

UNC Workgroup 0621 0621A 0621B 0621C 0621D 0621E 0621F Amendments to Gas Transmission Charging Regime Minutes

10:00 Tuesday 20 February 2018

at Elexon 4th Floor, 350 Euston Road, London, NW1 3AW

Attendees		
Rebecca Hailes	(RHa)	Chair
Helen Bennett	(HB)	Secretary
Adam Bates	(AB)	National Grid NTS
Alex Nield*	(AN)	Storengy UK
Andrew Pearce	(AP)	BP
Anna Shrigley	(AS)	Eni Trading & Shipping
Charles Ruffell	(CR)	RWE
Christiane Sykes	(CS)	Shell
Colin Williams	(CW)	National Grid NTS
Craig Neilson*	(CN)	Cadent
David Cox*	(DC)	London Energy Consulting
Debra Hawkin	(DH)	TPA Solutions Ltd
Gerry Hoggan	(GH)	ScottishPower
Graham Jack	(GJ)	Centrica
Jeff Chandler	(JCh)	SSE
Joanne Parker	(JP)	Scottish Gas Networks
John Costa*	(JCo)	EDF Energy
Julie Cox	(JCx)	Energy UK
Kirsty Ingham	(KI)	ESB
Nahed Cherfa	(NC)	Statoil
Nevile Henderson	(NH)	BBL
Nick Wye	(NW)	Waters Wye Associates
Paul Youngman	(PY)	Drax Power Limited
Paul Toole*	(PT)	NGN
Pavanjit Dhesi*	(PD)	Interconnector
Penny Jackson	(PJ)	Npower
Richard Fairholme	(RF)	Uniper
Richard Pomroy	(RP)	Wales & West Utilities
Robert Wigginton	(RW)	Wales & West Utilities
Robin Dunne*	(RD)	Ofgem
Sinead Obeng	(SO)	South Hook Gas
Steve Pownall	(SP)	Xoserve
<i>*via teleconference</i>		

Copies of papers are available at: <https://www.gasgovernance.co.uk/0621/200218>

1. Welcome

RH welcomed all to the meeting and advised the agenda for Day 1 and Day 2 of this 2-day workgroup meeting would be as follows:

Day 1

AM Analysis

PM Updated CWD /Model

Base Case Scenarios

Day 2

Review of the amendments made to Modification 0621

Further Analysis

Review of outstanding actions

Development of the Workgroup Report

2. Review of Minutes of previous meeting (06 February 2018)

JCx suggested an amendment required to the wording for action item **0621-0205**.

A change marked version of the minutes has been re-published.

The minutes were then approved.

3. SO Derivation - NW

NW talked the workgroup through the document published prior to the meeting which can be found here: <https://www.gasgovernance.co.uk/0621/200218> .

He began by confirming that this paper forms the basis for a pre-modification discussion and that there is likely to be another alternative modification to 0621 which will be submitted by Vitol S.A.

NW explained it has been identified that there are 2 main components of SO Allowed Revenue which are the Base NTS System Operation Revenue (£94.6m) and SO External Incentive Adjustment (£114.3m).

He went on to explain that he has looked at this topic in more detail and provided further analysis later in the paper.

NW said that his analysis shows there should be a charge for SO services, but this should be very small adding that this is what will form the basis of an alternative 0621 modification.

For further detail please refer to the published paper.

RH confirmed that the first time the Workgroup will get to look at the alternative modification (after it has been to Panel) would be 20 March, reminding the Workgroup that **the deadline for any alternative modifications to be raised for the UNC March Panel is 02 March 2018**.

4. Updated CWD Model

4.1. Existing Contracts analysis – JCx

JCx talked the workgroup through the document published prior to the meeting which can be found here: <https://www.gasgovernance.co.uk/0621/200218> .

Amendments to Gas Transmission Charging Regime

Explaining the information presented in the Simple Analysis section, using CWD model v1.4.4, JCx advised that once all existing contracts are finished there should be an alignment between the transition and enduring regimes.

RH asked when most of the existing contracts are due to run out. Participants confirmed that this would be late 2020s for many contracts and that some extend in to the 2030s.

The difference between Interim and Existing contracts is that Interim contracts start after the entry in to force date for TAR Code (06 April 2017) and existing contracts are contracts that were finalised prior to that date.

CW suggested this scenario can be shown within the new version of the CWD Model when they go through the scenarios agenda item.

When asked, it was confirmed that the revenue for existing contracts is different to that which would apply if the bookings were new, due to the change in price.

