

UNC Transmission Workgroup Minutes

Thursday 31 January 2013

31 Homer Road, Solihull B91 3LT

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Chris Wright	(CW)	Centrica
Colin Williams	(CW1)	National Grid NTS
Graham Jack	(GJ)	Centrica
James Thomson*	(JT)	Ofgem
Jeff Chandler*	(JC)	SSE
Julie Cox	(JCo)	Energy UK
Mike Wassell	(MW)	National Grid NTS
Rhys Ashman	(RA)	National Grid NTS
Richard Fairholme	(RF)	E.ON UK
Steve Pownall	(SP)	National Grid NTS

* via teleconference

1. Introduction

TD welcomed all to the meeting.

2. Review of Minutes and Actions

2.1 Minutes

The minutes of the previous meeting (19 December 2012) were accepted.

2.2 Actions

TR0801: *Development of the capacity and connection processes – Planning and Advanced Reservation of Capacity Agreement (PARCA)* – Provide worked examples of the PARCA approach under differing scenarios.

Update: Covered in the illustration and demonstration of what might happen in various scenarios during the meeting (see 3.1.2, below). **Closed**

TR0903: *Capacity and Connections* - Produce an expanded document (based on a modification proposal template) to clearly demonstrate the need for change, how this might be achieved, and giving consideration to wide ranging industry impacts.

Update: Under development, with the expectation that a modification will be raised by April 2013. It will include an explanation and justification of why options had been discounted, impacts on charging, and what changes might be necessary to the Licence and methodology statements. April 2014 implementation is proposed. **Carried forward**

TR1101: *Long term non-firm capacity:* Draft a new modification.

Update: MW reported that he was waiting for information from Xoserve regarding system impacts before raising the modification. **Carried forward**

TR1201: Establish the specifications, eg size and delivery capabilities, of available pipes, and any associated caveats relating to potential multi-party use.

Update: RA gave an overview of the specifications of NTS pipes and outlined various factors that would be taken into consideration when proposing to install pipeline.

There are some 18" pipes on the NTS but not many; developers themselves would build spurs. The smallest put in might be 24", which could serve more than one power station unless it was a very big one. All sizes are considered when planning projects, but generally erring on the side of the larger, as putting in slightly bigger pipes provides flexibility to expand.

RA explained the reasons for the use of parallel pipes. RA also noted that the larger the pipeline, the larger the exclusion zone that was needed on either side to meet safety requirements. The most efficient option was selected when looking at providing for a site that had known expansion plans. It was not always straightforward, and judgement was exercised when considering what was the most appropriate solution to fit the circumstances.

Shippers requested additional information on unit costs to exemplify how costs rise relative to the rise in capability. **Carried forward**

TR1202: Review, compare and assess the interactive offers process in place on the electricity side with what is being proposed on the gas side, and report on any useful findings that can be considered for inclusion.

Update: SP outlined the process used on the electricity side, which operated on a 'first come, first served' basis. National Grid NTS did not intend to adopt the same approach and would progress all PARCAs which customers have signed, and aim to manage the interactions as efficiently as possible. It was noted that the ability to manage interactions would be dependent on timing of any additional party's arrival/requirements, as would be the degree of flexibility to manage requirements in parallel.

JCx questioned what was meant by the phrase '*at the same time*'; this required clarification to understand the full implications. **Closed**

TR 1203: PARCA Stages - Consider appropriate timescales between stages, and at the last stage.

Update: JCx reported that Energy UK had discussed this internally. The 28 day period between stages is probably sufficient, but is it actually needed?

Much of the process will progress forward naturally, and a stop/(potentially unnecessary delay)/go effect should be avoided where at all possible. The length of period required between parts of the process might differ according to individual requirements, and what was necessary for the provision of demonstration information (which might be easier to assess once this has been defined). Opportunities to operate parallel running of parts of the process should be taken advantage of where appropriate. GJ added that justifiable reasons for including any time limitations in contracts would have to be very evident.

MW reiterated that 28 days was suggested to give the customer time to consider its position because of having to make financial commitments at the next stage.

JCx observed that the tendency would be to carry on while the DCO is considered to try and maintain alignment, but it should be recognised that various factors could force this out of kilter. A pragmatic approach should be adopted to understand and take account of any consequences and not tie things down too rigidly. Ofgem could perhaps arbitrate any resulting capacity related problems. MW pointed out that impacts on other customers must also be considered and this may limit the scope for any agreed end period. SP reiterated that each project should be considered on its own merits, especially when there are interactive projects affected. JCx commented that market dynamics could change over the long period it takes to get a project to completion. MW believed that elements of

flexibility should be feasible and agreed with the customer; the default could be 28 days, but this could be adjusted to suit circumstances.

