

**UNC 0670R Workgroup Minutes
Review of the charging methodology to avoid the inefficient bypass
of the NTS**

Tuesday 04 December 2018

Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA

Attendees

Chris Shanley (Chair)	(CS)	Joint Office
Kully Jones (Secretary)	(KJ)	Joint Office
Adam Bates	(AB)	South Hook Gas
Alsarif Satti*	(AS)	Ofgem
Andrew Pearce	(AP)	BP
Anna Shrigley	(AS)	ENI
Bill Reed	(BR)	RWE Supply & Trading
Colin Hamilton	(CH)	National Grid
David Cox*	(DC)	London Energy Consulting Ltd
David O'Neill*	(DO'N)	Ofgem
Debra Hawkin	(DH)	TPA Solutions
Graham Jack	(GJ)	Centrica
James Gudge	(JG)	National Grid
Jeff Chandler*	(JC)	SSE
John Costa*	(JCo)	EDF Energy
Julie Cox	(JCx)	Energy UK
Kirsty Ingham*	(KI)	ESB
Nick Wye	(NW)	Waters Wye
Niall Coyle*	(NC)	E.ON
Nicky White	(NW _h)	Npower
Nigel Sisman	(NS)	Sisman Energy Consultancy Ltd
Nitin Prajapati	(NP)	Cadent
Richard Fairholme	(RF)	Uniper
Sarah Chleboun	(SC)	National Grid
Smitha Coughlan*	(SC _o)	Wales & West Utilities
Steve Pownall	(SP)	Xoserve
Terry Burke*	(TB)	Equinor

* via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0670/041218>

The Request Workgroup Report is due to be presented at the UNC Modification Panel by 16 May 2019.

1.0 Introduction and Status Review

1.1. Approval of Minutes (06 November 2018)

The minutes of the previous meeting were approved.

1.2. Review of Outstanding Actions

None.

2.0 Amended Modification

None.

3.0 Consideration of Scope

James Gudge (JG) explained that some minor amendments had been made to the scoping document. Chris Shanley (CS) sought comments on the updated version which had been provided for the meeting with tracked changes. No further comments were received so the scoping document was agreed.

4.0 Consideration of Objectives and Principles

JG provided a walkthrough of an updated presentation titled '*Review of the charging methodology to avoid the inefficient bypass of the NTS – Objectives and Core Principles*'.

He highlighted Slide 2 describing the high-level timeline which has been updated to reflect the feedback from the first meeting to include the addition of:

- UNC 0621 steer in December 2018;
- T-1 and T-4 Auctions in January and February 2019;
- Drafting of a potential Modification from May 2019 onwards.

JG acknowledged that the Capacity Market Auctions have since been suspended so currently are no longer a key issue and agreed to adjust the timeline following further comments from Julie Cox (JCx) on the timing of the potential solution and the impact of a delayed decision on UNC 0621 *Amendments to Gas Transmission Charging Regime*. It was also suggested that any activities beyond May 2019 should be represented by dotted lines to reflect uncertainty in the timetable.

JG explained that the key focus for the meeting was to:

- Sign off the scoping document (see agenda item 3);
- Sign off the objective and principles;
- Discuss the initial ideas from Workgroup, and
- Define the proposal requirements.

In terms of the objective he reminded Workgroup participants that the 0670R Workgroup definition of the objective was agreed at the first meeting as "Avoid inefficient by-pass of the NTS".

A discussion then took place on Slide 7, which provided 4 statements around the objective. A lengthy discussion took place around the fourth statement "*Inefficient bypass can be defined in this context as any gas that could have used the NTS, distributing costs over a wider base*".

The following comments/observations were made in discussion:

- a. Some Workgroup participants believed that the definition extends beyond this statement and sought clarification on whether it is limited to existing/potential pipelines or wider.
- b. What attributes are used to describe inefficiency – for example cost and usage of the NTS could be regarded as the key measures.
 - From a consumer perspective, what is efficiency? Nick Wye (NW) suggested that the system is inefficient if the costs to the consumer are increased because the overall cost is greater because of the choice of a third party to build a

separate pipeline. JG agreed that this description of inefficiency is the view of National Grid but suggested the solution didn't necessarily need to be directly linked to the costs of the pipeline.

