UNC Workgroup 0705R Minutes NTS Capacity Access Review Thursday 01 October 2020 via Microsoft Teams

Attendees

Loraine O'Shaughnessy (Chair)	(LOS)	Joint Office
Kully Jones (Secretary)	(KJ)	Joint Office
Adam Bates	(AB)	South Hook Gas
Alex Nield	(AN)	Storengy Ltd
Angus Paxton	(APa)	AFRY
Anna Shrigley	(AS)	Eni Trading & Shipping
Anna Stankiewicz	(AStt)	National Grid
Bethan Winter	(BW)	Wales & West Utilities
Bill Reed	(BR)	RWE
Chris Wright	(CW)	Exxon Mobil
Christiane Sykes	(CS)	Shell Energy
Daniel Hisgett	(DHi)	National Grid
Debra Hawkin	(DH)	TPA Solutions Ltd
Emma Buckton	(EB)	Northern Gas Networks
India Koller	(IK)	SGN
Iwan Hughes	(IH)	VPI
John Costa	(JC)	EDF Energy
Julie Cox	(JCx)	Energy UK
Kamla Rhodes	(KR)	Conoco Phillips
Leyon Joseph	(LJ)	SGN
Malcolm Montgomery	(MM)	National Grid
Max Lambert	(ML)	Ofgem
Nick King	(NK)	independent
Nick Wye	(NW)	Waters Wye Associates
Nicola Lond	(NL)	National Grid
Paul Youngman	(PY)	Drax
Pavanjit Dhesi	(PD)	Interconnector UK
Phil Hobbins	(PH)	National Grid
Phil Lucas	(PL)	National Grid
Ricky Hill	(RH)	Centrica
Shiv Singh	(SS)	Cadent
Sinead Obeng	(SO)	Gazprom
Steven Britton	(SB)	Cornwall Insight
Steve Pownall	(SP)	Xoserve
Terry Burke	(TB)	Equinor

Copies of all papers are available at: <u>www.gasgovernance.co.uk/0705/011020</u>

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

1. Introduction and Status Review

Loraine O'Shaughnessy (LOS) welcomed all industry parties to the meeting and advised that the main focus of the meeting would be to receive an update from National Grid on all areas of the capacity access review followed by development of the Workgroup Report in order to request an extension at UNC Panel in October.

Anna Stankiewicz (ASt) explained that as Jennifer Randall (JR) was not available for the meeting there may be some areas that she would need to discuss with her from the Workgroup discussion before confirming actions.

1.1. Approval of minutes (03 September 2020)

The minutes from the previous meeting were approved.

1.2. Approval of Late Papers

Workgroup agreed the late amendments to the Capacity Access Review presentation provided by National Grid.

1.3. Review of outstanding actions

Action 0404: National Grid (JR) to explore longer-term options for the exit capacity regime (including mirroring the entry regime on the exit side and zonal options and feed into consultation.

Update: Workgroup agreed to close this action as it was similar to actions 0903 and 0903a. **Closed**

Action 0501: National Grid (JR) to develop consultation regarding the User Commitment options in September.

Update: ASt confirmed that a consultation will not be needed and so Workgroup agreed to close this action.

Closed

Action 0701: Entry User Commitment: National Grid (JR) to provide a progress update on the changes to the User Commitment requirements in the ECR methodology. Update: ASt covered this action as part of agenda item 2.0. Closed

Action 0901: Entry User Commitment - Workgroup participants to review the text provided to support Action 0701 and feedback to National Grid, Jennifer Randall (JR). Update: ASt covered this action as part of agenda item 2.0. Closed

Action 0902: Exit User Commitment - National Grid (JR) to advise Workgroup National Grid's decision on the proposed Exit User Commitment option forward by the November 2020 meeting, providing a progress update in October 2020. Update: ASt provide an update under agenda item 4.0. Closed

Action 0903: Exit User Commitment Progress – National Grid (JR) to launch holistic review of the Exit Regime. Update: ASt covered this action as part of agenda item 3.0. Closed

Action 0903a: *Exit User Commitment Progress* – National Grid (JR) to provide a transparent scope of what the holistic review will look like including timelines **Update:** ASt covered this action as part of agenda item 3.0. **Closed**

Action 0904: Substitution Progress - National Grid (JR) to provide further information around the disconnection process and how physical and commercial disconnection interact. Update: ASt covered this action as part of agenda item 5.0. **Carried Forward**

Action 0905: Substitution Progress - National Grid (JR) to further investigate whether capacity at disconnected sites could be prioritised in the substitution process. Update: This action was covered under agenda item 5.0. The action was closed and new action 1003 raised.