JCx reiterated her view that stopping/starting/delays in the middle of the process should be avoided, unless specifically requested. MW pointed out that it might be necessary to agree certain drawn out/shortened periods in advance because changes will affect capacity delivery dates. There needs to be sufficient confidence in the demonstration information to provide assurance.

SP suggested there should be two key stop points (1a and the DCO) and the rest will be customer choice. JCx accepted this might be the best way to draft it.

Closed

TR1204: *Planning consents* – Check and confirm all time limits.

Update: SP reported on the time limits relating to the Town & Country Planning Act 1990, the Electricity Act Section 36 (S36) (Power Stations), and the Planning Act 2008 (as amended). Details of limitations and potential for extension were included in the presentation (slide 8). **Closed**

3. Issues

3.1 Aligning the connections and capacity processes:

3.1.1 PARCA - Funding/Recovery

CW1 gave a presentation outlining issues and approaches for consideration.

National Grid NTS will propose incremental capacity funding arrangements to include in its licence. One impact of the Planning Act is that it drives more cost much earlier than before in processes, and this means that the existing funding arrangements are no longer appropriate. To address this various options have been considered and how best to accommodate the inclusion of appropriate financial commitment alongside the reservation of capacity through the PARCA.

CW1 explained that Ofgem has set the 'Totex' approach and 'Totex Incentive Mechanism' for the whole 8 year price control under the Final Proposals (FPs).

National Grid NTS was proposing three distinct funding mechanisms within the PARCA process, some of which incorporate the use of the Generic Revenue Driver Methodology (GRDM). Discussions were underway with Ofgem relating to the process for setting Revenue Drivers (RDs) and it was likely there would be more frequent licence modifications in the future, which may affect RD timelines. CW1 then explained the key principles considered when assessing the potential funding options, and provided illustrations of the funding/charging proposals associated with the PARCA stages.

Responding to questions, SP confirmed that it did not overlap with the connection offer and explained the differences. MW added that the only duplication was the information that fed into both processes. The PARCA process had not been directly linked to the connections process because it could take away a lot of the flexibility customers are seeking.

Schedule 1a

Looking at the proposal in more detail, it was suggested that Schedule 1a of the PARCA is fully funded by the PARCA signatory, who would be expected to pay the estimated cost of Schedule 1a in advance (circa £120 – 150k), with reconciliation once Schedule 1a is completed. National Grid NTS

proposed this be treated as an excluded service under the Licence, which would allow for the cost to be fully funded by the PARCA signatory and avoid any impact on allowed revenue and so on other Users.

There was a brief discussion of 'excluded services' and what is covered. It was questioned if it could be put into a RD.

CW1 added that National Grid NTS had considered the customer and the industry and had tried to make costs as fair as possible when targeting/socialising.

Schedule 1b, through to point of capacity allocation

Funding would be by a pre capacity allocation RD, with the process for calculation (by the end of Schedule 1a) included in the GRDM. It would be triggered when the PARCA signatory confirmed it wanted to proceed to Schedule 1b.

The Transportation Model would be used to produce a project cost, and the RD will be equal to 17% of the estimated project cost calculated by the Transportation Model, phased across 4 years (security requirements, however, would be for the whole cost). This will cover all planning and development activities up to the point of capacity allocation.

Revenue recovery options

The pre capacity allocation RD will adjust overall allowed revenues that are recovered through Transportation charges. CW1 outlined the considerations taken into account in identifying potential options. A table was presented, offering three options and comparing advantages and disadvantages. The group reviewed and discussed the options.

Option 1 (100% PARCA signatory funded, no impact on Transportation charges; PARCA signatory securitises full profile of Revenue Driver)

JCx suggested consideration as an excluded service.

It was suggested that the Transportation Model could be run through to give an idea of how costs were arrived at. MW explained how 'true up' factors were applied to over/under spend under RIIO. JCx observed the Transportation Model should be working out the cost of capacity and the pipe in the ground. SP commented that planning type and pre construction type costs were not given in this. MW believed there would be benefit in a simple approach. JCx suggested that Ofgem should consider the whole approach and any ramifications.

It was questioned whether the costs of the activities were reflected and targeted correctly under this option.

