

**Workgroup 0678 Summary of Outcomes**  
**Tuesday 02 April 2019**  
**at Elexon, 350 Euston Road, London, NW1 3AW**

<b>Attendees</b>		
Rebecca Hailes (Chair)	(RH)	Joint Office
Helen Bennett / Cuin (Secretary)	(HBC)	Joint Office
Alex Neild	(AN)	Storengy
Adam Bates	(AB)	SouthHook Gas
Andrew Pearce	(AP)	BP
Anna Shrigley	(AS)	ENI
Chris Logue	(CL)	National Grid
Chris Wright	(CW <sub>r</sub> )	Exxon Mobil
Colin Williams	(CW <sub>i</sub> )	National Grid
David O'Neill	(DON)	Ofgem
Debra Hawkin	(DH)	TPA Solutions
Graham Jack	(GJ)	Centrica
Henk Kreuze	(HK)	Vermilion Energy
James Gudge	(JG)	National Grid
Jeff Chandler	(JCh)	SSE
John Costa	(JCo)	EDF Energy
Julie Cox	(JC <sub>x</sub> )	Energy UK
Kamla Rhodes	(KR)	ConocoPhillips (left at 1pm)
Kirsty Ingham	(KI)	ESB
Nick Wye*	(NW)	Waters Wye (left at 1pm)
Nitin Prajapati	(NP)	Cadent
Pavanjit Dhesi	(PD)	Interconnector UK (left at 1pm)
Paul Youngman*	(PY)	Drax Power (left at 1pm)
Paul O'Toole*	(POT)	Northern Gas Networks
Paul Whitton*	(PW)	Southern Gas Networks (joined at 1pm)
Penny Garner	(PG)	Joint Office
Penny Jackson*	(PJ)	npower
Sinead Obeng	(SO)	Gazprom Marketing and Trading
Smitha Coughlan*	(SCo)	Wales & West Utilities
Steve Pownall	(SP)	Xoserve
Terry Burke	(TB)	Equinor
* via teleconference		
<p style="text-align: center;"><b>Industry parties are strongly encouraged to review this document and the changes. Any comments should be sent to Joint Office at <a href="mailto:enquiries@gasgovernance.co.uk">enquiries@gasgovernance.co.uk</a></b></p>		
<p><b>Meeting material</b> available at: <a href="http://www.gasgovernance.co.uk/0678/020419">http://www.gasgovernance.co.uk/0678/020419</a></p>		

Critical Actions Log is available at: <http://www.gasgovernance.co.uk/0678>

Next Meeting Wednesday 03 April 2019

## Key Points/Decisions

1. PG provided an overview of the planned topics of discussion for the next 5 Workgroup Meetings. The purpose of today's meeting was to review and finalise comments on the provided analysis.
2. A number of Proposers wished to note that analysis had now been provided within their Modifications and clarity was sought how this would feed into the Workgroup Report. Part I will provide an overarching overview of all the Modifications and all workgroup assessment. Part II will be split with a Part II section for each Modification, complete with any appendices which have been submitted for each and every Modification). RH again confirmed that if Proposers have appended any additional documents to their Modifications, this will be carried through within Part II of the Workgroup Report.
3. The Workgroup briefly considered the Summary for 28 March 2019. A minor amendment was required to Section 7. This was approved and a changed marked version was republished.
4. The current Actions Log was reviewed, and updates provided. The updates were captured in the Actions Log and will be published.
5. The Workgroup wished to note that there had been very little opportunity to undertake a deep dive into all the analysis provided. PG therefore suggested to assist parties understanding of all the analysis, that each Proposer provides a high-level overview of their analysis provided; what key elements they wish to flag; and allow the Workgroup to comment. The Workgroup considered how best to capture the pertinent points on the provided analysis within the Workgroup Report. PG asked Proposers to provide their overview and key points by **Friday 05 April** to allow the Joint Office to create a summary table of all documents.

