

UNC Workgroup 0705R Minutes

NTS Capacity Access Review

Thursday 05 March 2020

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

Attendees

Alan Raper (Chair)	(AR)	Joint Office
Helen Bennett (Secretary)	(KV)	Joint Office
Lorraine O'Shaughnessy	(LOS)	Joint Office
Adam Bates	(AB)	South Hook Gas
Alex Barnes	(ABa)	Waters Wye Associates
Andrew Pearce	(AP)	BP
Angus Paxton	(APa)	Afry
Anna Shrigley	(AS)	Eni Trading & Shipping
Anna Stankiewicz	(ASt)	National Grid
Ashley Adams*	(AA)	National Grid
Bethan Winter	(BW)	Wales & West Utilities
Bill Reed*	(BR)	RWE
Chris Wright	(CW)	ExxonMobil
David Mitchell*	(DM)	SGN
David Adlam	(DA)	Cadent
Debra Hawkin	(DH)	TPA Solutions
Emma Buckton*	(EB)	Northern Gas Networks
Jeff Chandler*	(JC)	SSE
Jennifer Randall	(JR)	National Grid
John Costa	(JCo)	EDF Energy
Julie Cox	(JCx)	Energy UK
Kamila Nugumanova	(KN)	ESB
Kamla Rhodes	(KR)	Conoco Phillips
Lea Slokar	(LS)	Ofgem
Leyon Joseph*	(LJ)	SGN
Malcolm Montgomery	(MM)	National Grid
Paul Youngman*	(PY)	Drax
Phil Hobbins	(PH)	National Grid
Richard Fairholme*	(RF)	Uniper
Richard Pomroy	(RP)	Wales & West Utilities
Steve Pownall	(SP)	Xoserve
Steven Britton	(SB)	Cornwall Energy
Terry Burke	(TB)	Equinor
Tracy Brogan*	(TBr)	Neptune Energy
Will Webster	(WW)	Oil & Gas UK

*via teleconference

Copies of all papers are available at: www.gasgovernance.co.uk/0705/050320

The Workgroup Report is due to be presented at the UNC Modification Panel by 15 October 2020.

1.0 Introduction and Status Review

1.1. Approval of Minutes (06 February 2020)

The minutes from the previous meeting were approved.

2.0 For March discussion and onwards, as below:

JR provided a presentation which covered the following, (discussions are captured as shown below as the slides were presented):

Zonal Capacity Arrangements

What are we trying to achieve

JR explained that consideration of what the option is that most effectively fits what this review is trying to achieve.

Option 1: Full Zonal

JR explained that Zones could be set as per ExCR Methodology Statement, when asked, clarified that initial thoughts are that 'zonal' only works for Exit rather than Entry.

JR advised the purpose of this presentation is to show Workgroup what the National Grid's line of thinking was at the moment, and to get feedback from Workgroup.

Workgroup discussed the exchange rates, specifically where there is a Zone identified where a 1:1 exchange rate is applicable, it could be that there are more than 13 Zones where matters are more complex and with a Postage Stamp model, it was difficult to see how anything other than a 1:1 exchange rate could apply.

PY stated that each all capacity would be the same price, wherever it is in the network. If there was a difference in capability, then it should be priced in a different way.

MM clarified that price is not considered currently in exchange ratios e.g. Substitution and the Trade and Transfer methodology, it is only physical interchangeability.

JCx asked if it can be deemed that something is a 1:1 exchange rate, could there be different exchange rates in different zones and added it is important that either it is meant to be a 1:1 exchange rate or it is deemed to be 1:1.

APx suggested it is not clear what this option is trying to achieve given there is a backdrop of reducing demand.

DH sought confirmation that National Grid are not going to look at the pricing regime during this review, JR confirmed this would not be the case. National Grid are not suggesting the pricing regime is looked at as part of the review.

Option 2: 'Competing Auctions' model

- Bid in individual auctions
- Results from individual auctions are pooled into 1 combined bid stack for allocation

Workgroup had many questions relating to his option, such as:

- Would this apply to Annual Capacity or Short-Term capacity?
- Would it always be obligated capacity?
- Would enduring capacity be taken out of this?

