

UNC Workgroup 0621 Minutes
Amendments to Gas Transmission Charging Regime
Wednesday 06 November 2017
at Elexon, 4th Floor, 350 Euston Road, London, NW1 3AW

Attendees		
Rebecca Hailes (Chair)	(BF)	Joint Office
Helen Bennett (Secretary)	(HB)	Joint Office
Adam Bates	(AB)	National Grid NTS
Alexander Yankovskiy	(AY)	Gazprom
Andrew Pearce	(AP)	BP
Anna Shrigley	(AS)	ENI
Benoit Enault*	(BE)	Storengy UK Ltd
Brian O'Shea	(BO'S)	Bord Gais Energy Limited
Charles Ruffell	(CR)	RWE Npower
Colin Hamilton	(CH)	National Grid NTS
Colin Williams	(CW)	National Grid NTS
Danishtah Parker*	(DP)	Cadent
Davide Rubini*	(DE)	Shell
David Reilly	(DR)	Ofgem
Debra Hawkin	(DH)	TPA Solutions
Gerry Hoggan	(GH)	Scottish Power
Graham Jack	(GJ)	Centrica
Henk Kreuze	(HK)	Vermillion
Jeff Chandler	(JCh)	SSE
John Costa	(JCo)	EDF Energy
Joanne Parker	(JP)	SGN
Julie Cox	(JCx)	Energy UK
Kieron Carroll	(KC)	PSE Kinsale Energy
Lee Bowerbank*	(LM)	ExxonMobil
Matt Hatch*	(MH)	National Grid NTS
Nick Wye	(NW)	Waters Wye Associates
Pavanjit Dhesi	(PD)	Interconnector
Penny Garner	(PG)	Joint Office
Phil Lucas	(PL)	National Grid NTS
Richard Fairholme	(RF)	Uniper
Richard Miller	(RM)	Ofgem
Robert Wigginton*	(RW)	Wales & West Utilities
Sinead Obeng	(SO)	South Hook Gas
Stephen Carter*	(SC)	Citadel
Steve Pownall	(SP)	Xoserve
Vladislav Zuevskiy	(VZ)	NGN
* via teleconference		

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0621/061117>

1.0 Introduction and Status Review

1.1. Approval of Minutes

The minutes from 25 October 2017 were approved.

2.0 Progress Update

CW went through the agenda for the material provided for today's meeting which can be found here: <https://www.gasgovernance.co.uk/0621/061117> adding that National Grid NTS have tried to take on board the comments received from the last meeting held on 25 October 2017. The Workgroup Report is due to be presented at the January 2018 UNC Modification Panel.

The draft amended modification is published here:
<https://www.gasgovernance.co.uk/NTSCMF/131017>

Further clarification was provided on the main topics, of which the main discussion points are captured below:

- a) Reference Price Methodology (RPM)
- b) Forecasted Contracted Capacity (FCC)
- c) Multipliers
- d) Interruptible
- e) Specific Capacity Discounts
- f) Avoiding Inefficient Bypass of the NTS
- g) Transmission Services Revenue Recovery
- h) Non-Transmission services Charging
- i) Compliance
- j) Alternates

a) Reference Price Methodology (RPM)

CW confirmed that the proposal of a Capacity Weighted Distance (CWD) approach remains.

When asked, CW confirmed that an option being considered is how zero prices and CWD could be applied.

GJ mentioned that there is a requirement for a strong argument if contracts bought before entry into force of the EU Tariff code are to be treated differently to those bought after that date but before entry into force of the current modification 0621.

b) Forecasted Contracted Capacity (FCC)

There was a lengthy discussion regarding the proposal to use Obligated Capacity and transition to a forecast in the short term, i.e. within two years.

Some delegates think that the date (two years) being proposed is ambitious and commented that if a date is quoted within the Amended Modification, a new Modification would be required to change the date.

When asked CW confirmed that the methodology around FCC will not be put in to code, it will be discussed at workgroup but it will not be in the Modification as this will not allow the flexibility that is required. GJ mentioned that there will be a requirement to have visibility of the forecasts and that FCC has to be Site specific.

NW mentioned that the timescale is slightly ambitious adding that this will be a new regime and that previously there has been the benefit of a settling in period; there will be a price control in the middle of this timeframe and NW recommends putting the timeframe back to 2022. GJ concurred and felt this was a fair comment, adding that the legacy contracts will also be phasing out. JCh said that the Charging Methodology will have more stability if a 2022 timeline is used.

On the subject of step changes, CW asked the workgroup to consider what a realistic step change would be, NW added that if a step change was not used, this would run the risk of incorrectly generated prices.

JCh agreed that it is right to use step changes.

When asked, CW confirmed that the CAM Auctions taking place in June will include multipliers and that the FCC prices for October 2021 would be released 2-5 months in advance.

GJ commented that, for Exit Capacity, bookings would be affected by User Commitment, therefore, if the forecast is poor it would affect the User Commitment (4 years).

For compliance and transition, when DH asked for clarity, it was suggested that the issue is if the transition arrangements themselves are compliant.