**Action 01-0204:** All Proposers to provide the Joint Office with a high-level overview of their analysis, and the key elements they wish to flag within the Part I of the Workgroup Report for Workgroup comments. (Target Date **Friday 05 April 2019**)

**Action 02-0204:** Joint Office to formulate a table detailing all the additional documents provided by Proposers and others for reference within the Workgroup Report. (Target Date **Monday 08 April 2019**)

6. The Workgroup re-considered Action 06-0403 and the analysis undertaken by National Grid. *Action 06-0403: National Grid to review a) the treatment of closed sites and b) the effect on the FCC methodology and the potential for adaption in treatment of these sites in the FCC Methodology.* CWi confirmed the analysis is incorporated into the sensitivity model and that closed sites will not be removed from the model. He confirmed that a sense check will be considered and may be included in the FCC Methodology Statement.

**Action 03-0204:** National Grid and Interconnector UK (PD) to re-consider Action 06-0403 and consider provide an appropriate update to the FCC Methodology Statement. (Target Date by **Thursday 04 April 2019**)

7. JCx wished to note in relation to National Grid's analysis that from the graphs the exit charges seemed to show a dramatic reduction. PW also noted that the model does not assume any behavioural changes, so it would be difficult to draw conclusions on the impacts or effects.
8. The Workgroup considered whether there would be value in testing the sensitivity tool and capturing a summary of the results. GJ was concerned with looking at aspects in isolation and stressed the importance of capturing any key observations.
9. The Workgroup considered the Average Exit Price per Gas Year within National Grid's Modification 0678 analysis (page 42). Workgroup was concerned that the analysis seemed to suggest that every point would pay less. CWi explained the stacking up of the tariffs to illustrate the average price per

unit coming out of the CWD model. It was highlighted that these need to be examined in perspective with revenue. CWi explained how the graphs are a factual representation and how the data works together when the revenue distribution is considered. JCx wished for it to be clearly noted that the graphs suggest that prices will be lower under the new regime however this needs to be considered along with the revenue recovery charge. It was agreed that this needed to be clarified and captured within the Workgroup Report to avoid parties drawing any wrong conclusions.

10. CWi noted that the graphs do not demonstrate where the discounted arrangements play their part. The elements which couldn't be captured are how off-peak and 'shorthaul' may play a role. He explained that the relative difference is the output, it will not take into account any behaviours.
11. The Workgroup reviewed the provided tables (page 43) within Modification 0678. Clarification was requested about trying to compare prices between the different methods as it doesn't explain how revenue will necessarily be recovered by National Grid or for example the anticipated behavioural changes such as the different capacity bookings expected and if the Modification could result in changes to booking chargeable booking capacity.
12. JG provided the Workgroup with an update on the National Grid Optional Charge Analysis and wished to highlight it does not consider existing contracts or potential prices/charges. It did however consider the prevailing RPM.
13. The Workgroup considered the Optional Charge Analysis and the effect of cessation of the NTS OCRThe Workgroup reviewed the price of 'shorthaul' in relation to existing contracts and the decision users may take on whether to use existing capacity or pay a higher price (as outcome of 'shorthaul'). It was believed in the vast majority of cases the existing contracts will be lower.
14. Whist the Workgroup were considering the National Grid Optional Charge Analysis, and specifically the NTS OCC routes with a straight-line distance of 20km and potential routes, DON enquired if National Grid could provide the average distance as both Mode and Median rather just mean. JG offered to provide an overview of all the sections for capturing the key points within the Workgroup Report.

<p><b>Action 04-0204:</b> National Grid to provide the NTS OCC distance in Mode and Median Averages. (Target Date by <b>Friday 05 April 2019</b>)</p>
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15. DON suggested that having the number of routes within the National Grid Optional Charge Analysis would also be useful, for example how many routes are likely to by-pass. JG explained that under Modification 0636 - Updating the parameters for the NTS Optional Commodity Charge and Modification 0653 - Updating the parameters for the NTS Optional Commodity Charge – Introducing the NTS Optional Capacity Charge; a request was made for the likelihood of parties to by-pass. This was not provided for commercially sensitive reasons.
16. HK expressed concern that only the existing 17/18 routes had been considered and not new routes for example where new routes may be more attractive. This is especially applicable to 0678B where the analysis assumes the same routes still being attractive.
17. Whist documenting views of the Workgroup, a question was raised about Workgroup participation and capturing comments for more than one party within the Workgroup Report when it was unclear if participants are present to support other organisations already represented within the room. RHa clarified that all Workgroup Meetings are open forums and each Workgroup Participant is counted in their own right.
18. GJ questioned if there is a need to undertake a Regulatory Impact Assessment. It was believed by Workgroup that an assessment would be necessary.
19. PY asked for further clarity regarding the results provided by National Grid, referring to Table 5, Table 6 and Table 9, and in particular the impact on reference prices. He wished to understand the validity of the data. JG explained that the Optional Charge calculation is an iterative process under 0678B, which looks at under recovery figures. The 0678B formula refers to the prices generated by the tool, which includes an iterative process within its Optional Charge calculation. He explained that some have a slight difference, some have different RPMs. PY expressed concern about the validity of the

