

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

**Tuesday 02 June 2020**

**Via Teleconference**

<b>Attendees</b>		
Rebecca Hailes (Chair)	(RH)	Joint Office
Karen Visgarda (Secretary)	(KV)	Joint Office
Adam Bates	(AB)	South Hook Gas
Alastair Lamond	(AL)	Intergen UK
Alex Nield	(AN)	Storengy
Andrew Pearce	(AP)	BP
Anna Shrigley	(ASh)	Eni Trading & Shipping
Bill Reed	(BR)	RWE
Chris Wright	(CWr)	Exxon Mobil
Christiane Sykes	(SC)	Shell Energy
Colin Williams	(CW)	National Grid
Dan Hisgett	(Dhi)	National Grid
David Cox	(DCx)	London Energy Consulting
David O'Neill	(DON)	Ofgem
David Mitchell	(DM)	CIA
Debra Hawkin	(DH)	TPA Solutions
Henk Kreuze	(HK)	Vermilion Energy
Iwan Hughes	(IW)	VPI Immingham
James Jackson	(JJ)	Sembcorp
Jeff Chandler	(JCh)	SSE
John Costa	(JCo)	EDF Energy
Julie Cox	(JCx)	Energy UK
Julia Haughey	(JH)	EDF Energy
Kamla Rhodes	(KR)	Conoco Phillips
Kirsty Ingham	(KI)	ESB
Laura Johnson	(LJ)	National Grid
Lucy Manning	(LM)	National Grid
Mary Craig	(MC)	Ceres Energy
Nick Wye	(NW)	Waters Wye Associates Ltd
Nigel Bradbury	(NB)	EIUG
Nitin Prajapati	(NP)	Cadent
Paul Youngman	(PY)	Drax
Pavanjit Dhesi	(PD)	Interconnector UK

Penny Garner	(PG)	Joint Office
Richard Fairholme	(RF)	Uniper
Ricardo Rossi	(RR)	Centrica
Smitha Coughlan	(SC)	Wales & West Utilities
Steve Pownall	(SP)	Xoserve
Terry Burke	(TB)	Equinor
Thomas Bourke	(TBo)	Ofgem

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0670/020620>

The Request Workgroup Report is due to be presented at the UNC Modification Panel by 16 July 2020.

## 1.0 Introduction and Status Review

Rebecca Hailes (RH) welcomed everyone to the meeting and invited introductions. She noted that using Microsoft Teams participants could indicate they wished to speak using the 'raise your hand' feature and she would endeavour to allow plenty of time and opportunity for this.

### 1.1. Approval of Minutes (05 May 2020)

The minutes from the previous were approved.

### 1.2. Approval of Late Papers

RH said that a late paper had been received from National Grid in relation to Modification 0670R which was an updated Scoping Document concerning Secondary Capacity. All agreed regarding acceptance of this late paper.

### 1.3. Pre-Modification Discussions

Nick Wye (NW) said that ENI Gas & Power Limited would be raising a new Urgent Modification in relation to Shorthaul products. He said the content would be very similar to the previous Modifications 0718A and 0718B - *Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS*. He said both the alternatives A & B had included a double discount element for Transmission charges and non-Transmission discounts. He explained the new Modification would have the same principles with two discounts, but with a much shorter distance cap of 5km to include any site or any route in that 5 kilometre boundary. He said the discount applied would be 90% of the Capacity Charges with a standardisation of 90% discount for existing sites benefiting, with no single pipelines from exit and entry pipelines and would encompass shared pipelines as well (clustering).

He added that this better reflected reality via the likely sharing of resources and enabling the reinstatement of mothballed pipelines for a 90% discount, which would mirror the methodology within Modifications 0718 A/B. NW said that there would be a 94% discount for non-Transmission services. RH note that this Modification is considered by the Proposer to be an alternative to the National Grid proposal (derived from 0718).

David O'Neil (DON) asked from a clustering perspective, would it be possible to highlight in the Modification who the parties involved in the clustering were. NW said that as there was a degree of confidentiality involved, those parties would contact Ofgem directly on a one to one basis and so this information would not be included in the Modification.

