

**UNC Workgroup 0636 Minutes**  
**Updating the parameters for the NTS Optional Commodity Charge**  
**Thursday 05 April 2018**  
**at Elexon, 4<sup>th</sup> Floor, 350 Euston Road, London, NW1 3AW**

<b>Attendees</b>		
Bob Fletcher (Chair)	(BF)	Joint Office
Kully Jones (Secretary)	(KJ)	Joint Office
Carlo Rossini	(CR)	Energy-Link
Debra Hawkin	(DH)	TPA Solutions
Geoffrey Sekyere-Afriyie	(GSA)	Petronas Energy
Graham Jack	(GJ)	Centrica
Henk Kreuze*	(HK)	Vermillion Energy
Julie Cox	(JCx)	Energy UK
Kirsty Ingham	(KI)	ESB
Matthew Hatch	(MH)	National Grid
Mike Ronan	(MR)	Aughinish Alumina Ltd
Nick Wye*	(NW)	Waters Wye (item 5.0 only)
Richard Miller*	(RM)	Ofgem
Richard Pomroy*	(RP)	Wales & West Utilities
Sasha Yankovskiy	(SY)	Gazprom
Steve Britton*	(SB)	Cornwall Energy
Steve Pownall	(SP)	Xoserve
* via teleconference		

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0636/050418>

The Workgroup Report is due to be presented at the UNC Modification Panel by 19 April 2018.

## **1.0 Introduction and Status Review**

### **1.1. Approval of Minutes (21 March 2018)**

The minutes were approved. Comments provided by Sean Hayward prior to the meeting had been included in the amended version published on 28 March 2018.

## **2.0 Consideration of amended modification(s)**

Bob Fletcher (BF) very briefly described the minor changes to the amended modifications.

## **3.0 Consideration of ROM for UNC 0636C**

Steve Pownall (SP) from Xoserve presented the ROM response for UNC 0636C. He stated that there are billing and SPA impacts. Changes are also likely to be required to the Gemini and UK Link systems. Changes to the Gemini system are likely to include:

- Changes to Short Haul charge and Short Haul rebate charge creation process
- Changes to the monthly invoice generation process
- Changes to the Gemini screens that display the charges.

He explained that the change requires 2 sets of rates to be held within Gemini and UK Link SAP.

The solution will cost at least £100k, but probably not more than £115k to develop.

An offline interim solution has been considered, however the costs are likely to be more than the online system solution and could not be delivered any sooner.

In terms of timescales, the strategy adopted for a post Nexus/FGO change is a Release strategy (i.e. changes are grouped and implemented together at a set date) and it is expected that this change would form part of a major Release. Consideration for inclusion in a Release will be made when the Change Proposal is submitted to the DSC Change Management Committee (ChMC).

In response to a question from GJ, he confirmed that this change could not be made as an ad-hoc release in 2018 as it is more complicated than the other alternatives. Implementation would, therefore, be unlikely for 01 October 2018 and would be some date post-October 2018 based on release management and prioritisation at DSC Change Management Committee.

RM suggested that it would be helpful to include in the Workgroup report an indication of the likely date UNC 0636C could be implemented as this information also impacts on Ofgem's decision for UNC 0621.

SP reiterated that Xoserve can only assess the potential implications at this stage and further analysis would not be scheduled until a decision is made on the Modification. The Workgroup report would therefore need to describe the process and timescales for change management.

MH sought clarification on the scale of the system impacts for UNC 0636, 0635A and 0636B. SP confirmed that the system changes are small for all the Modifications with the exception of UNC 0636C which would be regarded as a significant change. MH suggested that these cost impacts are reflected in the Workgroup report.

