

## UNC Workgroup 0671 Minutes

### New Capacity Exchange process at NTS exit points for capacity below baseline

Tuesday 08 January 2019

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

#### Attendees

Rebecca Hailes (Chair)	(RH)	Joint Office
Kully Jones (Secretary)	(KJ)	Joint Office
Adam Bates	(AB)	South Hook Gas
Alex Nield*	(AN)	Storengy UK
Andrew Blair*	(AB)	Interconnector UK
Andrew Pearce	(AP)	BP
Anna Shrigley*	(ASh)	Eni Trading & Shipping
Bethan Winter	(BW)	Wales & West Utilities
Bill Reed	(BR)	RWE Supply & Trading GmbH
Dave Adlam	(DA)	Cadent
David Cox*	(DC)	London Energy Consulting Ltd
Debra Hawkin	(DH)	TPA Solutions
Emma Buckton*	(EB)	Northern Gas Networks
Graham Jack	(GJ)	Centrica
Jeff Chandler*	(JCh)	SSE
John Costa*	(JCo)	EDF Energy
Julie Cox	(JCx)	Energy UK
Jonathan Coe*	(JC)	Ofgem (0662 only)
Kirsty Ingham*	(KI)	ESB
Lea Slokar*	(LS)	Ofgem
Malcolm Montgomery	(MM)	National Grid
Nick Wye	(NW)	Waters Wye Associates Ltd
Nicky White	(NWWh)	npower
Nigel Sisman	(NS)	Sisman Energy Consulting Ltd
Phil Hobbins	(PH)	National Grid
Richard Fairholme	(RF)	Uniper
Richard Pomroy	(RP)	Wales & West Utilities
Steve Pownall	(SP)	Xoserve
Terry Burke*	(TB)	Equinor

\*via teleconference

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0671/080119>

The Workgroup Report is due to be presented at the UNC Modification Panel by 21 February 2018.

#### 1.0 Introduction and Status Review

Rebecca Hailes (RH) sought confirmation from Richard Pomroy (RP) on the Modification timescales and whether he considered that the February reporting deadline was still

achievable. In response, RP suggested that it was unlikely, and an extension would be appropriate.

### 1.1. Approval of Minutes (06 December 2018)

The minutes of the previous meeting were approved subject to action 1202 moving to the Transmission Workgroup.

## 2.0 Review of Outstanding Actions

**Action 1201:** Wales and West Utilities (BW) to provide performance data against the exit capacity incentive information.

**Update:** RP provided a one-page slide with an update on the value of the NTS Exit Capacity Incentive. The update included a link to the spreadsheet provided by DNs required as part of TPD V 5.13 (Mod 186 reports) as these reports contain the data:

<http://www.gasgovernance.co.uk/DNRevenueReports/2018Sep>.

RP confirmed that the revenue (the performance data) reflects what happened 2 years ago due to the lag. Bethan Winter (BW) also confirmed that the target was baselined on bookings at the outset of RIIO and these would have been protected against the NTS price change. In addition, she confirmed that the incentive is actually earned two year previously and the value is adjusted to allow for the return that would have been earned had it been received in the year in which it was earned, as per the calculation formula specified in Wales & West Utilities (WWU) licence.

A long discussion was had which was both looking back and forward looking. In particular, a discussion was had on why a DN exit capacity incentive was introduced and what it was intended to drive. It was suggested that the incentive was put in place to encourage bookings at cheaper offtakes where there is a choice and that a proportion of the benefits would go back to Shippers. Graham Jack (GJ) suggested that the incentives and consumer benefits need to be considered more fully by the Workgroup and what if any implications there are for WWU revenue stream.

Workgroup requested an estimation from WWU on how much capacity is likely to be exchanged in the period this modification is likely to be implemented until the end of RIIO-GD1 (relating to the incentive).

Workgroup also raised concerns about implementation of the Modification under prevailing arrangements and not knowing how reviews under RIIO-GD2 will impact.

RP confirmed that since the system changes required were not expect to be completed until June 2020 and that since capacity cannot be exchanged in Y+1, the there would be no effect in the GD1 period which ends 31st March 2021. The impact in the GD2 period is not known as it is not clear whether the incentive will continue in GD2Workgroup agreed to close this action. **Closed**

**Action 1202:** National Grid NTS (CH) to provide further details on the User Commitment, including how it was originally instigated.

**Update:** Malcolm Montgomery (MM) provided an update on this action explaining the background and rationale for Exit User Capacity Commitment. He confirmed that it was designed to identify capability deficiency in the Network. Feedback from operational teams suggests that the information is still relevant and used on bookings.

Julie Cox (JCx) suggested that in the past User Commitment has not been reviewed in the context of substitution and this is important because substitution doesn't require financial

underpinning. And thus capacity met by substitution is different to when it is needed to build something.

A discussion took place on the rationale for the 4 years. Nigel Sisman (NS) provided a brief rationale based on his recollection, stating that it linked back to DN Exit Reform when there was a finite capacity at exit. He suggested that there was no logical or sophisticated reasoning behind the 4 years but a compromise reached through a pragmatic view. He also indicated that Ofgem had indicated the need to have a number bigger than 1.