data presented in the table and without the raw data, parties could not validate this and thus understand the reference price applied.

20. The Workgroup considered the analysis included with Appendix 4 of Modification 0678C (page 75). JCh highlighted a number of points on the Customer Impacts. The Workgroup considered the impact to Customers and the potential for increased costs being passed through. The Workgroup considered how best to capture the analysis.

**Action 05-0204:** Joint Office and SSE to consider how best to summarise the Customer Impact Analysis provided in Appendix 4 of Modification 0678C within the Workgroup Report. Joint Office and SSE to formulate a high-level overview of the analysis, and the key elements to be captured within Part I. (Target Date **Friday 05 April 2019**)

21. The Workgroup considered the DN Impacts, which summarised the analysis on the charge changes. Workgroup thanked the DNs for provide the analysis and NP for co-ordinating the work. It was confirmed that supplemental comments have been provided to support the analysis slides for incorporation into the Workgroup Report based on v3.0 of the sensitivity tool. NP confirmed that the DNs have compared current arrangements to Modifications 0678 and 0678A with Cadent also comparing 0678E (80% Storage Discount). It was noted that if the charges were to become payable from 01 October 2019, this will impact the DN Gas Transportation Year 2019/20. NP provided a high-level price differential impact overview for customers, prepared by Cadent. In summary there was an increase for customers for some regions, mainly in East of England (furthest from the core of the network) and decreases for most others. PW provided an overview of SGN's cost forecast in aggregation for the Network and the impact of the changes to the average customer. He also provided an overview of the impact on allowed revenue and under/over recovery. POT provided an overview of NGN's customer impacts in aggregate and by customer per year. SC provided an overview of the analysis for WWU, with a summary of the key assumptions, the allowed revenue, forecast costs, and income. It was noted that costs will significantly increase in 2020 and affect DN income in 2022/23. DON enquired about the step-up charges for WWU, as he was expecting with the move from LRMC to see a decrease in charges. SC explained there was a significant decrease for WWU in October 2018. The Workgroup considered the geographic spread of WWU and the impacts on allowed revenue for WWU considering a big stepped increase in costs, following by a decrease in costs which resulted in a discrepancy in the allowance and costs. PG asked the DNs, especially WWU, to provide additional commentary to outline any anomalies parties should be aware of.

**Action 06-0204:** DNs to consider and provide any additional commentary for the Workgroup Report to provide clarity on the impact of the change and cost forecasts. (Target Date **Monday 08 April 2019**)

22. Parties were asked to review the DN overview/summary provided on p73 of the draft Workgroup Report. It was agreed to capture comments at 03 April Workgroup meeting, having provided parties with a short period to consider the summary.
23. JCo suggested that the industry may also wish to understand the cost of capital to better appreciate the entire impact to DNs and pass-through. Workgroup suggested this may be better pursued as part of RIIO2.
24. The Workgroup considered the previous figures quoted by Ofgem for Modification 0621 on the impact to Customer bills in 2017/2018 and if this was solely based on Transmission Charges, not including the commodity charge. Ofgem were asked to clarify the basis on which the Customer Impact had been assessed and what elements had been considered. JCx challenged compared to the DN analysis that the Ofgem average customer impact was £10 dependent on the location. DN Revenue adjustments were briefly considered, along with the two-year lag and the cash-flow impacts. The impact on price-impacts may also need to be considered.
25. JCo asked about the impacts on customers dependent on the implementation date and the ability for DNs to take into account price changes in RIIO - GD2. The management of the two-year lag was briefly considered, how best to manage price changes and the ability to apply a smoothing transition. The price control review was briefly considered and that an implementation delay to October 2020 would allow DNs an opportunity to change aspects of the price control review.