Closed

Action 0906: PARCA Process - National Grid (JR) to provide an understanding of the obligation on the 6 months Phase 1 stage and what happens if the analysis can be delivered sooner; if the analysis is ready earlier do National Grid liaise with the applicant; what is the process when National Grid has completed the analysis? Update: This action was discussed under agenda item 6.0 and closed

Closed

Action 0907: Secondary Capacity Assignment – Principle - All Workgroup participants to advise National Grid (JR) if consideration should be given to Exit alongside Entry. **Update:** This action was discussed under agenda item 7.0 and closed. Closed

Action 0908: Secondary Capacity Assignments - Existing Contracts - National Grid and Ofgem to explore options.

Update: This action was discussed under agenda item 7.0 and carried forward. **Carried Forward**

Action 0909: Within Day Off-Peak/Interruptible Capacity Product Options: All Workgroup participants to provide any feedback to JR as to where National Grid is best to focus its attention to JR.

Update: This action was discussed under agenda item 6.0 and closed. Closed

Action 0909a: Within Day Off-Peak/Interruptible Capacity Product Options: Within Day Off-Peak/Interruptible Capacity Product Options: National Grid (JR) to work up 'promising' options in further detail.

Update: This action was discussed under agenda item 6.0 Closed

Action 0910: Development of Workgroup Report – National Grid (JR) agreed to provide an update to the Impact on Central Systems and Process. Update: Completed as part of agenda item 8.0 Closed

Action 0910a: Development of Workgroup Report - National Grid (JR) to review next steps under each section of the Workgroup Report and consider how it is to progress. Update Completed as part of agenda item 8.0 Closed

Action 0910b: Development of Workgroup Report. All Workgroup participants to review the Workgroup Report ahead of the next Workgroup **Update:** Completed as part of agenda item 8.0 Closed

Action 0910c: Development of Workgroup Report - NGN (EB) and National Grid (JR) to provide further clarity on why Exit User Commitment is being removed. Update: Completed as part of agenda item 8.0 Closed

2. Entry User Commitment Methodology Update

Action 0901: *Entry User Commitment* - Workgroup participants to review the text provided to support Action 0701 and feedback to National Grid, Jenifer Randall (JR).

ASt informed Workgroup that no feedback had been received and National Grid has written to Ofgem requesting a derogation from Special Condition 9A.7 of the NTS Gas Transporter Licence which states that:

"Unless the Authority otherwise consents in writing, the methodologies and Capacity Methodology Statements must be accompanied by a statement from an Independent Examiner, confirming that they have carried out an Examination, the scope and objectives of which must have been established by the Licensee and approved by the Authority and giving an option as to the extent to which the Licensee has developed a methodology that is consistent with its duties under the Act and its obligations under this Licence".

Workgroup agreed to close actions 0701 and 0901.

3. Review of the Exit Regime

Action 0903: National Grid (JR) to launch holistic review of the Exit regime.

Action 0903a: Exit User Commitment Progress – National Grid (JR) to provide a transparent scope of what the holistic review will look like including timelines.

ASt provided an update on actions 0903 and 0903a (slide 5) highlighting the general areas of the review of the exit regime and also the specific areas. She stated that discussion/work has commenced on four areas:

- Product development
- User Commitment in all scenarios
- Substitution process and methodology
- PARCA arrangements.

In terms of solutions she stated that these would need to be developed but could include zonal exit regime and replication of entry regime (as a starter).

She stated that in addition to this high-level summary a more detailed timeline is provided in slide 6. Workgroup decisions on the substitution process amendments and products: within day off-peak capacity product are needed in November.

Workgroup agreed to close actions 0903 and 0903a.

ASt shared a slide showing the needs of different market participants – Power Stations, Storage, Industrial & Commercial, Interconnectors and Distribution Networks.

Nick Wye (NW) asked about the treatment of embedded generators and whether they should be allowed to acquire their own NTS exit capacity. He suggested that consideration of embedded generators should be added to distribution networks. Phil Hobbins (PH) thought this was an interesting point stating that any exit capacity booked by DN's would have to be netted off by embedded generation. Nick King (NK) suggested consideration of small connections directly to the NTS for example small 'peaking plants' along with power stations.

Angus Paxton (AP) suggested consideration of flat capacity and within day capacity.

4. Exit User Commitment Progress

Action 0902: Exit User Commitment - National Grid (JR) to advise Workgroup National Grid's decision on the proposed Exit User Commitment option forward by the November 2020 meeting, providing a progress update in October 2020.

ASt provided an update on action 0902 stating that National Grid had consulted with industry on aspects of the proposal and mentioned that capacity access review team participates in enhanced obligations discussions. In addition, initial analysis on the impact of the new charging regime on 2020 Enduring flat applications has been undertaken. The analysis showed that there is minimal change in Enduring -increases following the July application window. ASt indicated that the final analysis will be provided to the NTS Charging Methodology Forum for consideration.