- Bill Reed (BR) suggested that inefficiency is both investment and utilisation of the NTS because the cost of the pipeline is borne by an individual site using it but when it is not in use the costs to the rest of the network go up.
- There was broad agreement that an incentive to avoid inefficient bypass should be linked to the costs associated with investing in an independent pipeline.

JG reiterated that National Grid cannot prevent new pipelines being built if users decide to make that investment but can only take steps to incentivise the use of the existing NTS. He agreed to consider and reflect on the discussion points and amend the statement to add additional elements to provide more clarity.

CS summarised the discussion to state that Workgroup participants agreed that the objective should be two-fold. Firstly, to incentivise the use of the NTS and secondly that any incentive should reflect the costs for building an independent pipeline.

New Action 1201: National Grid (JG) to review the objective statement "*Inefficient bypass can be defined in this context as any gas that could have used the NTS, distributing costs over a wider base*" to provide more clarity.

JG then took the Workgroup through Slide 10 which described 7 core principles underpinning the objective:

- Compliant with relevant legislation
- UNC Charging Relevant Objectives
- UNC Relevant Objectives
- Capacity-based solution
- Defined commitment to product
- Historical decisions considered
- Cost reflectivity.

Workgroup participants were broadly in agreement with these core principles but raised a number of comments in discussion:

- a. Anna Shrigley (AS) suggested that the Workgroup consider how to proportionally include the discount so that other users of the NTS are paying a fair amount in comparison. CS suggested that some industry views of the current methodology (which was set over 20 years ago) is that the discount is now too big.
- b. Jeff Chandler (JC) disagreed with the principle that this should be a capacity-based solution. He suggested that commodity-based could also be included stating that UNC 0621B is the only Modification that promotes this approach. Richard Fairholme (RF), agreed that the System Operator (SO) commodity charge will still be relevant. JG agreed that whilst the Workgroup were in broad agreement at the first meeting that a capacity-based solution should be explored, commodity should not be excluded as an option.
- c. Nigel Sisman (NS) sought clarification on which EU Regulation applies to short haul. Specifically NS asked which provisions allowed for different, discounted, transportation tariffs to apply for the same service delivered and for which the normal transportation prices apply. JCx suggested that it would be TAR NC Article 35 historical contracts that was relevant, whereas others felt the TAR NC was silent on the matter. CS asked if this type of discount was used in Europe and CH confirmed Wheeling was a similar concept used in the Netherlands and similar discounts were also applied to deal with network restrictions. NS remarked that he had been unable to locate any services in

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Europe to which a discount to standard transportation charges apply to both the standard and discounted services; for example discounted prices only apply elsewhere where, for example interruptible service applies or where there are restrictions in nomination flexibility.

d. Graham Jack (GJ) reminded Workgroup that all the UNC 0621 Modifications include a short haul type of product except one. Workgroup reiterated the importance of understanding Ofgem's position on the validity of short haul and the decision on UNC 0621 will determine how to move forward in this area.

e. Kirsty Ingham (KI) mentioned developments in Germany and the Netherlands and suggested those approaches could be looked at.

New Action 1202: National Grid (JG) to update the principles to clarify that an idea could be a capacity and commodity-based solution.

A brief discussion then took place on the problem statement (Slide 11). GJ commented on the proposed timing of October 2021 suggesting that a solution before this date should not be prohibited and that Workgroup should maintain an open mind on a potential implementation date.

In addition, in relation to the 'Where' problem statement, Workgroup suggested that this should also be wider than the NTS Charging Methodology suggesting the UNC may also be appropriate.

JG briefly described the 3 ideas for a charging methodology to avoid the inefficient bypass of the NTS (Slide 14):

- a. Idea 1 – The NTS Optional Capacity Charge based on UNC 0653 (Updating the parameters for the NTS Optional Commodity Charge – Introducing the NTS Optional Capacity Charge) provided by Graham Jack, Centrica
- b. NTS Bypass Avoidance Charge based on a capacity discount methodology provided by James Gudge, National Grid
- c. Standalone Capacity-based Charge, based on a charge defined by route provided by Nick Wye.

