

**UNC Workgroup 0452 Minutes**  
**Introduction of the Planning and Advanced Reservation of**  
**Capacity Agreement (PARCA)**  
**Wednesday 28 August 2103**  
**Consort House, 6 Homer Road, Solihull B91 3QQ**

**Attendees**

Bob Fletcher (Chair)	(BF)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Bethan Winter	(BW)	Wales & West Utilities
Chris Wright	(CWr)	Centrica
Colin Williams	(CW)	National Grid NTS
Emma Buckton*	(EB)	Northern gas Networks
Graham Jack	(GJ)	Centrica
James Thomson*	(JT)	Ofgem
Julie Cox	(JC)	Energy UK
Lorna Lewin	(LL)	DONG Energy
Mike Wassell	(MW)	National Grid NTS
Rhys Ashman	(RA)	National Grid NTS

*\*via teleconference*

Copies of all papers are available at: [www.gasgovernance.co.uk/0452/280813](http://www.gasgovernance.co.uk/0452/280813)

The Workgroup Report is due to the UNC Modification Panel by 17 October 2013.

**1.0 Review of Minutes and Actions**

**1.1 Minutes**

The minutes were accepted.

**1.2 Actions**

**0452/0601: Incremental Capacity** - Provide examples as to how pricing would work in various instances.

**Update:** MW confirmed that examples/interactive scenarios were detailed in the presentation provided (see 2.4, below), however these had been based on the current version of the modification (version 2) and as the modification is likely to be revised the examples may need updating to reflect any changes. **Closed**

**0452/0701: Process Flows** - Review timescales, terms and activities in respect of each Phase.

**Update:** RA confirmed that Phase 0 had been revised with the timings as referred to in the modification; an updated version of the process flow diagram was provided. **Closed**

**0452/0702: Licence/Methodology Change Consultations** – Consider realignment.

**Update:** JT confirmed this should action remain open until the modification had been fully developed. **Carried forward**

**0452/0704: Technical Options Report** - Provide an example for review.

**Update:** Under preparation for external consumption. **Carried forward**

## 2.0 Discussion

Outstanding issues relating to taking capacity away from the market had taken place with Energy UK and Ofgem, and National Grid NTS were considering the introduction of a PARCA window into the modification, thereby providing further opportunities and addressing any competition issues. Other issues regarding holding capacity away from the market for a length of time (eg unsold capacity being taken away from the QSEC process when not being competed for) remain under discussion.

### 2.1 PARCA Security and Termination Amounts

Reporting that discussions with Ofgem had indicated that a 2-stage revenue driver may not be possible, CW proceeded to give a presentation, outlining an approach based on a single revenue driver. The calculation of the Security amounts for both Entry and Exit were illustrated, and following brief discussion of Entry CW noted that the definition of 'n' required additional clarity.

The cumulative profile over 4 years was then considered and the percentage phasing was discussed. There were concerns that the percentages should not become so high as to form a barrier to entry; those illustrated were believed to be too high given other risks/exposures that may exist at those points in a project's progress. JC suggested that consideration of the variables of years/ percentages by other parties would be necessary before it could be established what might be most appropriate. GJ observed that volatility in pricing could affect which year a party might consider signing up. There is a further liability placed on applicants and cost reflectivity needs to be more appropriate. MW responded that doing it on capacity charges might offer more fluidity (although volatile) rather than hard coding something that would need frequent change. GJ indicated that projects need to be helped to progress, but recognised that capacity should not be held out of the market; there must be a simpler way to achieve this without so many variables. MW noted that with a single cost rate securitising might prove more onerous in certain circumstances than the capacity holding. Summarising, MW suggested that National Grid NTS might need to run some examples and see how the numbers come out; it should be quality based but multiplied by what; and should be significant enough to mark a decent level of user commitment. Views on phasing (4 or 5 years) would be welcomed.

Concerns were expressed regarding premature termination, which may lead to a heavy cost exposure. MW stressed that all parties were likely to be in a constant dialogue that should minimise this.

