

UNC Workgroup 0636 Minutes
Updating the parameters for the NTS Optional Commodity Charge
Thursday 07 December 2017
at Elexon, 350 Euston Road, London, NW1 3AW

Attendees		
Rebecca Hailes (Chair)	(RH)	Joint Office
Helen Bennett (Secretary)	(HB)	Joint Office
Colin Hamilton	(CH)	National Grid NTS
Danishtah Parker*	(DP)	Cadent
Debra Hawkin	(DH)	TPA Solutions
Graham Jack*	(GJ)	Centrica
Henk Kreuze	(HK)	Vermillion
John Costa	(JCo)	EDF Energy
Julie Cox	(JCx)	Energy UK
Jag Basi	(KN)	ESB
Matt Hatch*	(MH)	National Grid NTS
Mike Ronan	(MR)	Aughinish Alumina
Nahed Cherfa	(NC)	Statoil
Nick Wye	(NW)	Waters Wye Associates
Sean Hayward	(SH)	Ofgem
* via teleconference		

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0636/071217>

1.0 Welcome

The minutes from the previous meeting held on 22 November 2017 were approved.

2.0 Progress update

2.1. Amended Modification

DH advised that a combination of changes have been added to the modification and are shown in the Amended Modification published here:

<https://www.gasgovernance.co.uk/0636>.

DH took the workgroup through the change marked amended modification advising that the Solution in section 7 has been updated as a result of a discussions with Xoserve and National Grid NTS. Xoserve have advised that a Rough Order of Magnitude (ROM) will be produced on 11 December and will be considered at the next DSC Change Management Committee meeting on 13 December.

Analysis Document

A supporting analysis document was provided by the proposer for consideration prior to the meeting, this can be found here:

<https://www.gasgovernance.co.uk/0636/071217>

DH confirmed that it is the intention to update the workgroup report with actual data, adding that 2016/17 data is not yet in the CWD model.

There followed a discussion regarding the data from the flows from 2015/17 being used to develop the M number in the formula being proposed.

DH confirmed that the October Charge Setting report out includes average 2017/18 commodity rates, flows and revenues and the shorthaul data.

Impact of Modification 0636 – Breakdown of Revenues

DH gave further clarity on the naming convention used in the columns on the Breakdown of Annual Revenue from Current OCC Flows table, DH advised:

- 'Remainers' = those that stay on short haul.
- 'Leavers' = those that are currently on OCC but if Modification 0636 were implemented it would be cheaper for them to leave.
- 'Others' = those that are currently paying standard rates.

Impact of Modification 0636 on Standard Commodity Charges Assuming Shippers Choose Cheapest Option

It was agreed that a worked example should be included in the workgroup report of the impact to costings.

The workgroup agreed that the saving and who benefits needs to be clear and a worked example should be included in the workgroup report. DH confirmed she will look at this by customer type.

When asked, DH clarified that this is based on the assumption that charges remain the same. The original intent of this modification is to update the parameters used in the derivation of the Optional Commodity Charge (OCC) tariff in order to reduce the current level of "re-distribution of costs" ("effective cross-subsidy") from gas customers who cannot avail themselves of the Optional Commodity Charge.

DH explained that, on the assumption that the new formula is reasonably robust, there won't be much bypass; it will be more attractive to pay standard charges.

JCx asked for an additional piece of analysis which should look at the increased cost per kWh on average from Leavers to Remainers.

SH agreed that Ofgem will consider the impact on electricity consumers when the decision is made on the Modification.

JB said that there needs to be consistency and stability, but it is difficult to identify who will bear the impact of the consequences.

GJ added that for some sites the Modification could put those customers out of business.

Modification 0636 – Impact on number of sites and distances

It was confirmed that the information for this slide was provided by National Grid.

The workgroup requested that the raw data is provided for the Workgroup Report.

New Action 0636-1201: CH to check if raw data can be provided for the workgroup report

JB asked, if demand fell on the IPs because the price is too high, would that cost be picked up by consumers?

Comparison of average rates in p/kWh for OCC versus non-OCC

DH explained the graph shown on this slide shows what rates would be paid if there was no OCC.

Modification 0636 – Comparison of Flows and Revenues by Shipper Category

DH advised that the new formula does not use MNEPOR, it uses a proxy.

GJ said that, the current formula for deriving the OCC should remain in place for existing off-takes utilising short-haul; shippers and consumers should not be penalised for having made historical decisions to use the OCC rather than invest in alternative transportation arrangements at historical cost levels.

It was mentioned that, the real issue is the amount of TO and SO commodity charges; had capacity regimes worked in the way they were originally intended, this may not have been an issue.

DH explained that the diagram shown on slide 8 shows that anybody getting the short-haul tariff now are going to have to pay more.

GJ would like to see actual numbers shown on slide 8, DH confirmed she will provide the tables.

CH mentioned about network access regulations and the reduction of flows across the interconnector.

New Action 0636-1202: CH to summarise the point being made regarding Network access regulations and forward it in to the Joint Office for the Workgroup Report.

Completing this part of the meeting and the analysis provided, DH summarised by adding:

- Modification 0636 reduces the amount “re-distributed” by £82m;
- Remaining OCC flows still save £78m compared to Standard rates;
- Standard Commodity charges will reduce by 15%;
- Around 27 sites will stay on OCC and there is no arbitrary cut-off on distance (maximum 274km);
- Average rates for flows remaining on OCC increase by a factor of 4 and for flows “leaving” OCC these increase by a factor of 2;
- OCC flows reduce in absolute terms for all shipper categories although the % split by shipper category hardly changes;
- Revenues from OCC flows increase, despite lower flows.