#### **4.0 Legal Text for UNC 0636C**

Matthew Hatch(MH) presented the legal text for UNC 0636C and explained that the legal text was mainly similar to the other Modifications. He gave a brief overview of the differences which were mainly in relation to IPs and non-IPs using different formulas. He explained that where either the Specified Entry Point or Specified Exit Point is an Interconnection Point the current rate applies. A different formula is being used where neither the Specified Entry Point or Specified Exit Point is an Interconnection Point.

In addition, he pointed out that definition of effective date stated in paragraph 24.1.1a as the 1<sup>st</sup> of the calendar month is the same for all the Modifications.

The legal text commentary for UNC 0636C is also available.

No questions were raised on the legal text.

#### **5.0 Pre-Modification Discussion**

Before completing the Workgroup Report, BF sought agreement from the Workgroup to accept a new agenda item at short notice. The item was to enable discussion of a new proposed alternative to UNC 0636 *Updating the parameters for the NTS Optional Commodity Charge while complying with the EU Tariff Code* raised by Gazprom Marketing and Trading.

BF invited Nick Wye (NW) as Gazprom's representative who had joined the meeting by telephone to give an overview of the proposed alternative to UNC 0636.

NW summarised the key differences, explaining that the Modification is an amalgamation of UNC 0636B and 0636C with some subtle differences. The core Modification reflects UNC 0636C, however, in terms of application it is different. The change in relation to interconnection points for short haul applies to exit points only.

In comparison to UNC 0636B, the Modification uses the latest numbers for indexation of existing formula to be applied at non-interconnection points.

In response to a question from DH, NW confirmed that the proposed implementation date is 01 October 2018.

GJ briefly summarised the earlier discussion on the ROM for UNC 0636C and SP reiterated that a manual workaround would cost more than the solution and could not be delivered any earlier. NW suggested that the proposed alternative is likely to be easier to implement. A short discussion then took place on the solution differences for UNC 0636C and the proposed alternative.

NW confirmed that the alternative will be presented to the April Modification Panel meeting and that a one-month development period is proposed as much of the work and analysis has already been completed. In response, to a question from BF about whether the modification could go straight to consultation, NW confirmed that the recommendation is that the Modification is first assessed by a Workgroup to ensure the information is correct to inform the production of a ROM and legal text.

RP raised industry concerns about the potential interaction between UNC 0636 and 0621 and suggested that consultation following April meeting would still be desirable as the process for UNC 0636 would be concluded before UNC 0621.

NW clarified that the proposed alternative Modification to UNC 0636 has been raised because the proposer does not consider that IPs should be treated as entry and exit points and that to do so is inconsistent with the proposals being considered UNC 0621 and compliance with TAR Code.

## 6.0 Completion of Workgroup Report

BF sought agreement from the Workgroup to consider a late paper provided by National Grid titled *Consideration of Optional Commodity Rate Methodology*. The paper was being provided in response to a previous request from JC for a methodology to be provided to the Workgroup which aids transparency on the methodology used in the analysis and also furthers the relevant objectives. MH stated that National Grid are also intending to use the OCR methodology for UNC 0621.

A brief discussion took place on the governance of the methodology and whether it can be formally considered as a methodology statement given that it is not referenced in the UNC. JC reiterated concerns that there was no governance around the figures used in the Workgroup report and asked if there were other methodology statements that are not required by licence. MH confirmed that he was aware of some other statements and he would check the governance arrangements.

BF sought clarification on whether the OCR methodology was mandated by UNC 0636. In response, JC felt that it could be referenced in the Modification solution and the corresponding legal text

BF suggested that the OCR methodology could be included as an ancillary document or governance arrangements could be discharged through a UNC Committee if these aspects were set out in the modification and legal text.

JC suggested that the document could be referred to as a reference document, perhaps renamed as guidelines or principles? However, she accepted that there was no time to make such changes as the Workgroup report is due to be submitted to Panel this month.

MH briefly took the Workgroup through the document, explaining that the document describes what underpins the formula contained within the UNC and is unlikely to change unless the formula is changed via a Modification to the UNC. He reiterated that the methodology does not currently form part of the UNC.