At this point MW added that modification timelines would need reviewing to make sure that everything comes into line for a potential April 2014 implementation, with a view from Ofgem expected in January 2014 to enable work to start on the required Licence changes. Publication of draft methodologies was expected prior to the September Transmission Workgroup meeting to enable parties to provide feedback to inform the informal consultations.

#### *Termination during Phase 2 – example, where costs are lower than security*

CW explained the process and the financial effects on the various parties. It was clarified that Year 1 was the formula year; for example, for a Phase 2 PARCA signed in March, Year 1 would only be equal to one month. It was observed that a party might need to very carefully consider when it should choose to sign the PARCA – this might mean parties delaying signing Phase 2 until April. There

were concerns that the regime now seemed to be driving the project decisions and this did not seem right – should this be reconsidered? The process should not create perverse incentives and the Price Control should not be driving projects; smoothed out would be better. CW noted these concerns for further consideration.

*Termination during Phase 2 – example, where costs are greater than security*

CW explained the process and the financial effects on the various parties. It was noted that if the security level comes down, then the social 'benefit' or 'debit' would be greater in each case. Responding to a question from JT as to why the applicant was not being invoiced for the costs related to releasing the capacity, MW explained this was now based on a single revenue driver approach and how this had changed the view. JC observed that the desire to have consistent security across both was what it was thought that Ofgem's approach required?

*Next Steps*

It was suggested that consideration might also be given to other scenarios, such as termination due to force majeure, and where National Grid NTS fails to obtain planning consent – what should happen under these circumstances and where would liabilities and costs reside.

National Grid NTS would welcome any further views on this area, and in the meantime will work up other examples/options.

MW affirmed that National Grid NTS still believed that a 2-stage revenue driver was the better approach and will revisit this at some point in the future.

**2.2 Business Rules - draft**

The draft Business Rules were reviewed and discussed. MW drew the Workgroup's attention to the tables illustrated on pages 2 and 3; following today's discussions these will be revised.

MW outlined the background and summarised what he had put together.

*PARCA window and ad hoc QSEC*

*BR2* – Referring to Phase 0, JC asked what could be done in parallel to keep delays to a minimum. Timings (days) were discussed; where it was possible to feedback information earlier it would be welcomed, even if with attendant caveats in case a second party 'arrived' in the same window. JC commented that the process/timescales seemed quite cumbersome and that she had thought progressing through Phases 0 and 1 should all have been a lot simpler. MW indicated it had been based on a similar template to Modification 0373. JC suggested performing a compare/contrast exercise with the Connections process might be useful. GJ suggested that there must be an identifiable 'point of no return', where something must proceed/cannot be affected by another event. MW noted these suggestions for further consideration.

*BR3 and BR5* – JC was concerned that there might be a significant portion of the year where this cannot be used - Phase 1 cannot be initiated between June and September? MW confirmed that parties still need to talk to National Grid NTS throughout this period – the dialogue would not cease. Attention was then directed to the timeline on page 7 (interactions of existing UNC processes, etc) and this was discussed. JC gave examples where downtime windows may need

to start/end earlier. MW pointed out that the DN adjustment window should be considered alongside these. GJ questioned if it was the terminology used that was upsetting comprehension of how the process works. MW to reconsider references to 'not running'.

JC reiterated the need to avoid 'dead' periods as far as possible. The reality of parties' use of ad hoc and PARCA was briefly touched on; the July process may not have as great an impact. Outcomes of a number of the processes might affect a party's decisions.

*BR6* – To be reconsidered following these discussions.

*BR7* – National PARCA windows were discussed; it was noted that having one national window gives locationally disparate parties less time to react, and there were concerns that this may offer opportunities for manipulation, with strategic timing effecting the deliberate 'closing out' of other 'rival' applicants. Regional windows were suggested for further consideration. Was there also an interaction between Exit and Entry windows? MW observed that National Grid NTS had a preference for one window at a time, noting that it was unlikely that a prior dialogue with any party would not have taken place with National Grid NTS.

*BR8* – MW to consider the compressing of 10 Business Days to a lesser number.