New Action 1001: *Exit User Commitment Progress* - National Grid (ASt) to provide feedback from NTSCMF in relation to the final report on the impact of the new charging regime on 2020 Enduring flat applications. Further information to be provided to show how bookings have changed including increases and reductions, customer types and impact on annual bookings.

The links to the analysis to be provided when available as a post-meeting update.

History

Workgroup discussed slide 10 which set out the history on exit user commitment. AP suggested that information in relation to the history prior to DN sales was not correct. He added that Ofgem's language has progressed over time from financial commitment to capacity commitment now and it is therefore important to understand the history in relation to this. AP agreed to share his understanding with National Grid.

LOS suggested that the slide is updated following these discussions.

Workgroup also had a debate in relation to the 4-year User Commitment period developed as part of the Enduring Offtake Arrangements in 2005 with JCx suggesting that the rationale for the 4 years was not clear. She stated that she had liaised with Jennifer Randall in relation to a missing Ofgem communication that might provide more information but had been unsuccessful. JCx added that Ofgem's determinations for Marchwood and Langage were only for one year which is another reason why the rationale for 4 years is being questioned.

Max Lambert (ML) agreed to double check this and see if he could find out any further information in relation to the background particularly in relation to the 2005-2009 period.

Bill Reed (BR) implied that it was linked to the lead time for new projects which had been debated in the electricity sector and was linked to the project build time and time needed for consents. He added that there was a view that a new pipeline would need 4 years to build.

Nick King (NK) suggested going back further than 2005 and as far back as the 1990s to understand the history.

5. Substitution Progress

ASt took Workgroup through slide 12 setting out the options that had been discussed by Workgroup for Substitution. She explained the pros and cons for each option to highlight why the following options could not be progressed to development:

- 1. Proving a notice of geographical location of application (and an opportunity to buy capacity) (Enduring and QSEC)
- 2. All capacity signals to be met via substitution to be signalled through PARCA

- 3. PARCA Confidentiality geographical location of PARCA applicant made public at Phase 1
- 4. First Refusal

Two options were still under consideration:

- 5. Retainer (an amended entry provision)
- 6. Methodology change (disconnected sites)

JCx expressed concern that National Grid were proposing to close down some options that industry parties may find valuable. She was also concerned that the work carried out to date might get lost.

ASt clarified and reassured Workgroup that National Grid's proposal to not take forward these options is on the basis that they are not suitable as a 'quick win solution' but they could continue to be considered and progressed as part of a longer-term review.

LOS suggested that the Workgroup considers capturing these options in a log and also as part of the Workgroup Report.

PARCA Confidentiality

Action 0906: PARCA Process – JR to provide an understanding of the obligation on the 6 months Phase 1 stage and what happens if the analysis can be delivered sooner; if the analysis is ready earlier do National Grid liaise with the applicant; what is the process when National Grid has completed the analysis?

ASt provided an update to clarify the obligation on Slide 13:

- National Grid informs PARCA applicants of progress usually once a month
- More substantial update is provided after a couple of months when we have a better understanding about the mix of potential solutions
- Once analysis are completed, National Grid goes back to applicant regardless of where we are in Phase 1, and enquire whether the applicant is ready to receive the contract
- Once the contract is issued, the applicant has 28 days to scrutinise and sign
- The industry notice is issued at the same time as the contract.

JCx expressed concern about the timing of the process in phase 1 and whether the application is ready to receive the contract. Potentially an applicant can delay dealing with the application until the end of phase 1 (which is 6 months) before the application is made public and this would be the first indication to an industry party that there is a risk of losing baseline. JCx suggested that there should be more certainty in the process and the issuing of the industry notice is a key indicator. However, the process allows the applicant to decide when the notice is issued which could be 6 months.

ASt asked whether the application should have the right to decide?

JCx suggested that National Grid should offer an incentive for the applicant to proceed through the PARCA process as quickly as possible to minimise the uncertainty.

Nick Wye (NW) felt that this could put a negative impact on the applicant.

Nicola Lond (NL) stated that sometimes project applicants are not ready to receive the contracts if NG analysis is completed early. This is the case for all routes including the quicker "green" route introduced by Project CLoCC.

Workgroup agreed to close action 0906.

Retainer

ASt said that National Grid discussions with DNs had been positive in relation to retainers and DNs thought it was worth developing.

Bethan Winter echoed this saying that WWU welcomed new ways to reserve capacity and make sure they can meet their 1 in 20 obligations.

There was also broad agreement within Workgroup.

John Costa (JC) asked if the reserve price is the same on entry and exit.

ASt indicated that this is to be determined and that currently it is approximately 11 per cent of the entry reserve price.

Phil Hobbins (PH) suggested that there would a potential value in National Grid mirroring entry with exit.