Workgroup agreed to close this action. **Closed**

### 3.0 Review of Amended Modification

RP confirmed that several amendments have been made to the Modification following discussions at the December meeting. These are reflected in the current version v2.0. The changes include a change to the title from “Relief from User Commitment obligations when NTS exit capacity substitution is permitted” to “New Capacity Exchange process at NTS exit points for capacity below baseline”. The other key changes relate to the purpose of the Modification, Summary, Why Change and Solution sections.

RP suggested that the next iteration would include a ‘merit order’ of changes for example between increases and exchanges in capacity and exchanges of annual and enduring capacity

### 4.0 Consideration of Business Rules

Workgroup reviewed the Business Rules (BR) in relation to TPD B set out in the Solution section of the Modification. The following comments were made in discussion:

- a. BR4 - It was suggested that it would be more appropriate to say DNO User and Shipper User
- b. BR5 - in relation to Interconnector Points (IPs). MM stated that this would not apply to capacity at IPs. JCx asked if this could be considered to be discriminatory. Bill Reed (BR) suggested that as this is designed for DNOs and Shippers, Interconnectors are out of scope for this Modification.

It was also suggested that the regulations around EU CAM network code (EU regulation 2017/459) could mean that it could be considered to be discriminatory to exclude IPs.

<b>New Action 0101:</b> Wales & West Utilities (RP) to justify possible due discrimination of Interconnection Points.
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- c. BR6 - RP to check that UNC defined terms have been used throughout.
- d. BR 11 and 12 – RP to refer to the licence.
- e. BR14 – RP stated that if the price goes up the User Commitment is impacted before 4 years. If prices go down then the years would become more relevant. BR suggested that both amount and duration is important in terms of the User Commitment ‘liability’. RP said he wanted to understand the mechanics of how User Commitment is calculated and how it is communicated to Users as the feedback provided by National Grid on the previous examples was contradictory and so more information would be helpful. In particular, in terms of the exchange process, RP wanted to understand if

National Grid want the User Commitment 'liability' to remain as there may be an issue in relation to the over recovery in the last year if the price goes up.

Workgroup then reviewed one of the examples provided by RP. The full spreadsheet included 4 worked examples (<https://www.gasgovernance.co.uk/0671/080119>). The example reviewed was Example one which was one to one exchange between Lyneham and Evesham. A number of points were raised in discussion in relation to the prices, and years and the User Commitment liability between 2 locations. It was agreed that RP should rework the example to illustrate how the Business Rules would work and to include the example in the Modification.

**New Action 0102:** Wales & West Utilities (RP) to rework the User Commitment examples to demonstrate how the Business Rules will apply and include the example in the Modification.

## 5.0 Review of Relevant Objectives

RH took Workgroup through the Relevant Objectives. Workgroup agreed that this Modification would have a positive impact on Relevant Objective b). A discussion was held on the impact of the Modification on the DN Exit Capacity Incentive and comments were added to the draft Workgroup Report.

In terms of Relevant Objective b) Workgroup did not consider that the Modification impacted the operation of the pipe-line system as it was more about investment.

Graham Jack (GJ) suggested that Relevant Objective c) is more relevant because the driver for the Modification is related to new connections, such as biomethane.

It was suggested that RP review the Relevant Objectives.

## 6.0 Consideration of Wider Industry Impacts and Costs

Discussion was deferred to the February meeting.

## 7.0 Consideration of Legal text

RP confirmed that Modification was not yet in a position for the Legal Text to be developed.

## 8.0 Development of Workgroup Report

RH made some amendment to the Workgroup Report in relation to the impact and Relevant Objectives sections.

## 9.0 Any Other Business

None.

## 10.0 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 07 February 2019	Radcliffe House, Blenheim Court Warwick Road Solihull	Detail planned agenda items. <ul style="list-style-type: none"><li>• Amended Modification</li><li>• Consideration of Business Rules</li></ul>

	B91 2AA	<ul style="list-style-type: none"> <li>• Review of Impacts and Costs</li> <li>• Review of Relevant Objectives</li> <li>• Consideration of Wider Industry Impacts</li> <li>• Consideration of Legal Text</li> <li>• Development of Workgroup Report</li> </ul>
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**Action Table (as at 08 January)**

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
1201	06/12/12	2.0	Wales and West Utilities (BW) to provide performance data against the exit capacity incentive information.	Wales & West Utilities (BW)	Closed
1202	06/12/12	4.0	National Grid NTS (CH) to provide further details on the User Commitment, including how it was originally instigated.	National Grid NTS (CH)	Closed
0101	08/01/19	4.0	Wales & West Utilities (RP) to justify possible due discrimination of Interconnection Points.	Wales & West Utilities (RP)	Pending
0102	08/01/19	4.0	Wales & West Utilities (RP) to rework the User Commitment examples to demonstrate how the the Business Rules will apply and include the example in the Modification.	Wales & West Utilities (RP)	Pending