MH then took Workgroup through Part B: Methodology section and the illustrative table provided as an embedded spreadsheet. The spreadsheet contained 2 tabs, one provides data showing the original based on 1998 and the second tab provides an example RPI application 2018.

BF provided an overview of the current draft Workgroup Report. He also provided clarification of the Modification Panel process and confirmed the timeline for consultation with a Panel decision at the 17 May 2018 Panel meeting.

JG raised a concern about the proposed UNC 0636 timeline, suggesting that it was not achievable because of the implications of the 0621 timeline, in that the industry has agreed an aggressive meeting schedule for UNC 0621 during April and early May. Industry parties also raised concerns about the lack of time to give due consideration to consultation documents given the pressure of current timescales and work plans for Modification 0621 and the multiple alternative Modifications to UNC 0621.

GJ suggested that a recommendation to Panel with the current timescales was unreasonable and suggested an extension be sought.

DH did not agree with this and stated that the Modification timetable should be adhered to.

BF suggested that an extension to consultation could be sought with a close of 21 May 2018 instead of 14 May 2018. This would then require an extraordinary panel meeting to make a decision at the end of May. BF agreed to provide this option within the Workgroup report.

Some Workgroup participants agreed that the report should go to consultation, with others noting that analysis work, consideration of the relevant objects and another proposed alternative modification indicate the need for an extension to the reporting date.

In response to a question from SY, BF confirmed that the new proposed alternative Modification would not be reflected in the report unless the modification is referred to this Workgroup by Panel.

The Workgroup then reviewed Section 6 *Impacts and other Considerations* and in particular focussed on the consumer impact assessment table.

A lengthy discussion took place around a number of concerns raised about inconsistencies and accuracy in relation to the data used in the Workgroup report. It was not clear which data source had been used which made it difficult to check the accuracy of information provided in the table. Three specific queries prompted the focus on data analysis:

- the value of 'X' referred to in the section titled *What costs or benefits will pass through to them*
- how the figure of £82m re-distribution for UNC 0636 had been derived
- what were the commodity charge assumptions used in the analysis spreadsheet provided by National Grid?

DH confirmed that the analysis used in UNC 0636 was based on information provided by National Grid and which they had confirmed was correct. There was considerable confusion over the accuracy of the £82m figure and a review of National Grid's analysis table suggested that perhaps this should be £72m.

RM provided an update on Ofgem's position in relation to impact assessments. He stated that Ofgem were monitoring the appropriateness of undertaking a regulatory impact assessment (RIA) and would make a decision in due course.

In response, to a question from GJ about why Ofgem had changed their mind, RM confirmed that Ofgem had not yet made a decision but they would consider all information available to them before a decision is made. He also reiterated the basic timescales for RIAs confirming that for non-urgent Modifications it is approximately 8 weeks and for urgent Modifications approximately 4 weeks.

Adam Bates from National Grid joined the meeting to provide clarification on the data sources used in the analysis, he confirmed that:

- Average Commodity rates and allowed revenues from April 2017 and October 2017 final charge setting processes
- System flows and Shorthaul forecasts (flows and revenues) are from October 2017 final charge setting process
- The note from bottom of the analysis spreadsheet regarding decrease in prices is as follows:

N.B. As of publication of April 2018 Final Commodity Charges on 31st January 2018 (applicable from 1st April 2018), TO Entry Commodity charges reduced by 15%, TO Entry Commodity Charges by 14% and SO Commodity Charges by 5%.

Following this clarification, it was agreed that the following actions be undertaken:

**New action 0401: National Grid (AB) to clarify the commodity charge assumptions used in the analysis spreadsheet and to add a footnote to reference the assumptions used.**

**New action 0402: National Grid (AB) and TPA Solutions (DH) to check and confirm the £82m figure describing the overall reduction in the amount re-distributed for UNC 0636 and to provide an explanation of how the £82m figure was derived. In addition, to understand the differences in the data and provide an explanation of the differences.**

RM suggested it would be helpful to include an indication of the likely magnitude of the impacts on very large consumers.