RH asked whether or not existing contracts need to be included in the modelling. CW confirmed that the CWD model excludes them, the Workgroup agreed that they need to be happy with excluding them and wondered if there is any mitigation required.

Participants said that inclusion of existing contracts in the CWD model will increase revenue recovery, this would push slightly more to a postalised regime.

There followed discussion with regards to there being two regimes from 2019 which are not compatible. The long-term capacity is making an excessive contribution towards the price. JCx said that there is a real need to properly understand the consequences and competition impacts on managing the transition.

New Action 0621-0206: Raised by JCh. Is Ofgem concerned over potential price discrimination between new contracts and legacy contract holders with regards to the paper raised by JCx on 20 February 2018. Update due 06 March 2018.

New Action 0621-0207: Raised by JCh. Ofgem to advise on what they intend to do re: Legacy Contracts – will they allow legacy contracts to be surrendered? Update due 06 March 2018.

JCh asked if National Grid would change their modification based on discussions heard today. CW advised the National Grid Modification 0621 would not be changed in this regard and explained that, with regards to the under-recovery charge, historical prices were lower because historically there was no revenue for entry but there will be in the future.

AS expressed her concern that by adjusting the price retrospectively, those users would not have had the opportunity to adjust their behaviour, and wondered, if they had known the change to the prices in the future would they still have booked that capacity.

GJ confirmed that Article 35 of the Tariff Code refers to commodity as well as capacity, could it be a way forward to have a commodity top-up? This would help with Interconnection Points too, adding that there is a fundamental problem with capacity top-ups.

CW said that for all alternatives on the table, National Grid may choose to accommodate aspects of them within their modification. He added that there are potential mechanisms for taking in to account utilisation against their recovery charge.

CWD Model

CW and AB then went on to show an on-screen review of the updated CWD Model.

AB explained some of the updates are:

- One extra gas year has been added:

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- Allowed revenues have been updated;
- FCC transition is obligated;
- Enduring baseline scenarios have been put in to the model;
- Four charts included - Entry & Exit price charts and Entry and Exit revenue charts.

CW explained that two models will be made available, one for transition and one for enduring, and a User Guide will be updated and published alongside v2.0 of the CWD (the current version is 1.4.4) on the Joint Office website.

When asked, CW confirmed that October 2017 bookings are not yet in the model.

New Action 0621-0208: Raised by JCh. If all of Direct Connects started using Firm Exit Capacity, is the National Grid Network able to cope with that? Due by 06 March 2018

Existing contracts

During the review of the CWD Model scenarios, there were a number of questions around treatment of existing contracts.

RW suggests that some wording needs to go in the Workgroup Report to explain the fundamentals around CWD.

JCx referred to a paper published by National Grid on Gas Future Operability Planning (GFOP) entitled “**GFOP 2017 - A changing energy landscape**” which introduces a number of current and future gas network operability challenges. The paper refers to a possibility of reduced flows entering the system at St Fergus, which in some scenarios may lead to challenges in meeting the contracted pressures in Scotland, including the Moffatt offtake to Ireland. <https://www.nationalgrid.com/uk/publications/gas-future-operability-planning-gfop>

The workgroup discussed what to do about prices increasing and decreasing and how to tackle the distribution of charges. They agreed they would prefer not to have a charging regime that precipitates uneconomic outcomes, such as the eventual closure of St Fergus.

It was agreed by the workgroup that consumer impacts need to be looked at.

RP suggested that, seeing as the capacity weighted distance seems to be the issue, why not use a square root of the distance to mitigate the magnifying effect of long distances at the extremities of the Network. This was a novel idea that the workgroup thought is worth exploring.

New Action 0621-0209: Raised by All. National Grid to investigate the possibilities of using a square root of the distance to mitigate the magnifying effect of long distances at the extremities of the Network. Due by 15 March 2018.

5. Any Other Business

CW suggested that the frequency of meetings for Workgroup 0621 may need to increase adding that there might be merit in having Sub-workgroup meetings, (via Webex) in between Workgroup meetings with the outcome of those Sub-workgroup meetings brought back to Workgroup.

The Workgroup discussed this suggestion and felt there is often duplication in having Sub-workgroup meetings feeding in to the main workgroup meetings as the same members often attend both meetings.

Diary planning will be discussed in the Day 2 meeting being held on 21 February 2018 see: <https://www.gasgovernance.co.uk/0621/210218> .

Outstanding Actions will be discussed in the Day 2 meeting being held on 21 February 2018.

Meeting closed