

UNC Workgroup 0705R Minutes
NTS Capacity Access Review
Thursday 06 February 2020
at Radcliffe House, Blenheim Court, Warwick Road, Solihull
B91 2AA

Attendees

Alan Raper (Chair)	(AR)	Joint Office
Karen Visgarda (Secretary)	(KV)	Joint Office
Adam Bates	(AB)	South Hook Gas
Andrew Pearce	(AP)	BP
Anna Shrigley	(AS)	Eni Trading & Shipping
Anna Stankiewicz	(ASt)	National Grid
Ashley Adams*	(AA)	National Grid
Bill Reed	(BR)	RWE
Chris Wright	(CW)	ExxonMobil
David Adlam	(DA)	Cadent
Debra Hawkin	(DH)	TPA Solutions
Edd Fyfe*	(EF)	SGN
Emma Buckton*	(EB)	Northern Gas Networks
Jeff Chandler*	(JC)	SSE
Jennifer Randall	(JR)	National Grid
John Costa*	(JC)	EDF Energy
Julie Cox	(JCx)	Energy UK
Kamila Nugumanova*	(KN)	ESB
Kamla Rhodes	(KR)	Conoco Phillips
Lea Slokar	(LS)	Ofgem
Lea Slokar*	(LS)	Ofgem
Leteria Beccano	(LT)	Wales & West Utilities
Leyon Joseph*	(LJ)	SGN
Malcolm Montgomery	(MM)	National Grid
Nick King	(NK)	CNG
Nick Wye	(NW)	Waters Wye Associates
Paul Youngman*	(PY)	IUK
Phil Hobbins	(PH)	National Grid
Richard Fairholme	(RF)	Uniper
Shiv Singh	(SS)	Cadent
Steve Pownall	(SP)	Xoserve
Steven Britton*	(SB)	Cornwall Energy
Terry Burke	(TB)	Equinor
Tracy Brogan	(TB)	Neptune Energy

*via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0705/060220>

The Workgroup Report is due to be presented at the UNC Modification Panel by 15 October 2020.

1.0 Introduction and Status Review

1.1. Approval of Minutes (09 January 2020)

The minutes from the previous meeting were approved.

2.0 For February discussion and onwards, as below:

2.1. Review of Overrun Charges

ASt explained that the review of Overrun charges was linked to the Action 0102 as detailed below in Section 5.

ASt then provided an overview of a presentation that proposed to reduce the entry overrun multiplier to x4 and exit to x6 from the current x8 to preserve the status quo in revenue collected, behaviours remained the same.

This proposal brought about a lengthy general discussion, where the Workgroup were keen to see more evidence where Overruns had occurred. Paul Youngman (PY) said that a great deal more detail and information was required in relation to this area. A few of Workgroup participants believed this proposal was disproportionately harsh for what, in many cases, was typically an administration error. Anna Shrigley (AS) said that this proposal would not reflect how the capacity booking behaviour would change following the implementation of the capacity charging review.

Lea Slokar (LS) also stated that more evidence would be required, and although Ofgem believed Overruns were necessary to prevent under booking, they would need to be convinced the incentive in the new regime was 'fit for purpose' from a booking perspective. She said Ofgem would need to see as much evidence as possible that the incentives to under book were in place and that there could be other solutions and multipliers. ASt said that in the last 2 years, there had been 20 times when National Grid had to scale back capacity and Overruns were incurred. PY said he would be interested to know if there was a constraint on those days, and if interruptible capacity had been a factor in causing the Overrun. Julie Cox (JCx) said this could have been an Overrun, and if so, how many were 'in the day' occasions, and what was the materiality impact.

ASt explained that the Overrun charges were not designed to be cost-reflective and she pointed out that National Grid do not directly retain any revenue from Overrun Charges other than through the incentive scheme, and therefore she questioned the use of this analysis. She added that it was also very difficult from a system analysis perspective, to correlate Overruns within the operation of the network, although ASt went to say she would further investigate this area.

New Action 0201: National Grid (ASt) to investigate situations whereby on Overrun might have been caused by a constraint on the network.