A concern was raised in that DN's manage their 1 in 20 obligations through their annual capacity bookings and would have to secure that regardless of prices in order for them to meet their obligations.

It would be assumed that a Zone would include any direct connects that are in the same Zone as DN offtake points.

When asked, it was confirmed that within a Zone, DNs could be competing against other offtakes.

Unsold capacity would be available for whoever requires it within that Zone.

Option 3: Zoning Nodes

- Nodal baseline and individual auctions
- Exchange rates set prior to auction meaning capacity could be transferred quicker
- Could be applicable in daily auctions

The exchange rates would be determined either pre or post auction.

These would be less accurate exchange rates.

Workgroup questioned if it is only National Grid that are concerned about exchange rates.

Option 4: Zonal at point in time

- Long-term capacity sold on a nodal basis
- Unsold short-term capacity then sold on a zonal basis either through option 1 or 2 or 3

It was advised that the current zonal definition may need to change, but once the zones are set, the zonal structure would stay the same.

Option 5: Zonal product

Zonal product auctioned at a premium

- Pre-defined amount of capacity to be sold as a zonal product
- Sell capacity at a point but with flexibility to use anywhere in the zone
- Provide the right to move nodal product within the zone
- This option would be more focussed on how sold capacity with the right to use it within the zone whereas other options about to efficiently make unsold capacity available for the market to utilise

Option 6: Current enhanced

Can current processes / mechanisms be enhanced to solve problems without zonal

- Flow swaps more frequently used
- Review of User commitment levels / arrangements - Including whether a Non-User Commitment product could be available on a case-by-case basis
- Retainer provision available on Exit
- 10% baseline reservation in Exit Capacity auctions for near-term auctions which wouldn't be subject to User Commitment

Workgroup entered into a lengthy discussion regarding this option, which was captured as follows:

National Grid clarified that the current User Commitment is 4 years, if a party wanted to move or adjust their capacity, that would be assessed on a case by case basis, and could be User Commitment free.

JCx advised she has been trying to find evidence, (unsuccessfully so far), as to why User Commitment has been 4 years since 2006 as prior to that it was 1 year.

She advised that, in 2006 National Grid proposed 4 years and it has remained at the value ever since but she has been unable to find anything that supports 4 years or any discussions around 4 years.

DA provided some areas of consideration relating to User Commitment which included pros and cons for each:

- No User Commitment
- No User Commitment unless investment justified and above baseline
- No User Commitment unless investment justified and above a User's zonal baseline (Modification 0671)
- Remove requirement to book enduring capacity, (other than for a large load)

A substitution methodology should:

- Be consistently applied to all relevant processes (Annual & PARCA)
- Information provided is sufficient and timely to allow all parties to assess locational impact accurately
- Be a simple within portfolio solution

DA advised that this would encourage more accurate 1 in 20 peak flows bookings.

DA suggested that Substitution is not consistently applied and that there are issues around process. He added that all applications could result in a potential substitution and that DNs want to be notified at the beginning of the process. Because DNs don't know how the National Grid Substitution process works, even if the DNs knew what the site was, there would still be a need for notification.

DA said that he would like to move this forward quickly and that it should be a simple process change.

It was suggested there could be a PARCA (Planning and Advanced Reservation of Capacity Agreement) window process that opens once.

Developer and / or NTS Users (Shippers or Distribution Network Operators 'DNOs') can reserve firm NTS capacity through the Planning and Advanced Reservation of Capacity Agreement (PARCA) process.

A PARCA is a bilateral contract that allows entry and/or exit capacity to be reserved for the customer while they develop their own projects.

The reserved capacity would need to be allocated to a nominated NTS User before it can be utilised.

In reality, currently DNs could be booking capacity when they don't need to, or they could be not booking capacity when they need to. The current process leads to inefficient decisions are being made in terms of reserving capacity.