In relation to idea 1, GJ explained that this idea is based on UNC 0621C and UNC 0653. The approach is moving more towards a capacity-based solution with a implementation date from October 2019 dependent on systems readiness. The ideas are discussed in more detail under agenda item 5.0 below.

JG concluded his presentation by taking Workgroup participants through Slide 16 which identified the potential elements the proposal should deliver for the Workgroup Review. These included method, examples, limitations, assumptions, principle evidence and analysis and assessment. A lengthy discussion took place on these areas and the key points included:

- a. BR queried whether contractual arrangements should be included as part of commitment/duration? JG stated that one of the ideas includes a commitment component also confirming that a formulaic approach is being considered.
- b. A number of comments were made in relation to testing of the methodology – a) as a means of ensuring the routes are valid as they could be built and b) as a test that the party utilising the discount is flowing against the capacity and not gaming. In response to a comment from JCx suggesting that testing should be undertaken on site specific areas, JG highlighted the issue of confidentiality in relation to site specific data suggesting that a generic analysis approach may be needed for this review.
- c. CS suggested that examples to illustrate how the method is applied within the framework could be related to generic routes. For example, by undertaking analysis by

small, medium and large routes (km and offtake rate). This would help to understand the ideas and also aid in their comparison.

- d. A couple of different points were made around transparency. The first in relation to the rules for short haul and whether they should be within the NTS methodology, the UNC or some other alternative. DH raised a different point on transparency in terms of who the Users are of the short haul in terms of the discount.
- e. A general discussion then took place around confidentiality. However, in recognition of the confidentiality issues it was suggested that some information could be made available to aid understanding of whether Shippers are adhering to short haul and that this should be published at a high level to protect confidentiality. The rate of off take was suggested as one possible option.
- f. CS suggested that a comparison table similar to that provided for UNC 0621 could be developed to illustrate the different features of the ideas and this could also be used as a comparison tool.
- g. Workgroup also discussed tests and eligibility again as part of the proposal requirements. Consideration of eligibility routes was suggested as a point to draw out in the presentation and comparison of ideas.
- h. NW had strong views on the approach suggesting that whatever is used it should include the requirement to prove the route booked has been used as currently there is a perverse incentive that allows a Shipper to reduce the overall capacity costs through shorthaul discounts and by not flowing gas and/or swapping capacity from entry/exit points. JCx agreed that it is possible to sign up for optional commodity charges then not to use it in order to bypass the national balancing point (NBP). She suggested that any solution should take flows into consideration.

Finally, a general discussion took place on the generation of ideas, with JG reiterating that at this stage the Review was open to all ideas. Workgroup participants preference was to remain open-minded, to develop generic approaches and to avoid barriers at this stage. JG also stated that the intention is to review all ideas early in the Review process and to ensure that each idea receives full consideration before a Modification is raised. In response to a question from DH, JG confirmed that analysis and assessment will be depend on timescales but the target is to undertake as much as can be done through the Review group.

5.0 Consideration of Ideas

Idea 2.0

CS invite JG to provide a walkthrough of the presentation titled *Idea 2: NTS Bypass Avoidance Charge*. JG confirmed that a number of elements had been considered in creating the idea for the NTS Bypass Avoidance charge. These included:

- The adjustment of capacity charges
- Based on Cost Weighted Distance (CWD)
- No distance cap
- Not available to storage sites
- No direct link to pipeline costs
- User commitment through application process and additional charges for non-use products.

BR asked who pays for lost revenue and also in relation to pipeline costs why generic costs cannot be used. In response to the pipeline costs question, JG explained that the approach was not using generic pipeline costs and was simpler as a result. He also stated that within the proposed formula there would be an adjustment factor which would determine the final potential costs and it would not be just distance driven.

Workgroup participants reiterated earlier points in relation to the need to consider pipeline costs.

JG then took Workgroup through Slide 6 which set out the current assumptions. He explained that the initial idea for User Commitment is to have a yearly application product which can be combined with a standard daily product with a multiplier.

RF raised a point in relation to volatility of charges and asked if they could be fixed or indexed for a period equivalent to the investment period. In response, JG explained that a fixed charge would not be allowed over a longer term but this could be reviewed.

In addition, in response to a question from DH about whether you can link flow to the product, JG explained that there will be no forcing of parties to flow but there will be a charge if there is no flow.