Bill Reed (BR) asked if an Overrun regime was still a relevant incentive in a system which has spare capacity and that a simple contractual obligation on Shippers to book could be sufficiently adequate. There were mixed opinions within the Workgroup and some participants thought some form of economic incentive was appropriate as an contractual obligation would be inefficient and difficult to monitor. Dave Adlam (DA) noted that DNs had to book their 1 in 20 which means they incur more costs. He added that the DNs have a concern that Shipper bookings could drop, meaning the DNs would in turn, pick up more capacity costs if Overruns were removed altogether and that there would need to be a concerted effort to guard against under-booking too. (JCx) said she appreciated the need for an incentive to book, but she said it needed to link to operational problems with a test as to whether the constraint caused the Overrun or the Overrun caused the constraint. On this topic RF and PY both felt that the Modification needed to justify the change from the status quo; the 8x was arbitrary, so preserving the existing level of revenue generated, did not seem, in itself, to be a good enough reason. ASt noted the proposed Modification was to use the revenue as a measure of performance of how Shipper's flows had matched capacity bookings historically, and was trying to preserve the same incentive on the Shippers as there was currently, on the basis that was driving "acceptable" behaviours currently.

Nick Wye (NW) said that the 4x and 6x penalty would be so onerous as to risk over-booking which would be a bad outcome for all stakeholders within the industry. Jennifer Randall (JR) stated that it was not within the scope of this Modification to predict changes in booking behaviour, and the main driver from a best approach aspect was to maintain the status quo for now, with the opportunity to review once the charging reforms had been implemented.

The Workgroup participants said they would prefer the proposal to be the other way around, with the multiplier reduced to x2, and then this could be monitored and increased again in the future, if the evidence justified this change. Anna Shrigley (AS) said that she questioned the numbers used in the National Grid data within the table that had been represented at the previous meeting, as she felt the numbers were somewhat hypothetical, rather than reflective of actual costs.

2.2. NTS Exit Capacity Substitution & User Commitment

NTS Access Review – Next Workstream

Jennifer Randall (JR) provided a synopsis of the present issues, and she proposed that the 'Signalling and allocation of Capacity' area should be a collective piece of work, incorporating user commitment, PARCA, zonal and substitution. All were in support of this suggestion.

Dave Adlam (DA) explained that the DNs had told National Grid that it was difficult for them to weigh up booking capacity that they subsequently do not need verses the risk of capacity being substituted away that they subsequently need to secure due to their 1 in 20 obligation. He added that Cadent are looking at the demand forecast which would give rise to challenges over the next 3-4 years, due to peaking power generation increasing, once locked into User Commitment, (UC), they then lose the ability to reduce this, which results in unnecessary costs and would sterilize this capacity for others.

DA said if it was possible to wait until closer to the winter period, then the risk would be if a substitution was effected in an area where the DN demand was set to increase, it would then be difficult to know which site was triggering it and then how the substitution methodology would be applied by National Grid and which DN offtakes might be affected. DA added it was for these reasons, that Cadent and the DNs would like to see the UC rules softened.

He said historically at the time of the exit reform, there was still some expectation that demand for capacity might grow, but that was not the case now, so it would be of benefit for the DNs to be aware of sites where additional capacity might be required. Emma Buckton (EB) was in full agreement with DA and said from her perspective, of the 9 offtakes in Yorkshire that had been affected by substitution, 7 have had significant changes from 2021 onwards. She added in the past, 6 other offtakes had signalled for substitution and she said if they had booked capacity it would have been cancelled along with associated PARCAs. DA said that Cadent also had actual capacity requirements below the levels in the PARCA request, based on a 1-20 change which would have secured capacity that was not needed. Leyon Joseph (LJ) agreed with DA and identified the Lincolnshire and Yorkshire area, that were subject to PARCAs but offtake did not increase.

(JCx) agreed and said a lot of these issues also applied to Direct to NTS Connections, (DCs); in the context of, if the Shippers bought extra capacity to protect sites and the new connection did not happen then they ended up overbooking. Bill Reed (BR) agreed and said this was particularly the case where power stations had obligations to meet in the Capacity Market to deliver peak generation, and that the PARCA mechanism was based on expanding system. He added the UC used to be 1 year before PARCAs, pre-2012 and proposed if there could be a different UC mechanism, depending on whether investment was or was not, required.

PY said that he recognised an element of overbooking was needed by the DNs to protect 1 in 20 flexibility in this area where necessary, and that there could be an incentive to book more firm capacity to avoid substitution. He said from the Ofgem perspective that they had to judge whether National Grid had correctly followed the substitution methodology and whether there was a need to redesign this process and to ascertain if an Ofgem role is still required in this area.

John Costa (JC) said from the substitution process perspective it would make sense in an expanding system, but now the current design is unsuitable and he did not feel this was 'fit for purpose' any longer, especially as some of the National Grid baselines had been preserved even though sites had been disconnected. JR agreed to investigate this area in more depth.