RA explained the RDs in greater detail, and how double counting was avoided. GJ stressed that getting the initial cost estimate right and having realistic costs was very important. SP observed that each project could have very different planning aspects to be taken into account and needs to be considered on its own merits.

The purpose should be to try to achieve a realistic cost estimate for the RD and a realistic pre capacity cost.

TD questioned if there should be an individual estimate for each project or a generic fixed cost for the activities involved. Is there a case for not recovering this cost from a developer? Is that a barrier to entry?

GJ observed that a customer's funding and credit options are important - the cost of securitisation needs to be considered. CW1 confirmed that for each option the full value of the RD is secured by the PARCA signatory.

JCx observed that currently customers pay when the capacity is delivered, and it seems a very big step change to move to this regime. TD questioned, if it was assumed that the costs are correct and all is the same, in the end is it just the phasing of the costs that is under consideration?

Option 2 (Part PARCA signatory funded, part recovered via Transportation charges; PARCA signatory securitises full profile of Revenue Driver)

If a PARCA signatory withdraws it would have to pay the actual costs, ie it has to securitise the activities and the costs so incurred.

JCx observed there was currently a shallow connection policy; costs were socialised and paid for on delivery. This would be a change to a deep policy and would recover costs at an earlier stage. Jcx and GJ expressed concern regarding the 17% of project costs figure – this seemed very large for planning costs. MW commented that National Grid NTS is incentivised to get it right or out-perform under Totex.

JCx pointed out there would be individual projects and not hundreds, so there would not necessarily be any benefit from averaging effects. She suggested it might be easier to give National Grid NTS an amount of Allowed Revenue for planning activities. JC observed that there was uncertainty about what may or may not be built in the future. GJ commented that the onus being on the signatory to secure these costs throughout is some comfort.

Option 3 (0% PARCA signatory funded, 100% in Transportation charges; PARCA signatory securitises full profile of Revenue Driver)

This was based on the current model. There was no benefit to any other parties until the project is actually built. If there is no progress, the signatory pays but there is no benefit to anyone else.

JCx commented that it was not reflective of the current network when recovering charges.

Preferred Option?

When asked if Ofgem was able to indicate any preference following discussions so far, JT advised that Ofgem would be looking for more information and to the industry to narrow down and discount any it believed to be unacceptable.

Examples

Moving on to Slide 22, CW1 then proceeded to describe how various examples might work.

Example 1 - pre capacity allocation revenue driver calculation

The Transportation Model calculates the total project cost; 17% is fed into NTS allowed revenue phased over four years, 10% of which would be recovered as fast money in the year of expenditure and 90% as slow money. The allowed revenue is recovered from Users through charges. The PARCA

signatory is required to securitise the allowed revenue, which will ramp up in line with the revenue driver phasing (but not necessarily expenditure). Any under or over spend will be passed through the totex incentive mechanism and shared with Users 2 years post expenditure (following application of the RIIO sharing factor).

A table illustrating the effects on allowed revenue and security requirements was then displayed, and CW1 explained the figures in more detail.

Following a brief discussion MW suggested a Table comparing the impacts on allowed revenue and security requirements of Options 1 and 3 could be produced to aid understanding.

Action TR0101: PARCA - Example 1: Produce a Table comparing the impacts on allowed revenue and security requirements of Options 1 and 3.

The transportation charging impact for the industry was then illustrated. CW1 explained the figures and why there was an impact on Entry Commodity. These calculations assumed that everything was recovered through Entry Capacity: the impacts are relatively minor.

Noting that between schedule 1b and capacity allocation the PARCA can be terminated, CW1 explained how costs to date might then be recovered. The PARCA signatory will be invoiced for the costs incurred (which will be covered by the security if required) and a one off credit made to the industry (through a reduction in allowed revenue for that year). Depreciation and return on the previous allowed revenue will continue to be funded through charges but will have been offset by the one off credit.

Example 2 – pre capacity allocation revenue driver where the PARCA is terminated

CW1 then illustrated how this would work and the transportation charging impact on the industry.

JCx questioned if a RAV adjustment was possible, to reduce volatility (does it stay in RAV forever?)

MW observed there was a short-term benefit but depreciation carried on for 45 years (collected through charges).

GJ and JCx queried the model, regarding depreciation of something that is not a fixed asset.

JT indicated he would need to consider this in more detail.

Schedule 4

Post capacity allocation under Schedule 4 was then considered. The second RD was calculated at the environmental stage and triggered when capacity was allocated. The calculation and collection were explained.

