

NC Workgroup 0716 Minutes
Revision of Overrun Charge Multiplier
Thursday 07 May 2020
Via Teleconference

Attendees

Lorraine O'Shaughnessy Chair)	(LOS)	Joint Office
Helen Bennett (Secretary)	(HB)	Joint Office
Alan Raper	(AR)	Joint Office
Adam Bates	(AB)	South Hook Gas
Alex Neild	(AN)	Storengy
Andrew Pearce	(AP)	BP
Anna Shrigley	(AS)	Eni Trading & Shipping
Anna Stankiewicz	(ASt)	National Grid
Bethan Winter	(BW)	Wales & West Utilities
Bill Reed	(BR)	RWE
Chris Wright	(CW)	Exxon Mobil
David Adlam	(DA)	Cadent
Debra Hawkin	(DH)	TPA Solutions
Emma Buckton	(EB)	Northern Gas Networks
Jeff Chandler	(JCh)	SSE
Jennifer Randall	(JR)	National Grid
John Costa	(JCo)	EDF Energy
Julie Cox	(JCx)	Energy UK
Kamila Nugumanova	(KN)	ESB
Kamla Rhodes	(KR)	Conoco Phillips
Malcolm Montgomery	(MM)	National Grid
Max Lambert	(ML)	Ofgem
Nick Wye	(NW)	Waters Wye Associates
Paul Youngman	(PY)	Drax
Phil Hobbins	(PH)	National Grid
Richard Fairholme	(RF)	Uniper
Richard Hewitt	(RH)	BBLC
Shiv Singh	(SS)	Cadent
Sinead Obeng	(SO)	Gazprom Energy
Steven Britton	(SB)	Cornwall Energy
Steve Pownall	(SP)	Xoserve
Terry Burke	(TB)	Equinor

Copies of all papers are available at: www.gasgovernance.co.uk/0716/070520

The Workgroup Report is due to be presented at the UNC Modification Panel by 18 June 2020.

1.0 Introduction and Status Review

1.1. Approval of Minutes (02 April 2020)

The minutes from the previous meeting were approved.

1.2. Review outstanding actions

No outstanding actions to consider.

2.0 Amended Modification

LOS advised Workgroup that a revised version of the Modification has been published and clarified that the changes were only cosmetic, no change has been made to the content. The changes made were moving parts of the Solution and placing them into the Why Change section. LOS showed the amended Modification on screen.

LOS advised Workgroup that the purpose of todays meeting is to start development of the Workgroup Report.

3.0 Consideration of questions from Panel

3.1. Consider Consumer Impacts

This question has previously been addressed:

ASt clarified that some narrative has been provided in the Modification to address this point.

3.2. Consider materiality of the proposal in terms of governance of the Modification

This point will be addressed further at the next planned meeting.

4.0 Development of Workgroup Report

LOS commenced an onscreen review the current version of the draft Workgroup Report and advised this version reflects the most recent changes made to the Modification as mentioned in section 2.0 of this agenda.

LOS clarified the Solution has not changed and the questions from Panel, as shown in Agenda item 3.0, are captured in the content of the Workgroup Report.

Consumer Impact Assessment

LOS asked appropriate questions with regards to the Consumer Impact Assessment table and workgroup provided no further amendment.

LOS advised Workgroup that following the pre-modification discussion by NW at the last meeting, NW has provided a draft Modification 716A which will be discussed later during the meeting. LOS clarified that should 0716A be approved as an alternative solution at UNC Panel on 21 May 2020, the Workgroup Report will be updated accordingly and the differences between 0716 and 0716A highlighted throughout the report.

Workgroup Impact Assessment

In reviewing the comments in the Workgroup Impact Assessment PY highlighted an area where it was suggested it would be useful to demonstrate where it is the view of the Proposer, and explained these views are not necessarily the views of the majority of Workgroup. Where it is the Proposers view, the Workgroup Report should stipulate that not everyone shares that view.

In reviewing this section LOS made some changes to the wording in line with Workgroup feedback and comments.

It was agreed that Workgroup will be revisiting the Workgroup Report once 0716A has gone to UNC Panel on 21 May 2020 as to whether 716a will be an alternative Modification to 716

and suggested it might be better to wait for the outcome before reviewing this section any further

The Proposer of Modification 0716, ASt National Grid, agreed to provide comments for inclusion to the Workgroup Report.