New Action 0202: National Grid (JR) to share progress against the 'Signalling and Allocation of Capacity' workstream at the next Workgroup meeting in March.

2.3. Modification 0667 – Inclusion and Amendment of Entry Incremental Capacity Release NPV test in UNC

Not discussed in this meeting.

3.0 Review of Workplan

AR confirmed that Workplan would be updated following the areas of discussion in the meeting in readiness for the March Workgroup.

4.0 Review of Amended Request

Not discussed in this meeting.

5.0 Review of Outstanding Actions

Action 0101: National Grid to investigate instances where zero or no overrun charges apply to overruns at ASEPs where no bookings were made and how this will change following implementation of Modification 678A.

Update: ASt presented a slide on instances where zero or no overrun charges could be incurred. RF asked about the impact of there being a near-zero existing contract. ASt said that if no-one bought any capacity in the new regime then the capacity price that Overruns are based on, would be the existing contracted price, e.g. where existing contract price is 0.0001p/kWh/day, multiplied rate would be 0.0008p/kWh/day, a lot less than the new capacity price of 0.0429p/kWh/day. Anna Shrigley (AS) also said that more exact information was required on this topic especially in relation to the potential breach of the capacity charge. The Workgroup wanted more information to be supplied regarding this topic. **Closed**

New Action 0203: National Grid (ASt) to investigate to what extent are there existing contracts with a close to zero reserve price which could lead to near zero Overrun charges.

Action 0102: National Grid (ASt) to investigate the revenue overrun charges at a more granular level; to ascertain if there was a constraint on the days the overruns were charged, and if so, provide the necessary evidence.

Update: Please see the detail in relation to this action above in section 2.1. ASt provided an overview of a presentation and confirmed this action could then be closed. **Closed.**

Action 0103: National Grid (ASt) to investigate where the revenue is collected and how and where the credits are redistributed methodology in relation to cost neutrality.

Update: Anna Stankiewicz (ASt) presented a slide that showed where revenue goes and confirmed this action could now be closed. Richard Fairholme (RF) asked whether Overrun charges link to the non-transmission charges post the charging review implementation and ASt said she would investigate this area further. **Closed**

New Action 0204: National Grid (ASt) to confirm if the Overrun charges link to the non-transmission charges post charging review implementation?

6.0 Next Steps

AR confirmed that the next steps were as detailed below:

Areas for consideration during March or later:

- Entry Trading and Ofgem related issues
- DN Capacity booking process
- Modification 0667 – Inclusion and Amendment of Entry Incremental Capacity Release NPV test in UNC
- Review of Workgroup Plan
- Review of Amended Request

Any Other Business

None.

7.0 Diary Planning

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

Workgroup meetings will take place as follows:

Time / Date	Venue	Workgroup Programme
10.00 Thursday 05	Elexon, 350 Euston Road,	Detail planned agenda items.

March 2020	London, NW1 3AW	February and later: <ul style="list-style-type: none"> • Entry Trading and Ofgem related issues • DN Capacity booking process • Modification 0667 – Inclusion and Amendment of Entry Incremental Capacity Release NPV test in UNC • Review of Workgroup Plan • Review of Amended Request
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Action Table (as at 06 February 2020)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0101	09/01/20	3.0	National Grid to investigate instances where zero or no overrun charges apply to overruns at ASEPs where no bookings were made and how this will change following implementation of Modification 678A.	National Grid (ASt)	Closed
0102	09/01/20	3.0	National Grid (ASt) to investigate the revenue overrun charges at a more granular level; to ascertain if there was a constraint on the days the overruns were charged, and if so, provide the necessary evidence.	National Grid (ASt)	Closed
0103	09/01/20	3.0	National Grid (ASt) to investigate where the revenue is collected and how and where the credits are distributed in relation to cost neutrality.	National Grid (ASt)	Closed
0201	06/02/20	2.1	National Grid (ASt) to investigate situations whereby on Overrun might have been caused by a constraint on the network.	National Grid (ASt)	Pending
0202	06/02/20	2.2	National Grid (JR) to share progress against the 'Signalling and Allocation of Capacity' workstream at the next Workgroup meeting in March.	National Grid (JR)	Pending
0203	06/02/20	5.0	National Grid (ASt) to investigate to what extent are there existing contracts with a close to zero reserve price which could lead to near zero Overrun charges (ASt)	National Grid (ASt)	Pending
0204	06/02/20	5.0	National Grid (ASt) to confirm if the Overrun charges link to the non-transmission charges	National Grid (ASt)	Pending

Action Table (as at 06 February 2020)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
			post charging review implementation?		