#### 1.4. Review of Outstanding Actions

**Action 0401:** Ofgem (DON) to provide an update on the new capacity arrangements.

**Update:** David O'Neill (DON) said he would not be making any comments in relation to the Gazprom letter on Capacity Adjustment, as it was for the industry to consider either as part of 728 or elsewhere. David Mitchell (DM) said he found this very disappointing indeed that Ofgem were not prepared to comment on this matter.

Colin Williams (CW) said that National Grid had been in discussions with Gazprom on this matter and that some of the content was now included in the updated draft Scoping Note v2.0 on Secondary Capacity (published here: <https://www.gasgovernance.co.uk/0670/020620>).

CW said that a new Modification would be raised as a replacement to Modification 0718, which would encompass the same principles and methodology as 0718; this Modification would not be conditional as the Ofgem decision to implement 0678A was now finalised.

RH said that the timeline for the consultation needed to be considered and stated the standard period was 15 days and if it had urgent status there was some precedent for it to be shortened to 5 or even 3 days. CW said that it was up to the Proposers to determine how long the consultation period should be. Julie Cox (JCx) asked when the responses to the May National Grid led consultation would be published and CW said they were about to be published and gave a very brief overview summary, saying in essence that Modification 0718C was preferred regarding the capacity timescales.

RH said if the forthcoming Modification was to be presented at the Panel on 19 June 2020 it was a very tight timeline and sought industry's views on a very short timeline for consultation - 5 days or even 3 days. Some Workgroup participants were cautious but somewhat supportive of a very short consultation, in order to support the publication of prices in good time.

Bill Reed (BR) also stated that he was about to raise a new Shorthaul Modification similar to Modification 0718C and would be Capacity based, and he would submit his Modification in parallel to the National Grid Modification. RH then asked the Workgroup if any other parties were proposing to raise a new Modification, confirming that they needed to contact Ofgem, the Joint Office and National Grid in an expedient manner to state their intentions. Richard Fairholme (RF) asked if the ENI Gas & Power Modification was based on the Modification that National Grid was raising and NW confirmed this was correct.

DON offered some observations including on Modification 0678 /A/B/C/D/E/F/G/H/I/J (Urgent) - *Amendments to Gas Transmission Charging Regime*. He said Ofgem had made their decision in May to allow National Grid to publish the prices one month before the auctions in July 2020 for capacity for Gas Year beginning 01 October 2020, and there were compliance and transparency issues around Article 28-32 that may need to be considered (eg how RRCs may be used to change prices). He said that with the forthcoming Modifications there might be the need to undertake an impact assessment (and referred to Modification 0686 - *Removal of the NTS Optional Commodity Rate with adequate notice* as an example). He added that there were also legal compliance issues that needed to be taken into consideration and mentioned that out of the last 22 Charging Modifications, 20 of these had been non-compliant so compliance was something that needed to be taken seriously. Compliance matters were also relevant for the implementation date. He made clear it was an industry process and these issues were being raised as it may be helpful for the industry to consider them. DON said from a timeline perspective concerning Modification 0678, from the initial raising to the final decision took a total of 16 months, with 5 months being allocated to Modification development by the industry and a

further 11 months being considered and examined by Ofgem. RH said that in light of DON comments, it was the Proposer's responsibility to ensure the compliance issues were addressed prior to any new Modification being submitted to the Joint Office.

Chris Wright (CWr) said that clearly Ofgem had cast further doubt in getting a Shorthaul solution in place for 01 October 2020 and he asked if this was the case, would there be a mid-year implementation if it was considered to be compliant. He said he was interested to know how this would be implemented regarding Capacity mid-year prices and the under-recovery aspect. CW said it would be addressed by the revenue recovery charges and the non-Transmission commodity charges as this would be dependent on when a decision could be made, and a date confirmed other than 01 October 2020.

DON said in terms of an implementation date for Modification 0678A, the date of 01 October 2020 was preferred as stated by parties during the consultation process, and as this was the start of the new Gas Year. DON then reiterated his thinking on the decision process as set out above.