Example 3 – post allocation revenue driver

The effects on allowed revenue and the transportation charging impact for the industry were illustrated.

Example 4 – totex incentive mechanism

This and its effects on National Grid NTS were explained.

General Comments

Following this part of the presentation TD asked if the group had reached any conclusion as to which of the options might be preferred, but no consensus was identified.

Responding to a question from RF, MW reported that the National Grid NTS credit policy is under review and any revisions will apply. RF asked what instruments of security might be required. MW indicated that Parent Company Guarantees (PCGs) were not being sought; it was more likely to be cash or Letter of Credit. RF suggested consideration of consistency with the electricity side.

Action TR0102: PARCA – Confirm which instruments of security will be required for participation in this process.

3.1.2 PARCA - “What if” Scenarios

Addressing action “**TR0801: Development of the capacity and connection processes – Planning and Advanced Reservation of Capacity Agreement (PARCA) – Provide worked examples of the PARCA approach under differing scenarios.**” RA illustrated various scenarios involving interactive projects by means of flipcharts, and these were discussed.

A slidepack, setting out the details of the 3 scenarios considered, was published post the meeting at: <http://www.gasgovernance.co.uk/tx/310113>.

Scenario 1 - Two PARCA Signatories considered together with the same first gas date (both require IPC reinforcement), and both progress through to connect to the system

It was noted that whether parties progress to the end of the process affects what is/can be built. RA explained how National Grid NTS would approach this and what options would be potentially under consideration. Each project would be considered separately under the Transportation Model and be required to securitise separately. If both progress through and reach the appropriate point a single DCO application will be made for both parties. If there is any risk at all that one or other might drop out then different ways will need to be looked at.

Scenario 2 - Two PARCA Signatories considered together (A and B) with the same first gas date (both require IPC reinforcement), and one terminates its PARCA midway through the process

Depending on at what point in the process the party decides to not continue has an impact on all sorts of considerations/decisions. RA gave some examples of the effects, and how costs might be recovered. The further along the process a party terminates, the costs of progressing the remaining party might increase, as reassessment of the position/approach will be required. Three separate DCO applications may be required (under legal discussion at present – potentially as long as a separate need case is made for each, DCOs could be submitted). National Grid NTS may also have had to order long lead items; if these cannot be cancelled it is believed they could be considered for use as strategic stock. Other impacts might involve change to RDs.

Scenario 3 - Two PARCA Signatories with different first gas dates are considered together (a mixture of existing capability and IPC reinforcement are required), and one terminates its PARCA

It was proposed that any existing capability would be used to meet A's requirements first. It was suggested that another option might be to apply through the ad hoc auctions; however, PARCA gives more flexibility. A reservation fee might be applied to A for the securing of the number of units of existing capacity. If B went ahead and its requirements were to be partially met through existing capacity then no reservation fee would be applied because it was putting up security for the majority of its requirements.

If one party pulled out then the position and requirements of the remaining party would need to be reassessed and planning activities and timescales be adjusted accordingly.

General comments

Reducing capacity requirements may/may not affect the build.

Shippers recognised that there were a number of different permutations and interactions in relation to combinations of parties and various other individual factors, and each case might have a different impact, solution, outcome and incur different levels of costs.

Responding to questions on costs, SP indicated that Schedule 1a was about National Grid NTS' internal costs (feasibility studies) and these would be reconciled against customers individually. If a party B came along afterwards it may incur greater costs than party A because it would have to be considered against existing projects.

3.1.3 PARCA – Update on outstanding issues

It was intended to raise a modification, including business rules, by April 2013 for implementation by April 2014.

Fine tuning of capacity

The proposed approach to fine tuning of capacity within the PARCA was outlined. MW sought views on what the demonstration information should like and what should be included in the on going dialogue between the parties. JCx thought this area required further discussion, and RF suggested looking at what had been deemed to be required under Modification 0373. MW added that the timeline and Stages might also benefit from further discussion. What information should be published so that the industry is aware of what is happening? It was noted that conversely there might be nothing to see or demonstrate.

Action TR0103: PARCA – Demonstration Information: Shippers to consider what demonstration information is required and how it might be validated. (JCx to coordinate Shipper response).

It was confirmed that any unsold reserved capacity would just go back to the market. Considering increases, booking through auctions was discussed together with risks involved.

PARCA window and ad hoc PARCA processes

Responding to a question on ad hoc Entry MW indicated it would be open to all but only unsold would be available; the notice period would be the same as for QSEC.

