

UNC Workgroup 0860S Minutes
Clarify impact of exit capacity holdings on offtake rights
Tuesday 28 November 2023
via Microsoft Teams

Attendees

Eric Fowler (Chair)	(EF)	Joint Office
Niamh Holden (Secretary)	(NH)	Joint Office
Anna Shrigley	(AS)	ENI Global Marketing & Trading
Chris Wright	(CW)	Exxon Mobil
Jeff Chandler	(JC)	SSE
Julie Cox	(JCo)	Energy UK
Lauren Jauss	(LJ)	RWE
Mark Field	(MF)	Sembcorp
Paul O'Toole	(PO)	Northern Gas Network
Philip Lucas	(PL)	National Gas
Ross Edwards	(RE)	SGN
Richard Pomroy	(RP)	Wales & West Utilities
Shiv Singh	(SS)	Cadent

The Workgroup Report is due to be presented at the UNC Modification Panel by 16 February 2024.

This Workgroup meeting will be considered quorate provided at least two Transporter and two Shipper User representatives are present.

Please note these minutes do not replicate/include detailed content provided within the presentation slides, therefore it is recommended that the published presentation material is reviewed in conjunction with these minutes. Copies of all papers are available at: <https://www.gasgovernance.co.uk/0860/281123>

1.0 Outline of Modification

The Proposer, Lauren Jauss (LJ) provided an outline of the modification. LJ explained that it seeks to remove text which implies that Users, who do not hold Exit Capacity, might have an increased risk of not being able to offtake gas in the short term.

LJ explained that the Q&A provided by NGT and published last September creates ambiguity. She explained that the obligations of Transporters to make gas available need to be clarified in the UNC, particularly in TPD Section J.

LJ noted that the commercial risks for generators of being refused gas offtake had been raised in the electricity code and a new arrangement implemented which now protect them from being exposed to high system prices under gas emergency conditions.

LJ highlighted the following sections within Section J of UNC, noting that the text implies that Transporters might be permitted to restrict making gas available or reject Offtake Profile Notices (OPNs) on the basis of a User's Registered Exit Capacity Holdings.

LJ noted that Section J, paragraph 3, describes compensation arrangements; she highlighted that National Gas would be liable to users if they don't make gas available up to the level of the booked capacity, LJ explained that compensation arrangements are entirely dependent on your capacity and therefore redundant if you don't hold capacity.

LJ explained that it would be useful to discuss the documentation from the NGT webinar published last September which seems to suggest that there is no rejection of OPNs. LJ stated that this was main driver for the Modification, to ensure that the UNC is consistent with the webinar.

EF highlighted that a formal representation has been received from NGT but asked whether any attendees had any comment regarding the perceived problem regarding the ambiguity in the way the UNC is currently drafted.

Julie Cox expressed her agreement with the Modification, stating that greater clarity is needed on some of these issues.

EF showed on screen the Q&A from the NGT Website.

LJ highlighted the following questions and responses from the Q&A:

- Question: Could / would you ever disconnect a CCGT pre-emergency and if so under what circumstances e.g., ignoring OPN rejection? Or is it only in emergency under GSMR rules?
 - Response: We can only legally direct a CCGT to cease taking gas when a Stage 2 NGSE is in force. Other forms of disconnection would be market or contract based.

LJ noted that this suggested that they would revert to contract-based arrangements.

- Question: What are the rules for rejecting an OPN and can a user still take gas if an OPN is rejected?
 - Response: The OPN rules would be enforced (and an OPN rejected) if we need to protect safe operating pressures and are unable to accommodate the usual flex that we try to provide, beyond the 1/24th rate. Enforcing the rules would result in restricting CCGTs to stricter NExA parameters / ramp rates etc. We would let you know the rules are being enforced via ANS - this would inform of our inability to continue to support OPN rule breaches. A Shipper may still take gas in excess of their last accepted OPN, though in the event that the emergency escalates there would likely be a review post-event with Ofgem and HSE involvement.
- Question: If a site is unable to buy Exit capacity but submits an OPN indicating that it plans to use gas, will that result in an OPN rejection?
 - Response: A site that submits an OPN would not have this rejected for the reason of not holding the corresponding capacity. OPNs are not considered in relation to capacity entitlements as both may change during a Gas Day.