26. The Workgroup considered how best to consider the impacts on customers. It was agreed to have a look at how the customer impacts for Modification 0621 were stated in its WGR as a starting to point.
27. On drawing the meeting to a close, clarification was requested from National Grid as to when the Legal Text was anticipated. CWi confirmed that the Legal Text would be provided by the morning of 03 April 2019.

### The Critical Actions

The Actions recorded above will be available in the Action Log at:

<http://www.gasgovernance.co.uk/0678/020419>

### Next Meeting

The next meeting will be held on Wednesday 03 April 2019 at Radcliffe House, Blenheim Court, Warwick Road, Solihull, B91 2AA.

Please note meetings will start at 9:30am and finish at 4:00pm.

Agenda and papers: <http://www.gasgovernance.co.uk/0678/030419>

Details of planned meetings available at: <http://www.gasgovernance.co.uk/events-calendar/month>

## Workgroup 0678 Agenda Summary (28 March 2019 through to 10 April 2019)

Time / Date	Venue	Teleconference	Workgroup Programme	Purpose of the session (bold indicates finalisation)
09:30 Thursday 28 March 2019	St John's Hotel Warwick Road Solihull, B91 1AT	<b>Teleconference</b> 0203 582 4515 <b>Conference ID</b> 451-364-066 Screen sharing: <a href="https://join.me/bob.fletcher">https://join.me/bob.fletcher</a>	WG 11	Review all Final Modifications Update WGR to include commentary on Modification features Review FCC Methodology and Existing Contracts Update WGR
10:00 Tuesday 2 April 2019 (Part of NTSCMF)	Elexon, 350 Euston Road London NW1 3AW	<b>Teleconference</b> 0203 582 4515 <b>Conference ID</b> 451-364-066 Screen sharing: <a href="https://join.me/bob.fletcher">https://join.me/bob.fletcher</a>	WG12	<b>Review and finalise Analysis</b>
09:30 Wednesday 3 April 2019	Radcliffe House Blenheim Court Warwick Road Solihull B91 2AA	<b>Teleconference</b> 0203 582 4515 <b>Conference ID</b> 451-364-066 Screen sharing: <a href="https://join.me/bob.fletcher">https://join.me/bob.fletcher</a>	WG13	<b>Finalise Relevant Objectives</b>
09:30 Thursday 4 April 2019	Radcliffe House Blenheim Court Warwick Road Solihull B91 2AA	<b>Teleconference</b> 0203 582 4515 <b>Conference ID</b> 451-364-066 Screen sharing: <a href="https://join.me/bob.fletcher">https://join.me/bob.fletcher</a>	WG14	<b>Finalise OCR Analysis (Workgroup Response)</b> <b>Finalise DN Impact Analysis (Workgroup Response)</b> <b>Finalise Legal Text</b>

09:30 Monday 8 April 2019	St John's Hotel Warwick Road Solihull, B91 1AT	<b>Teleconference</b> 0203 582 4515 <b>Conference ID</b> 451-364-066 Screen sharing: <a href="https://join.me/bob.fletcher">https://join.me/bob.fletcher</a>	WG15	<b>Finalise Compliance</b> and commentary integration.
09:30 Wednesday 10 April 2019 <b>Late session until 6pm</b>	Radcliffe House Blenheim Court Warwick Road Solihull B91 2AA	<b>Teleconference</b> 0203 582 4515 <b>Conference ID</b> 451-364-066 screen sharing: <a href="https://join.me/bob.fletcher">https://join.me/bob.fletcher</a>	WG16	<b>Finalise commentary integration.</b>  <b>Finalise WGR</b>
<i>Thursday</i> 11 April 2019	<i>Joint Office Administrative Finalisation of Workgroup Report.</i> <b>Joint Office production of Draft Modification Report</b>			
<i>Friday</i> 12 April 2019	<b>Finalisation and Publication of Draft Modification Report 0678 for Consultation</b>			
<i>Monday</i> 15 April 2019	<b>Consultation commences</b>			