It was proposed that if demand is above baseline then substitution analysis would be justified. Then under PARCA rules, an announcement should alert that a part of the Network has an open application period for capacity and then allow all then have the opportunity to book capacity in that area. This would stop it from being a first-come, first-served process and would allow National Grid to package up all the PARCAs and deal with them all in one go.

In light of the workgroup discussions, Workgroup asked National Grid to consider User Commitment and Substitution and come back to the next meeting with a clear definition of the deficiency. JR highlighted that, if National Grid are taking the action to look at User Commitment options, on understanding that it should take priority over zonal options.

Entry Capacity Release

Entry Capacity Release Methodology

AB advised that *Modification 0667 - Inclusion and Amendment of Entry Incremental Capacity Release NPV test in UNC*, was raised 18 months ago and he would appreciate it being considered as part of Modification 0705R.

AR advised that the consultation responses received for Modification 0705R have been published and can be found here: www.gasgovernance.co.uk/0705/050320

As part of the consultation, the Industry were asked to provide views on the ambition statement, Workgroup agreed the ambition statement needs to change so that it reflects the needs of the Industry.

Long-term Strategy Consultation Response Play Back

Long-term Strategy consultation Responses, areas covered:

- Ambition Statement
- Functions: A. Signal a need for capacity requirements
- Functions: B. Manage network access where there is a short-term constraint
- Functions: C. Provide users with commercial certainty on network access
- Functions: D. Collect transporter allowed revenue
- Functions: E. Enable new entrants, including new sources of gas and technologies, to easily and efficiently access the NTS
- The responses also drew attention to some Short-term Issues that could be addressed through the review

2.1. Entry Trading and Ofgem related issues

Not discussed in this meeting.

2.2. DN Capacity booking process

Considered during presentation

2.3. Modification 0667 – Inclusion and Amendment of Entry Incremental Capacity Release NPV test in UNC

Mentioned during presentation

3.0 Panel Interim Report – March Panel

JR took Workgroup through the Panel presentation which shows a synopsis of progress over the last few months which will be used to keep Panel informed.

4.0 Review of Workplan

Not discussed in this meeting.

5.0 Review of Amended Request

The Modification has not been amended.

6.0 Review of Outstanding Actions

Action 0202: National Grid (JR) to share progress against the ‘Signalling and Allocation of Capacity’ workstream at the next Workgroup meeting in March.

Update: Carried Forward

7.0 Next Steps

AR confirmed that the next steps were as detailed below:

Areas for consideration during April:

- User Commitment
- Substitution
- DN Capacity booking process
- Review of Workgroup Report
- Review of Amended Request

8.0 Any Other Business

None.

9.0 Diary Planning

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

Workgroup meetings will take place as follows:

Time / Date	Venue	Workgroup Programme
10:00 Friday 02 April 2020	Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	Areas for consideration during April: <ul style="list-style-type: none"> • User Commitment • Substitution • DN Capacity booking process • Review of Workgroup Report • Review of Amended Request
10:00 Friday 07 May 2020	Elexon - Orange room 350 Euston Road London NW1 3AW	Detail planned agenda items. <ul style="list-style-type: none"> • Amended Modification • Development of Workgroup Report
10:00 Friday 04 June 2020	Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	<ul style="list-style-type: none"> • Detail planned agenda items. • Completion of Workgroup Report

Action Table (as at 05 March 2020)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0201	06/02/20	2.1	National Grid (ASt) to investigate situations whereby on Overrun might have been caused by a constraint on the network.	National Grid (ASt)	Pending <i>(transferred to 0716)</i>
0202	06/02/20	2.2	National Grid (JR) to share progress against the 'Signalling and Allocation of Capacity' workstream at the next Workgroup meeting in March.	National Grid (JR)	Carried Forward
0203	06/02/20	5.0	National Grid (ASt) to investigate to what extent are there existing contracts with a close to zero reserve price which could lead to near zero Overrun charges (ASt)	National Grid (ASt)	Pending <i>(transferred to 0716)</i>
0204	06/02/20	5.0	National Grid (ASt) to confirm if the Overrun charges link to the non-transmission charges post charging review implementation?	National Grid (ASt)	Pending <i>(transferred to 0716)</i>