Anna Shrigley (ASh) wanted to know how the Shorthaul charges would be renewed on 01 October 2020 and Laura Johnson (LJ) explained that this would be addressed via the DSC Change Pack from Xoserve and that this would contain instructions and options as to how to come off the product. ASh then asked if a new Shorthaul Modification was not ready for 01 October 2020, what scope was there to extend the current Shorthaul Commodity exit and entry charges in the new regime before the Modification was ready. She asked that since the current arrangements are considered compliant, why was an assessment needed. CW said a new Modification was required, in order to make these changes. DON said the Shorthaul charge had been in place for 20 years and that the current charge was not compliant.

Christiane Sykes (CS) said there seemed some uncertainty in raising new Modifications, but that these Modifications were needed to address the bypass of the NTS and this needed to be resolved sooner rather than later and so she agreed that the consultation should be completed in 5 days. ASh, Paul Youngman (PY) and Jeff Chandler (JCh) all concurred with this consultation timeframe. DON again reiterated the points above, noting that TAR Articles 28-32 may need to be considered as part of the process.

Julie Cox (JCx) said that it seemed that Ofgem were saying that the changes should be aligned and that it was unlikely a Shorthaul Modification would be in place for 01 October 2020. She added that in terms of the overall timeline, it appeared that Ofgem had changed their thinking on this matter, and yet they needed to understand the impact to the customers from a DN's perspective, and that there might be a change in April with RIIO-2 and more changes in October 2021. DON said that he was flagging issues that may be relevant and could usefully be considered by industry, and that the GDNs would respond on this matter.

RH said that following on from these discussions that it appeared essential that these types of specific questions were included in the consultation questions and so needed to be encompassed with the Modifications. NW said that he felt an element of re-focus was required in relation to the discussions, as from a customer and storage parties perspective a Shorthaul Modification was required for 01 October 2020 and that he hoped Ofgem would invest in the timely delivery of this.

JCh asked Ofgem from a transparency aspect, if a party chose to bypass the NTS at 100 metre distance the notice they would get would be immediate and the customers would in turn have an increased revenue charge. DON said that he was flagging issues that the industry needed to

take into consideration as Ofgem could not approve a non-compliant Modification. NW said on the topic of compliance with previous Modifications in the past, there had been a mismatch between the evidence provided by commercial organisations and that provided by Ofgem (some provided by QCs). He said he had asked Ofgem on many occasions regarding the compliance issue and this historically, had not been addressed by Ofgem until the end of the process. RH reiterated it was advisable for the Proposers to engage directly with Ofgem on the compliance topic before initial submission. RH then asked the Workgroup if anyone had any further comments to add on this or any related matter and no comments were forthcoming. This action was then closed. **Closed.**

**Action 0501:** National Grid (NG) and Gazprom (SO) to develop a scoping paper to consider the capacity issues in relation to Transferred Capacity and Optional Charging proposals but also wider issues such as assignment and the transfer of capacity. The scoping paper and discussion questions to be provided by Friday 15 May 2020.

**Update:** CW apologised for the late submission of the Scoping Note and explained this was version 2.0 and that there had only been two slight deletions as strikethrough, as detailed below:

Secondary Capacity Draft Scoping Note v2.0

Assumptions/Background

- *This would be a capacity focused activity and whilst raised in light of Shorthaul developments under 0718/A/B/C and 0670R (via letter form Gazprom to National Grid), looking at moving capacity would have broader charging implications to consider beyond Shorthaul. Therefore, it is not Shorthaul specific and does not need to be intertwined with this and should proceed on its own timeline.*
- ~~Expectation that no capacity reserve prices for the Existing Contract capacity would be changeable in any movement (i.e. no discounts would be available to Existing Contracts)~~

CW then provided a walkthrough of the overall Scoping Note and drew attention to specific areas of interest. He explained this was an evolving document and he welcomed as many views and suggestions as possible. Richard Fairholme (RF) said that he was very pleased this was now gaining some traction and was keen to know when a new Modification would be raised in relation to the entry specific issue and believed the timeline would be October 2021.

NW spoke on behalf of Gazprom and said that clearly a full systems solution could not be executed quickly, however a rough and ready solution was not acceptable either. He added that a solution needed to be found to enable entry capacity to move around to optimise that product. RR said he too agreed with the ambition and this statement in relation to the entry side which was of primary concern, but also added, that the exit area should also be considered at some point. JCh concurred.