At the end of the review of this section MW asked if parties were comfortable with the PARCA window forming part of the Modification Solution. JC agreed in principle, but practical issues arise and need further consideration. JT commented that a window acts as a focal point to signal intentions and enable more efficient management of applications.

#### *Ad hoc QSEC*

MW outlined the background to this section.

*BR11*- All ASEPs will be included in the ad hoc QSEC. The retained window is in January. MW explained why a second one is not proposed, but was happy to reconsider; it might entail a methodology statement change to consider as part of this, and also any timeline impacts for Phase 1. PARCA applicants are not *obliged* to take part in QSECs but can if they wish.

It was queried if there was an ability to surrender capacity that was no longer required. MW was not considering this as part of the PARCA Solution – it might require significant system changes – but it could be considered as a separate piece of work. It was observed that redundant capacity is a long way out and how it should be surrendered/reassigned still needed addressing and could avoid a lot of potentially unnecessary investment. MW believed that to address this properly and appropriately would require significant industry discussion. CWR suggested there might be some interactions with what has to be done under UNC Modification 0449 and MW noted this for further consideration.

#### *Draft Timeline of the PARCA Window and Ad-Hoc QSEC and existing UNC Capacity release processes*

RA explained how this would fit together. JC asked if no party were to approach within the first 20 days could the window be closed. It might be possible to shave a month off the timescales without compromising the rest of the process. Many projects are unlikely to require investment and are more likely to use substitution. Quick answers back would be welcomed by all project parties.

### *Next Steps*

The Business Rules will be revised and included within the modification.

### **2.3 Revised Modification – draft for discussion**

The redrafted modification was reviewed and MW explained the changes made following previous discussions.

*Solution* – JC queried the timescales, indicating that Phase 1 should be commenced as soon as possible if everything is in place at an early point. Reference was made to UNC Modification 0373 process/activities and comparison again suggested. MW will consider compressing/reorganising/removing steps to reduce delay.

*User Pays* - The statement requires rewording.

*Implementation* – Further details required.

### **2.4 PARCA Examples (Action 0452/0601)**

RA confirmed that the examples had been based on the current version of the modification (version 2) and as the modification was to be revised the examples would need updating to reflect any further changes.

Exit Example 2 was reviewed. In response to a question from JC, it was confirmed that a fixed network model would be used with supply levels and demand patterns updated. RA explained scenarios that might be chosen according to provisional views built up from all sources of information.

It was noted that substitution was not allowed under the ExCS but that National Grid NTS was considering modifying the statement to increase flexibility for customers; this may require a Licence change as well as a methodology statement change.

Workgroup participants had found the examples to be very useful.

### **3.0 Legal Text**

The legal text will be redrafted to reflect revisions made to the modification.

### **4.0 Diary Planning**

The next Workgroup 0452 meeting will be accommodated within the business proceedings of the Transmission Workgroup on Thursday 05 September 2013 at ENA, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF, at which it is proposed to give a summary of progress made to date.

A further meeting was also arranged for 10:30 on Monday 09 September 2013 at Consort House, 6 Homer Road, Solihull B91 3QQ, and will consider Security and Timelines.

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**Action Table – Workgroup 0452**

<b>Action Ref</b>	<b>Meeting Date</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
<b>0452/0601</b>	06/06/13	2.1	<i>Incremental Capacity</i> - Provide examples as to how pricing would work in various instances.	National Grid NTS (MW)	<b>Closed</b>
<b>0452/0701</b>	04/07/13	2.1	<i>Process Flows</i> - Review timescales, terms and activities in respect of each Phase.	National Grid NTS (MW/RA)	<b>Closed</b>
<b>0452/0702</b>	04/07/13	2.2	<i>Licence/Methodology Change Consultations</i> – Consider realignment.	Ofgem (AW)	<b>Carried forward</b>
<b>0452/0704</b>	04/07/13	3.2	<i>Technical Options Report</i> - Provide an example for review.	National Grid NTS (SP)	<b>Carried forward</b>