TD asked if the retention process was to be retained or removed; MW indicated this was under consideration.

GJ believed that the impacts on QSEC and timings required further consideration.

Scope to amend delivery date

It was suggested that consideration should be given to what the impacts might be should it become necessary to move a delivery date. It was acknowledged that building 'fat' into the process to accommodate potential delays was not necessarily a good thing, but impacts on the market needed consideration. The principles of Exit were briefly referred to, ie if the demonstration date was not met the date could be shifted by a year. However, a drawn out cycle should be avoided.

3.1.4 PARCA – Next Steps

MW indicated the focus would now be switching to Licence amendments, lead times, and UNC aspects.

For the next meeting it was proposed to consider and discuss:

- Potential Licence changes
- Demonstration information and actions
- PARCA contract.

GJ suggested that in the meantime the Workgroup would welcome an indication from Ofgem to confirm any obvious routes to be explored or ignored, so that its time could be spent to best advantage on what could be accomplished in each meeting.

4. Any Other Business

None raised.

5. Diary Planning

The following Transmission Workgroup meetings are scheduled for 2013:

Date	Time	Location
Thursday 07 February 2013	10:00	Elexon, 350 Euston Road, London NW1 3AW
Wednesday 27 February 2013 (Transmission Workgroup – Capacity/Connection Issues)	10:30	Joint Office, 31 Homer Road, Solihull B91 3LT
Thursday 07 March 2013	10:00	Elexon, 350 Euston Road, London NW1 3AW

Thursday 04 April 2013	10:00	Elexon, 350 Euston Road, London NW1 3AW
Friday 12 April 2013 (Transmission Workgroup – Capacity/Connection Issues)	10:30	Joint Office, 31 Homer Road, Solihull B91 3LT
Monday 22 April 2013 (Transmission Workgroup – Capacity/Connection Issues)	10:30	Room 4, ENA, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF
Thursday 02 May 2013	10:00	Elexon, 350 Euston Road, London NW1 3AW
Tuesday 28 May 2013 (Transmission Workgroup – Capacity/Connection Issues)	10:30	Room 4, ENA, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF
Thursday 06 June 2013	10:00	Elexon, 350 Euston Road, London NW1 3AW
Tuesday 25 June 2013 (Transmission Workgroup – Capacity/Connection Issues)	10:30	Room 4, ENA, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF

Action Log – UNC Transmission Workgroup: 31 January 2013

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
TR0801	02/08/12	3.2.2	<i>Development of the capacity and connection processes – Planning and Advanced Reservation of Capacity Agreement (PARCA) – Provide worked examples of the PARCA approach under differing scenarios.</i>	National Grid NTS (MW)	Closed
TR0903	18/09/12	2.1.4	<i>Capacity and Connections: Produce an expanded document (based on a modification proposal template) to clearly demonstrate the need for change, how this might be achieved, and giving consideration to wide ranging industry impacts.</i>	National Grid NTS (MW/SP)	Carried forward
TR1101	01/11/12	3.1.1	<i>Long term non-firm capacity: Draft a new modification.</i>	National Grid NTS (MW)	Carried forward
TR1201	19/12/12	3.1.1	Establish the specifications, eg size and delivery capabilities, of available pipes, and any associated caveats relating to potential multi-party use.	National Grid NTS (MW)	Additional information on costs has been requested by Shippers. Carried forward
TR1202	19/12/12	3.1.1	Review, compare and assess the interactive offers process in place on the electricity side with what is being proposed on the gas side, and report on any useful findings that can be considered for inclusion.	National Grid NTS (SP)	Closed
TR1203	19/12/03	3.1.2	<i>PARCA Stages - Consider appropriate timescales between stages, and at the last stage.</i>	Energy-UK (JCx)	Closed
TR1204	19/12/03	3.1.2	<i>Planning consents – Check and confirm all time limits.</i>	National Grid NTS (SP)	Closed

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
TR0101	31/01/13	3.1.1	<i>PARCA - Example 1:</i> Produce a Table comparing the impacts on allowed revenue and security requirements of Options 1 and 3.	National Grid NTS (CW1)	Pending
TR0102	31/01/13	3.1.1	<i>PARCA – Credit:</i> Confirm which instruments of security will be required for participation in this process.	National Grid NTS (MW)	Pending
TR0103	31/01/13	3.1.3	<i>PARCA – Demonstration Information:</i> Shippers to consider what demonstration information is required and how it might be validated.	All Shippers (JCx to coordinate Shipper response)	Pending