DR referred the Workgroup again to the Ofgem letter issued in February 2017, advising what is compliant and what is not compliant and that, so far, Ofgem have not been persuaded to change their view since then. DR also confirmed that this was the Ofgem view at the time the letter was issued. The letter can be found here: <https://www.ofgem.gov.uk/publications-and-updates/open-letter-european-union-network-code-harmonised-transmission-tariff-structures-gas-tar-nc>

c) **Multipliers**

GJ asked for the effect on cross border trade to be included in the impact assessment, adding that this could have an adverse effect on the GB market.

NW mentioned it may be worth looking at neighbouring countries to see what they are charging, particularly in terms of trade with those countries which would help to lock in security of supply.

AP advised that the Netherlands, in 2022 are setting 100% on Exit and 0% on Entry.

The Netherlands are looking at Multipliers of above 1; this will be a seasonal formula.

KC advised that the Ireland Multiplier in winter is above 8, which again is seasonal, on average the Multiplier is over 1.

DR advised there is an example on iDoc on the ENTSOG website:
(<https://www.entsog.eu/en/index/index/module/search?q=idoc>)

NW said that Entry Capacity Multipliers will only be a concern in neighbouring countries, whereas, Exit Capacity Multipliers is a very different scenario, explaining that there are a lot of parties within the industry relying on interruptible capacity, this will cause a massive shift in what is being paid for, which, GJ added, will impact consumers as well as the market.

NW commented that the additional cost is significant, there will be a small number of Industry participants that will see a change in their costs.

AS added, reflecting on circumstances in the current regime, some shippers have no choice but to book long term capacity, in the new regime, if multipliers are less than 1, there needs to be choice.

CW advised that the timeline and method for updates beyond 2019 will be shared prior to the next meeting on 22 November 2017.

d) **Interruptible**

MH introduced the supporting detail for the Interruptible topic and highlighted that the favoured approach is a discount up front (ex-ante). The discount will be applied to the reserve price for the corresponding standard firm product.

The Article 16 – Ex-Ante Calculation Pro factor was explained, adding that the formula will be set out in Tariff Code.

JCx asked for confirmation that the probability of interruption is extremely low and that the percentage of interruption risk would be below 10%, MH explained that National Grid NTS are not explicitly saying what the value for the A factor is, adding that this would be a blanket approach and that there are two elements included in that figure, the A factor and probability.

When asked, MH confirmed that the less than 10% value will not be point specific. CW added that if there is benefit to do something like that in the future, the value does not need to sit inside code.

HK advised the Workgroup that The Netherlands use the same kind of approach, with a 15% value being considered but not currently in place.

It was confirmed that all Firm Long-Term Capacity must be sold before Interruptible can be offered.

DH asked for clarity on the banding, MH explained that to make it simple for 2019, the value will be 10%, this will continue year on year if nothing changes.

JCh said that there is a wider concern with regards to imports in to the UK from the Netherlands, giving an example calculation of:

- 100% multiplied by 15% discount from The Netherlands for imports;
- Exports would be 50% times 90% from UK to The Netherlands.

GJ suggested analysis is required to look at the overall picture. It was also mentioned that, to allow flexibility, there is a requirement for having a solution for multipliers at all points and interruptible discount at all points, and that the multipliers may need to have to have different solutions at different points.

e) Specific Capacity Discounts

GJ asked for clarity on how to calculate the discounts. For example, if there is a 50% discount on Storage Entry and 10% Interruptible, how would they calculate together.

CW advised that the 50% discount on Storage would be applied first and then the Multiplier and then Interruptible 10%.

RF asked if there is an assumption of how much capacity might be sold and to what extent will that feed in to prices? CW advised that as far as the model goes, it is more of a sensitivity check and will have an impact on the recovery charge.

JCx commented that Direct Connects have to book 24 times the SHQ and that DNs do not, which makes the rules important, this will need further analysis. RW agreed with DR when he clarified that the flex product is discretionary and that DNs are not guaranteed flex.

f) Avoiding Inefficient Bypass of the NTS

CW explained that further work is required to work through the options. Consideration will need to be given to use of commodity or capacity and any transition.

CW directed the Workgroup to review the Analysis at end of the material provided, slide 32 onwards, and confirmed that he did not intend to go through the analysis at this meeting.

CW said it is reasonable to assume the pipe diameters that other parties use to build currently goes up to 600mm, adding that 600mm might be in excess of that which would be used for short haul.

AB took the Workgroup through the current calculation which is commodity based and the potential calculation which could be capacity based.

CW confirmed that at least the structure of the potential calculation will be in the draft amended modification and that more detail will follow.

g) Transmission Services Revenue Recovery

CW took the Workgroup through the points being considered with Transmission Services Revenue Recovery, advising that compliance is still a topic for further discussion with regards to levying revenue recovery via a flow based charge.

There followed a lengthy discussion around the rationale of changing to a flow based recovery charge, with CW confirming that Commodity provides an established way for managing revenue recovery whilst the change in capacity booking behaviours settles.