A brief general discussion took place regarding the mechanisms and interactions of the Trades and Gemini and CW said that the overall systems impacts needed to be understood as these were complex involving moving capacity from party A to party B, together with the existing constraints. RF said it appeared that EU TAR NC was silent on this matter and that this needed to be considered when the Modification was raised and that there was nothing prohibitive from a legal perspective.

CW reiterated if the contracts were moved around then clearly the price could differ and NW said this aspect had been discussed before and that the industry wanted the ability to signal to Trade on the Gemini system and that all National Grid needed to know was what assigned capacity was involved, and when the Trade was taking place. DON said that he had no

comments at this stage as this issue needed to be covered in an appropriate way by industry. The general consensus of the Workgroup was, that the primary focus should be entry at this stage, although RR said that exit was a subset of how Shorthaul assignments could work.

JCh said that in regard to storage bundled products there is a requirement there to sell the capacity through auction and have the capacity allocated to the new buyer.

RF wanted to know what the next steps were and if National Grid were going to raise the Modification, CW said that it was presently too early in the investigation to say whether National Grid would raise this proposed Modification as the reality was likely to be more complex than it currently appeared. RF disagreed with CW and said these issues were impacting on Shorthaul and Article 35 and so a Modification was required to be raised. RF confirmed that Uniper were considering raising this Modification if needed.

A further brief discussion ensued regarding the inter relationship of Gemini and Prisma and whether they were both universally accessible across all the entry points. RF said he knew that Prisma had the ability, but that it could not be used under the UNC Contractual obligations, and ASH concurred with this comment. LJ said that the Prisma/Gemini connection needed to be further explored (relating to interconnection points) but that she was not sure how it interacted with Gemini. NW stated that the solution needed to be accessible on all entry points and that the issue was broader than just in reference to shorthaul. CW and RF agreed to explore this further and ASH, JCh, RR and Sinead Obeng (SO) were to be involved in the forthcoming discussions.

**New Action 0601:** National Grid (CW), Uniper (RF), ENI Gas & Trading (ASH) SSE, (JCh), Centrica (RR) and Gazprom (SO) to assist with the writing of basic Business Rules to reflect the ambition of a Secondary Capacity solution and to then investigate the initial systems impact.

## 2.0 Any Other Business

None.

## 3.0 Next Steps

RH said her aspiration for the next meeting on 07 July 2020 was to review:

- Transferred Capacity and Optional Charging Proposals
- New Modifications
- Basic Business Rules in relation to the Secondary Capacity

## 4.0 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 Tuesday 07 July 2020	Via Teleconference	<ul style="list-style-type: none"> <li>• Transferred Capacity and Optional Charging Proposals</li> <li>• New Modifications</li> <li>• Basic Business Rules in relation to the Secondary Capacity</li> </ul>



10:00 Tuesday 04 August 2020	Via Teleconference	<ul style="list-style-type: none"> <li>Transferred Capacity and Optional Charging Proposals</li> <li>New Modifications</li> </ul>
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**Action Table (as at 02 June 2020)**

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
<b>0401</b>	07/04/20	3.0	Ofgem (DON) to provide an update on the new capacity arrangements.	Ofgem (DON)	<b>Closed</b>
<b>0501</b>	05/05/20	1.3	National Grid (NG) and Gazprom (SO) to develop a scoping paper to consider the capacity issues in relation to Transferred Capacity and Optional Charging proposals but also wider issues such as assignment and the transfer of capacity. The scoping paper and discussion questions to be provided by Friday 15 May 2020.	National Grid (CW) Gazprom (SO)	<b>Closed</b>
<b>0601</b>	02/06/20	1.4	National Grid (CW), Uniper (RF), ENI Gas & Trading (ASh) SSE, (JCh), Centrica (RR) and Gazprom (SO) to assist with the writing of basic Business Rules to reflect the ambition of a Secondary Capacity solution and to then investigate the initial systems impact.	National Grid (CW) Uniper (RF), ENI Gas & Trading (ASh) SSE, (JCh), Centrica (RR) and Gazprom (SO)	<b>Pending</b>