Slide 8 – Methodology. JG explained that the charge is intended to provide reduced entry and exit capacity charges at applicable points. As with UNC 0653 there is a need to define Applicable Quantity (AQ) per gas day. He also stated that transmission service charges or non-transmission service charges will apply as appropriate, to those capacities or gas flows not covered by AQ.

Slide 9 – Reserve charges for the Applicable Quantity. JG explained that Z is a factor which is still to be determined but which will reflect the likelihood of increased cost and complexity of pipeline projects over distance. Z also acknowledges that distance alone cannot be used. Adam Bates (AB) asked if Z would be the same for all points? JG suggested that more thinking was needed around the Z factor and he would welcome ideas for what the Z factor could represent.

In response to a question from BR about whether D represents the nearest point, JG clarified that it is the distance from the nominated entry point and exit point.

There was some concern about this approach. JCx suggested it was simple and transparent but NW suggested it would give different results depending on geographical location. He also challenged if this could result in assuring an inefficient bypass.

Slide 10 – Methodology. JG sought views on the graphical example provided for an independent pipeline in operation and the associated costs which would be incurred regardless of capacity or flow on the day. A nominal charge could be applied to unsold capacity.

GJ suggested there could be an option fee i.e. a minimum bill to take up an option.

JCx sought clarification on the relationship between MNEPOR and SOQ. She questioned if MNEPOR value is the right thing to include as it cannot be booked. JC considered it was the appropriate value as SSE uses standard pipelines and any extra capacity is used for Linepack.

Slide 11 – JG explained that a CWD procedure is needed to calculate reserve prices. Any anticipated over/under recovery would be smeared across all capacity charges.

GJ asked what mechanism would be used to recover revenue charges. NW suggested that any under recovery would be through K and that there should be no retrospective under recovery charges. He also suggested that a balancing effect seems sensible reflecting a commitment to paying the full charge even if it is not used and that then provides the incentive.

JG concluded his presentation by informing Workgroup that the proposed assessment criteria are provided in Slide 13.

Idea 1.0

CS invited GJ to summarise Idea 1.0 as most parties had been involved in the development of 0653 or 0621C. GH indicated that the presentation titled *0653 Business Rules* provided such a summary and drew attention to Slide 3 which sets out the key features of the proposal. He highlighted that the SO entry and exit commodity charges for the AQ quantity would be

disapplied and that the TO entry and exit commodity charges on all gas flows would be applied.

In terms of pipeline costs there is no calculation for existing, new, onshore, offshore pipes.

He stated that National Grid provided some initial data analysis for UNC 0653 and that the proposal was fairly well developed before the withdrawal of the Modification.

CS reminded Workgroup that all the material for UNC 0653 has been published on the meeting page.

Idea 3.0

NW explained that his idea for a Standalone Capacity-based Charge based on a charge defined by route is at the very early stages of development and dependent on securing funding to take it forward.

In brief, he stated that the rate is determined by the level of commodity charge applied to a distance between 2 points. This would determine the capacity charge and there would then be the need for some sort of recalculation afterwards if gas is not flowed.

JG thanked Workgroup participants for their debate and constructive feedback and agreed to provide further developed proposals for the January meeting.

6.0 Next Steps

CS invited Workgroup participants to propose any new ideas. The focus of the next meeting is to further consider the ideas and proposals.

7.0 Any Other Business

None.

8.0 Diary Planning

Further details of planned meetings are available at: <https://www.gasgovernance.co.uk/events-calendar/month>

Workgroup meetings will take place as follows:

Time / Date	Venue	Workgroup Programme
10:00 Thursday 10 January 2019	Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA	Detail planned agenda items <ul style="list-style-type: none"> • Consideration of Ideas • Consideration of Proposals

Action Table (as at 04 December 2018)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
1201	04/12/18	4.0	National Grid (JG) to review the objective statement "Inefficient bypass can be defined in this context as any gas that could have used the NTS, distributing costs over a wider base" to provide more clarity.	National Grid (JG)	Pending
1202	04/12/18	4.0	National Grid (JG) to update the principles to	National Grid	Pending

Action Table (as at 04 December 2018)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
			clarify that an idea could be a capacity and commodity-based solution.	(JG)	