and Rebecca Hailes (RH) said she would seek an extension from Panel March 2019. It was then agreed this action could be closed. **Closed.**

2.1. Issues and Questions from Panel

None raised.

2.2. Initial Representations

None raised.

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 Review of Amended Modification

Adam Bates (AB) provided an overview presentation and reiterated that following further discussions and investigations, South Hook Gas would be keeping the solution within the modification as it was, with no Exit User Commitment Test or upfront payment, for the reasons as detailed below:

Exit User Commitment Test

AB explained that any Incremental Capacity had a commitment of 4 years, however if the User Commitment amount was achieved prior to this, the capacity holder had the opportunity to reduce it, as per the exit capacity arrangements. He said that his initial thoughts were that as the entry was a quarterly capacity product (versus annual on Exit), this could then result in capacity being inefficiently booked (i.e. Summer vs Winter quarters) if there were flat annual profiles. He also explained that Entry did not have the reduction mechanism that Exit had, and therefore this may not work with floating prices unless a change is made to the Entry capacity regime.

Upfront Payment

AB said this is a new mechanism where by the User Commitment amount was signalled upfront and any capacity (still profiled) would be offset against the User Commitment test. He said that there was currently no mechanism to differentiate between the new and old baseline once the capacity was allocated, therefore it wouldn't be possible without systems changes or a fundamental change to the User Commitment test to apply the offsetting.

He said that both options would require significant changes to UNC Section B and/or Systems Changes, whilst ultimately achieving the same result in terms of the User Commitment amount provided by the PARCA applicant. Therefore, this was the reasoning for not moving forward with either of the above and as stated, South Hook Gas would be continuing with the current solution in the modification.

The document can be viewed via the link: <http://www.gasgovernance.co.uk/0667/061218>

4.0 Consideration of Business Rules

This area was deferred until the January meeting.

5.0 Review of Impact and Costs

This area was deferred until the January meeting.

6.0 Review of Relevant Objectives

This area was deferred until the January meeting

7.0 Consideration of Wider Industry Impacts

This area was deferred until the January meeting.

8.0 Consideration of Legal Text

This area was deferred until the February meeting.

9.0 Development of Workgroup Report

This area was deferred until the February meeting.

10.0 Next Steps

RH confirmed that her expectation for the next meeting was to continue to review the areas that needed to be encompassed within the modification and to start to develop the Workgroup Report.

11.0 Any Other Business

None.

12.0 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 – 3.00pm Tuesday 08 January 2019	Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA	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 06 December 2019)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
1101	01/11/18	1.0	National Grid NTS (CH) to provide evidence as to whether the Duration Test was still appropriate and required.	National Grid NTS (CH)	Closed
1102	01/11/18	1.0	National Grid NTS (CH & MM) to look at the estimated product values in the Model and provide a view if they are representative of the costs they will face.	National Grid NTS (CH &MM)	Closed
1103	01/11/18	1.0	Xoserve (SP) and South Hook Gas (KR) to discuss if any systems changes would be required and if a ROM would be needed.	Xoserve (SP) & South Hook Gas (KR)	Closed
1104	01/11/18	1.0	National Grid NTS (CH) to investigate the potential impacts and repercussions of removing the section of methodology and incorporating it into the UNC Code.	National Grid NTS (CH)	Closed