LJ advised that this tends to suggest that her OPN would not be rejected if she doesn't hold capacity.

- Question: Will OPNs complaint with NExA rules always be accepted?
 - Response: Yes.

LJ noted that this response tends to suggest that the OPN would never be rejected, which was the key message that a lot of people took away from this webinar.

Mark Field (MF) questioned why it is only CCGTs who were referenced within the responses. EF advised that he suspected that the interested party had raised the question.

RP noted that discussion seems very focused on the NTS, stating unless there is good reason you can't discriminate between different exit customers so agreed that it would generally apply to all customers.

LJ advised that they had extended the proposal to include all users and exit points as they think clarity is needed across all points, that the intention of the Modification was to try to be consistent across users.

SS noted that the GT Licence states that DNs must procure long-term capacity for their 1 in 20 peak need so they shouldn't see the scenario of being short. If it does happen due to a new load coming onto the network, they would look to procure capacity in whatever form to meet the requirement at the lowest cost.

JC suggested that there are two drivers, the obligation in the (electricity) balancing mechanism which resides in Licence and a different scenario in which there is a shortage of gas flexibility but not a declared emergency. JC was of the view that a rejection of an OPN was irrelevant because the generator would comply with its licence.

SS questioned whether OPN rejections from NGT were common. JC advised that they were incredibly rare. SS advised that they had always worked on the notion that if you had not heard back within half an hour, they would consider the OPN approved but there was nothing in writing as such.

2.0 Initial Discussion

2.1. Issues and Questions from Panel

EF noted that two questions had been raised by Panel and invited attendees of the workgroup for comment.

2.1.1. Please consider the impact on both distribution and transmission networks and Parties

SS reiterated that Cadent are bound by licence obligation A57, to book for the one in twenty position and must procure capacity to the long-term market. EF summarised that should the Modification go ahead; nothing would change for Cadent as the licence binds them already. SS confirmed this was correct.

RP noted that if there were a sufficiently large LDZ load, capacity bookings would need to be adjusted. RP explained that the level of capacity a site may be using is booked and if they then want to increase that load the LDZ would require additional NTS offtake capacity. RP argued that this could leave them exposed.

EF questioned if the LDZ was unable to procure the capacity required and therefore at risk of overrun, whether, as fellow system operators, they might feel a greater duty binding on their NTS OPN. RP referred to an extreme scenario, in which they would have no choice but to overrun. RP noted that they would attempt to balance with the use of daily capacity, and if they were unable to do this, they would have to face the consequences of the overrun.

LJ questioned whether large customers in DNs are also required to send in an OPN. RP clarified that OPNs are typically requested from large sites, particularly power generation sites as their demands are difficult to forecast. LJ enquired whether these OPNs are honoured, and whether a DN would reject an OPN, or whether this was determined on a case-by-case basis.

RP advised that as he does not work in the control room, he could not provide an answer to this operational question.

SS noted that other commercial tools were available to use, suggesting flow swaps between offtakes as an alternative as this would mitigate the overrun.

RP expressed concern, noting that although these options are available, none of them are certain. Explaining that on the day they would do what they could, but the use of daily capacity couldn't be relied upon as it may be unavailable and is not guaranteed.

JC highlighted that even if an OPN is rejected, customers will still need the gas and take it anyway.

Paul O'Toole (PO) expressed agreement with RP and SS.

EF invited PL to comment on the initial representation. PL confirmed that NGT see the Modification as a challenge to the fundamental ticket-to-ride principle. PL questioned whether

the limitation on the obligation to book was purely regarding compensation or limited to capacity levels.

LJ clarified that it is purely a commercial change because it removes the uncertainty around whether there is a physical limitation. LJ added that it wouldn't change anything as in the Transporter's obligations.