The workgroup then proceeded to visit some of the points that were raised in the initial representations published here: <https://www.gasgovernance.co.uk/0636/> .

These cover the following topics:

2.2. GCD11 Formula not subject to full stakeholder review

DH confirmed that the OCC formula has not been updated since 1997.

There was a question of transparency around the data being provided, the modification proposer believes the amendments in the amended modification provide sufficient clarity.

GJ states there is no methodology that sits around the formula. The Methodology is not properly dealt with in Code at the moment; DH stated that she believed an adequate response has already been provided.

RH will note in the Workgroup Report that a more detailed description is needed.

2.3. Inclusion of larger and smaller pipeline sizes

The maximum flow in the 1998 formula was 15 mcmd and the maximum distance was 50 km. Larger pipes are necessary to cater for unlimited distance and 60 mcmd flows.

2.4. Assumptions underlying allocation of pipeline sizes to flow/distance

Not specifically covered.

2.5. Use of steel index

A major cost component of pipelines is steel which has its own index. The Modification Proposer will send information on this topic to the Joint Office for inclusion in the workgroup report.

2.6. Application of RPI

Allowed revenues increase with indices derived from the price control. Standard commodity rates increase (assuming stable flows). Shortfalls in capacity revenues are also recovered by standard commodity charges.

2.7. Cost of Building Pipeline

Bypass pipelines are likely to be more complex than spur pipelines. If 1998 charges are too high the industry would have expected to see more bypass pipelines being built to date.

2.8. Breakdown of costs

Requests were made as part of GCD11 for shippers to provide costs of building pipes. Some shippers have provided individual responses.

RH will note in the Workgroup Report that more detail is needed if possible.

2.9. Contractual arrangements

Standard commodity charges are changed in April & October. GJ advised that some contracts can be extended.

The question of whether there are any existing contracts that will be impacted by this Modification was raised. The expectation is that there will be some parties which will be affected but they are unlikely to want to voice this in an open forum. There was the expectation amongst some UNC parties that the current formula would remain until 2019 and hence existing contracts are likely to be affected in some way.

2.10. Interim changes

This Modification affects charges that parties thought would be static until 2019; any changes to these would have an impact on investment.

GJ mentioned that, if this Modification, if implemented, has to stand on its own and be implementable and should provide an enduring solution.

On the subject of Interconnectors, GJ mentioned that the current formula has no benefits for IPs after 2019 because of provisions of the EU Tariff code and this can only be recovered by capacity charges and not commodity charges.

DH confirmed there will still be a commodity charge at IPs.

Discrimination issues were raised by GJ, DH is to provide detail for the Workgroup Report on the impacts on/compliance with the EU Tariff code.

2.11. Determination of “re-distribution of costs”

The current estimate is a simple comparison of OCC revenues with revenues from OCC. If the true costs of pipe-building are known then a more accurate value for the “re-distribution of costs” can be determined.

2.12. Raised contribution towards SO charges

The revenue recovered via the OCC will continue to contribute to the SO allowed revenues.

2.13. Interaction with Modification 0621

National Grid have stated that Modification 0621 will update whatever code is in place at the time of Modification 0621 implementation.

2.14. End User impact

National Grid are providing some analysis on new rates and impacts.

2.15. Distributional effects on charges.

Not specifically covered.

2.16. Impact analysis

Not specifically covered.

3.0 Development of the Workgroup Report

RH confirmed that an onscreen review of the Workgroup Report will be given at the next meeting planned for 18 December 2017 with an onscreen live update being made.

4.0 Any Other Business

None.

5.0 Diary Planning

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

Following the earlier discussion, workgroup meetings for NTSCMF; Modification 0621 and Modification 0636 will take place as follows:

Time / Date	Venue	Workgroup Programme
10:30 Monday 18 December 2017	Joint Office, Pure, Lake View House, Tournament Fields, Warwick CV34 6RG	<ul style="list-style-type: none"> Workgroup 0636
13:00 Thursday 04 January 2018	Elexon, 4th Floor, 350 Euston Road, London, NW1 3AW	<ul style="list-style-type: none"> Workgroup 0636, to take place after completion of Transmission Workgroup

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
0636-1101	06/11/17	2.2	DH to provide required clarification as to what M relates to within the formula in section 5 Solution.	TPA Solutions (DH)	Pending
0636-1102	06/11/17		DH to make amendments to the Modification adding further clarity and relevant detail to the proposition; solution and the avoidance of doubt section.	TPA Solutions (DH)	Pending
0636-1103	06/11/17		Referring to 'For the avoidance of doubt' (i) in Modification 0636, if the site is new, when does it cease to be new – explanation to be included in the modification.	TPA Solutions (DH)	Pending
0636-1104	06/11/17		DH to provide an explanation for inclusion in to the Modification of what 'seasonal' represents.	TPA Solutions (DH)	Pending
0636-1105	06/11/17		DH to arrange an offline meeting to gain a better understanding of the current process with National Grid and Xoserve, possibly separate meetings. Is this proposed solution possible and if so what will it take to achieve it in the most efficient way.	TPA Solutions (DH)	Pending
0636-1202	07/12/17	2.1	CH to check if raw data can be provided for the workgroup report	NG-NTS	Pending
0636-1202	07/12/17	2.1	CH to summarise the point being made regarding Network access regulations and forward it in for the Workgroup Report.	NG-NTS	Pending