**New action 0403: National Grid (AB) to check and confirm the data showing savings per customer.**

Workgroup participants then raised concerns about the lack of opportunity to review the outputs from the actions relating to the analysis given that no further Workgroup meetings are planned.

BF reiterated the timescales for Workgroup 0636 confirming that the Workgroup report is due to be submitted to the 19 April 2018 Panel meeting. The outstanding question remains about whether the Workgroup consider the report to be ready for consultation. BF indicated that the Workgroup report would therefore, highlight the mixed views on consultation as some participants supported consultation whilst others considered there was insufficient time to provide a full response given the other Modifications (such as UNC 0621) requiring their attention at the same time. BF then explained the possible outcomes following the Panel's review of the Workgroup report which could be to go to consultation or to return to the Workgroup for more work if any issues have been identified.

National Grid data analysis was revisited with RP challenging earlier concerns which questioned the analysis. He suggested that National Grid's unbiased position should provide confidence in the data provided for inclusion in the Workgroup report. Subject to National Grid validating and restating the figures used the Workgroup should have no further issues on the accuracy of the information provided.

Workgroup participants did not reach a consensus view on how to proceed. Workgroup concerns are summarised below:

- Some participants were keen to see a further version of the Workgroup report following clarification of the analysis included in the report.
- Other participants wanted to understand how the numbers were derived and why they were different in the initial report.

- Some participants expressed concern that there was insufficient time to review the Workgroup report due to the pace of current industry changes
- Some participants did not consider the Workgroup report was ready to go to the Modification Panel.

## 7.0 Review of Outstanding Actions

**Action 0301:** National Grid NTS (MH) to undertake an impact analysis for UNC 0636C.

**Update:** This action was closed as the analysis had been provided for the meeting. **Closed**

**Action 0302:** Ofgem, NTS and Joint Office, to further consider the interactions of UNC 0621 and 0636 and update the workgroup report accordingly.

**Update:** This was considered in the meeting, so this action was closed. **Closed**

**Action 0303:** Workgroup to consider the modifications' impacts on all parties and provide any further wording and supporting evidence for inclusion in the workgroup report (by Thursday 29 March).

**Update:** The wording had been provided and published alongside the Workgroup report so this action was closed. **Closed**

## 8.0 Next Steps

BF confirmed that the Workgroup report would be finalised for presentation to the 19 April Panel meeting.

## 9.0 Any Other Business

None.

**Action table as at 05 April 2018**

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0301	21/03/18	2.0	National Grid NTS (MH) to undertake an impact analysis for UNC 0636C.	National Grid NTS (MH)	<b>Closed</b>
0302	21/03/18	2.0	Ofgem, NTS and Joint Office, to further consider the interactions of 0621 and 0636 and update the workgroup report accordingly.	Ofgem, Proposer, Joint Office	<b>Closed</b>
0303	21/03/18	6.0	Workgroup to consider the modifications' impacts on all parties and provide any further wording and supporting evidence for inclusion in the workgroup report (by Thursday 29 March).	All	<b>Closed</b>
0401	05/04/18	6.0	National Grid (AB) to clarify the commodity charge assumptions used in the analysis spreadsheet and to add a footnote to reference the assumptions used.		<b>Pending</b>
0402	05/04/18	6.0	National Grid (AB) and TPA Solutions (DH) to check and confirm the £82m figure describing the overall reduction in the amount re-distributed for UNC 0636 and to		<b>Pending</b>

			provide an explanation of how the £82m figure was derived. In addition, to understand the differences in the data and provide an explanation of the differences.		
0403	05/04/18	6.0	National Grid (AB) to check and confirm the data showing savings per customer.		<b>Pending</b>