PL expressed NGT's concern around changes to behaviours. LJ countered that the users would still have an incentive to secure capacity to avoid overrun changes. LJ added that the issue is that with an uncertain demand they look to buy some capacity day ahead but are unsure whether it would be available. PL questioned whether a lack of availability had ever materialised. LJ confirmed that it had.

LJ noted that should an OPN be rejected, there may be other obligations in place which perhaps supersede the OPN. LJ stated that generators are obliged to respond to electricity balancing, and there would have to have an extremely good reason to not offer their availability. PL questioned whether lack of gas was material enough reason. JC argued that in the circumstances under debate it would be pre-emergency and therefore there would be enough gas, JC noted that if an OPN is rejected, it doesn't make much difference.

SS supported PL's point but appreciated it was tricky. SS referred to Modification 0805, suggesting that if this had been implemented it would take away the risk of capacity being withheld. JC argued that this may have helped but not resolved the issue.

SS questioned whether this risk was so great that it was something they had to live with. JC explained that there is no forum for discussing these issues, in which the likely scenario could be explained. RP argued that it needed a cross code solution. JC stated that it is not code but licence and that they were seeking clarity within the code to help comply with licences.

2.1.2. Please consider the appropriate governance route

The Workgroup discussed the appropriateness of the Self Governance route for the Modification. EF noted that within the NGT Initial Representation they argued that it changes the obligation on a Transporter. EF asked the Workgroup whether they believed this took it into a territory where it was a material change.

JC referred to the Q&A arguing that the Modification is clear and remained unconvinced that it is material. LJ was of the view that it did not change processes, other than clarifying the UNC. JC added that the obligation is already there it is just undermined by other things.

2.2. Initial Representations

PL provided an overview of the Initial Representation, highlighting that the main concern is that the 'ticket-to-ride' principle will be eroded. PL explained that the 'ticket-to-ride' principle has been an integral part of the system since the UNC's inception, meaning that you should procure sufficient capacity to secure flow.

Please see the published Initial Representation for further information.

JC agreed that the 'ticket-to-ride' principle is fundamental as it incentivises you to do the right thing but argued that physical and commercial arrangements must fit together properly.

LJ was of the view that this was part of the problem, when new arrangements were put in place, they moved over to capacity-based charging. LJ explained that the problem arises when you can't buy a ticket to ride, in circumstances where capacity is withheld as there are concerns about gas.

PL argued that if there is a lack of availability of gas and Users continued to offtake, it would exacerbate the issue, stating that Users must act in good faith. PL explained that the control room were working on the best information available at the time, but if users make that call, he questioned whether they are in a better position to decide whether that is acceptable or not.

JC advised that unless they know that there is a constraint, they are unable to advise whether the situation is acceptable. JC agreed that there could be more information shared, but Users were between rock and a hard place. PL questioned whether there is a solution for electricity market and whether they could revise the balancing. PL noted that Energy UK had raised a Modification for increasing the compensation rate. JC stated that this was in relation to once an emergency had been declared, and that they were requesting for clarity pre-emergency.

PL advised that should the Modification be implemented, NGT would have a contractual obligation to make gas available in all situations. JC noted that this was already in place.

EF discussed the obligation to participate in the balancing mechanism and generate, if this persisted in off taking and lead to failure there would be a very dim view of this approach. EF noted that it sounds a through it is an issue which is slightly bigger than a tweak to the UNC, and because of this EF questioned whether a comment from Ofgem may be warranted.

JC argued that when asked, Ofgem would say that they expect everyone to comply with their licence conditions. JC advised that they were trying to deal with an issue before it appears which complicates things.

2.3. Terms of Reference

As matters have been referred from Panel a specific Terms of Reference will be published alongside the Modification at <https://www.gasgovernance.co.uk/0860>

3.0 Next Steps

The following next steps were confirmed:

- Provision of Workgroup Report

4.0 Any Other Business

None.

5.0 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	Paper Publication Deadline	Venue	Workgroup Programme
10:00 Monday 29 January 2023	5pm Monday 22 January 2023	Microsoft Teams Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	Detail planned agenda items. <ul style="list-style-type: none"> • Development of Workgroup Report