NW suggested a sensible approach would be for the Proposer of 0716 and 0716A to work on the text to be presented to the next Workgroup meeting so that both Proposers are happy the Workgroup Report comments are reflective of the discussions to date. LOS advised that this would be taken offline and she would contact NW and ASt once the outcome has been established after the UNC Panel Meeting

On behalf of the Proposer, NW welcomed the opportunity to talk the Workgroup through the intention of Modification 0716A ahead of it going to UNC Panel on 21 May 2020.

He advised that he has mostly translated the pre-Modification presentation into text for the Modification, adding some further analysis and extended it to incorporate both Entry and Exit points. He explained this Modification would provide a more holistic approach to overruns. More proactively in the spirit of the capacity review and at the same time looking at the impact of the change in the charging methodology and therefore shipper behaviours.

NW explained, as part of the structure of Modification 0716A, he has been looking at how overruns have been incurred in the past but also looking forward to how booking strategies might be changing and that 0716A is more forward looking but also learning from the past. During his analysis he concluded that mostly all overruns historically, have been as a result of User error.

NW went on to highlight the comparison with Modification 0716 and suggested that looking historically is irrelevant to how Users may book capacity in the future.

In explaining the principles as set out on page 6 of the Modification, NW said that capacity bookings need to be reflective of the intended usage; excess bookings will increase TO revenues which in turn will require balancing via K factor or the Revenue Recovery Charge.

NW said that overrun charges should not be disproportionate, unduly penal and suggests that setting a multiplier of 1.1 is sufficient. The analysis contained in Section 11 of the Modification supports this.

ASt provided some feedback and suggested the calculation needs to be reviewed and is concerned the analysis does not give a true reflection of the network overall. ASt added she does not believe the multiplier is an appropriate number and suggested that the view of the alternative solution in 0716A is risky as it might lessen the incentive to book adequate capacity.

ASt clarified that she is not suggesting the National Grid calculation is perfect, but in their opinion, it is reasonable as it is the intention that this will be reassessed in 12 months.

PY advised that the main reason for the review of overrun charges is due to the new charging regime which is driving the proposal.

NW challenged that the interpretation of the review group was to develop a new way of calculating overruns, and that having a review in 12 months, as stipulated in Modification 0716, will mean that some Users will potentially be incurring very high penalties and he does not think that is fare.

As part of the review of the Solution in Modification 0716A, NW highlighted the conclusions reached:

Booking behaviour at Exit Points

Conclusion 1: Users have made little attempt to match capacity bookings with anticipated flows, and instead bulk buy surplus capacity at zero or significantly lower cost to safely satisfy their daily needs and avoid overruns

Impact of anticipated changes to the NTS Charging Methodology

Conclusion 2: This predictable change in booking behaviour as a result of a change to the Charging Methodology focused on capacity-based charging, with limited or no discounts for short-term capacity products, renders historical booking behaviours irrelevant for informing future booking behaviours.

Why overrun?

Conclusion 3: There is no commercial or strategic advantage to be obtained from capacity overruns with extreme penalties, therefore, it must be concluded that such events are a result of User error.

When LOS asked for views from the Workgroup, BR advised he is supportive of the alternative solution in Modification 0716A and that the economic arguments put forward by NW are very strong.

It was suggested that having a 10% premium on the Day Ahead capacity bookings may need some thought, maybe not in this Modification but maybe in the future. BR suggested the constraints uplift should be addressed elsewhere as this could be complicated.

PY advised Workgroup there are some provisions already in UNC Code if there is a constraint and that there is a mixture of commercial and physical actions.

MM said that he believes this to be a pro-rated charge and that this will be covered in the Legal Text.

NW said the multiplier could be 1.1 on parts of the Network that is unconstrained and maybe a cost plus the multiplier for the constrained part of the Network.

5.0 Next Steps

Lorraine O'Shaughnessy (LOS) summarised the next steps:

- Completion of the Workgroup Report incorporating Modification 0716A (providing UNC Panel approve it should be considered as an alternative solution to Modification 0716)
- An amendment to Modification 0716A is expected before it is submitted to UNC Panel

6.0 Any Other Business

6.1. Modification 0716A update

This was covered as part of discussion during agenda item 4.0.

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 Friday 04 June 2020	TBC	Detail planned agenda items. <ul style="list-style-type: none"> • Completion of Workgroup Report

Action Table (as at 07 May 2020)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
			No outstanding actions		