Storage exemption avoids double counting; and, it can be expected to reduce in line with the transition for FCC under the CWD approach.

h) Non-Transmission services Charging

The proposed approach for Non-Transmission services remains unchanged.

i) Compliance

Key areas for compliance is making sure that what is being proposed is compliant with the EU Tariff Code.

CW explained that National Grid NTS hopes to provide the link between compliance and transition as part of the rationale and justification at the next meeting.

j) Transition Arrangements

DR confirmed that at this stage Ofgem have not changed their view since the letter that was sent out in February 2017.

NW said that the majority of the Industry is supportive and that it is important to have the views of Ofgem discussed.

k) Plan and Change process

CW confirmed that Modification 0621 and the EU Requirements will be one consultation for both based on the Modification 0621 Workgroup Report incorporating any alternates.

3.0 Development of the Workgroup Report

RH confirmed that the workgroup report will be updated when a further Amended Modification is received.

4.0 Next Steps

CW confirmed that a Draft Updated Modification 0621 will be shared ahead of the next meeting planned for 22 November 2017.

5.0 Any Other Business

None.

6.0 Diary Planning

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

Workgroup meetings will take place as follows, please note the addition of fortnightly meeting dates during January 2018; February 2018 and March 2018:

Time / Date	Venue	Workgroup Programme
10:00 Wednesday 22 November 2017	Energy UK, Charles House, 5-11 Regent Street, London, SW1Y 4LR	<ul style="list-style-type: none"> • Modification 0621 • Modification 0636
10:00 Wednesday 06 December 2017	Elexon, 4th Floor, 350 Euston Road, London, NW1 3AW	<ul style="list-style-type: none"> • NTSCMF Gas Charging Forum • Modification 0621 • Modification 0636
10:30 Thursday 14 December 2017	Solihull venue TBC	<ul style="list-style-type: none"> • Modification 0621
10:00 Wednesday 03 January 2018	Elexon, 4th Floor, 350 Euston Road, London, NW1 3AW	<ul style="list-style-type: none"> • NTSCMF Gas Charging Forum • Modification 0621 • Modification 0636

10:00 Monday 23 January 2018	Elexon, 4th Floor, 350 Euston Road, London, NW1 3AW	<ul style="list-style-type: none"> • Modification 0621
10:00 Tuesday 06 February 2018	Solihull venue TBC	<ul style="list-style-type: none"> • NTSCMF Gas Charging Forum • Modification 0621
10:00 Tuesday 20 February 2018	Elexon, 4th Floor, 350 Euston Road, London, NW1 3AW	<ul style="list-style-type: none"> • Modification 0621
10:00 Tuesday 06 March 2018	Energy UK, Charles House, 5-11 Regent Street, London, SW1Y 4LR	<ul style="list-style-type: none"> • NTSCMF Gas Charging Forum • Modification 0621
10:00 Tuesday 20 March 2018	Solihull venue TBC	<ul style="list-style-type: none"> • Modification 0621

As at 06 November 2017					
Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
0621-0301	06/03/17	3.0	National Grid NTS (CW) to articulate and capture Storage Review concerns within the Storage discussion document.	National Grid NTS (CW)	Carried Forward
0621-0404	24/04/17	4.1	'Avoiding Inefficient Bypass of the NTS' (one-pager) - CW and the Subgroup to revisit/re-word the final paragraph to add clarity, and re-publish.	National Grid NTS (CW)	Carried Forward
0621-0707	17/07/17	3.1	CW/LJ to check the calculations of CWD to better understand when to include the existing contracts, clarifying the influence on entry vs exit impact in the CWD model of existing contracts. This will be illustrated at future workgroup. Action extension: CW/LJo to give a view on materiality and analysis is required to see if the calculations cancel each other out. Action extension 05/09/17: CW to re-examine the principles behind the charging model and provides justification as to how NTS undertook the charging modelling.	National Grid (CW/LJ)	Carried Forward
0621-0901	26/09/17		<i>Plan and Change process:</i> RH; DR and CW to provide more information on ACER consultation plus the UNC consultation at the next meeting.	RH; DR; CW	Carried Forward
0621-0903	26/09/17		<i>Plan and Change process:</i> All to respond to the comments made in the presentation regarding the Impact Assessment, specifically slide 61.	All	Carried Forward
0621-1001	13/10/17		<i>Review of Draft Amended Modification 0621 (Section 7 Relevant Objectives)</i> SP to give an overview at the next meeting of what system changes there might be, and the process that is being followed to give some certainty of what is being addressed with this Modification and how.	Xoserve (SP)	Closed
0621-1002	13/10/17		<i>Review of Draft Amended Modification 0621 (Section 7 Relevant Objectives)</i> SP to check the Xoserve Bubbling Under Report and ensure that Modification 0621 is on this report.	Xoserve (SP)	Closed

Guidance on the use of this Template:

Please complete all sections unless specifically marked for the Code Administrator.

Green italic text is provided as guidance and should be removed before submission.

The Code Administrator is available to help and support the drafting of any modifications, including guidance on completion of this template and the wider modification process. Contact: enquiries@gasgovernance.co.uk or 0121 288 2107.