JCx suggested mapping some of the options against customer needs. LOS agreed that it would be helpful to develop a matrix of the key stakeholders and the processes to help prioritise with potential solutions to take forward.

JCx stated that National Grid should also be included on the list of stakeholders.

New Action 1002: National Grid (JR/ASt) to develop a matrix of stakeholders and priorities, to include views on variety of options discussed to date.

Disconnected/decommissioned sites

Action 0904: Substitution Progress - National Grid (JR) to provide further information around the disconnection process and how physical and commercial disconnection interact.

ASt provided an informative slide to help explain the difference between physical disconnection and decommissioning before illustrating inactive sites (slide 16) that had no bookings and no baseline and also sites with baseline but which were inactive as there were no recent capacity bookings. ASt then described a number of scenarios for a single ASEP and exit point and also multi SEP and ASEP. She suggested a tidy up exercise was needed for inactive sites but there would be elements of complexity related to licence, impacts on baseline, revenue, site classification and capacity/user commitment and substitution.

JCx suggested reclassifying sites that are not being used but which have a baseline as having 'dormant' capacity.

ASt suggested including this issue as a topic within the holistic review. ML agreed to discuss this further with National Grid.

Workgroup agreed to carry forward 0904.

Prioritising disconnected sites

Action 0905: Substitution Progress - National Grid (JR) to further investigate whether capacity at disconnected sites could be prioritised in the substitution process.

ASt described the current rules around prioritisation stating that currently the rules prioritise substitution from disconnected NTS Exit Point only if the exchange rate is 1:1 or lower. National Grid are considering four options in order to prioritise substitution from a disconnected site:

- 1. If it falls within 3:1 exchange rate within the zone.
- 2. If it falls within 3:1 exchange rate regardless of where the donor site is in relation to the recipient.
- 3. Regardless of exchange rate within zone only.
- 4. Regardless of exchange rate and regardless of where the donor site is in relation to the recipient.

ASt stated that option 4 is considered to be impractical and analysis against the other options will be provided at the November meeting.

JCx asked if the zones are referenced in the substitution methodology. In response, ASt indicated that substitution is based on the regional sensitivity. If analysis were to be taken outside of zones (disconnected site from a different zone was to be prioritised) the methodology behind conducting substitution would need to be changed.

Bill Reed (BR) suggested a different approach to look on a case by case basis taking into account economic and efficiency tests. He added that there needs to be justification for the 3:1 exchange rate in the context of economic and efficiency test.

Malcolm Montgomery expressed concern about introducing different caps for different situations.

ASt agreed to provide more clarification at the next meeting including a justification for the caps.

Workgroup agreed to close action 0905 and open a new action 1003.

New Action 1003: *Substitution Progress* –National Grid (ASt) to investigate basis on which 3:1 exchange rate was established and whether it would pass an economic and efficiency test today.

6. Capacity Product Development

Within day off-peak / interruptible product

Action 0909: All Workgroup participants to provide any feedback to JR as to where National Grid is best to focus its attention to JR.

ASt confirmed that no feedback had been received so Workgroup agreed to close this action.

Action 909a: National Grid (JR) to work up 'promising' options in further detail.

National Grid has considered options relating to reducing the quantity of gas available for this product, however, no suitable solution which would not undermine existing within day firm product was found. National Grid therefore proposed to discontinue the development of this product at this stage and develop a more flexible firm product. Workgroup agreed to close this action.

Workgroup agreed to close action 0909 and 0909a.

Short term product timeline

ASt reported on the feedback received in relation to a more frequently available within day firm product. Industry want more frequent auctions (hourly to enable better profiling of bookings; no limit in terms of the quantity of gas available (obligated quantity) and earlier opening of within day auction (in line with PRISMA).

Alex Nield (AN) asked if the auction window to book short term firm product could be extended to after midnight.

ASt suggested that all industry suggestions would be collated and considered and assessed when National Grid undertakes the impact analysis

New Action 1004: *Product Development* – Workgroup to provide comments to National Grid on requirements for a short-term firm product.

7. Secondary Capacity Assignments

Action 0907: Secondary Capacity Assignment – Principle - All Workgroup participants to advise National Grid (JR) if consideration should be given to Exit alongside Entry.

Dan Hisgett (DH) provided an update confirming that no further responses had been received from Workgroup so National Grid are continuing with the current preference for expedited Entry over inclusion of Exit.

Workgroup agreed to close action 0907.

Systems

DH reported that National Grid have had discussions with Xoserve and October 2021 implementation date is tight but not impossible to achieve.

Existing Contracts

National Grid's position is still being developed and legal advice is being sought which will then be shared with Ofgem to further progress action 0908. Action 0908 was therefore carried forward.

Dormant Shipper Capacity Assignments from their holdings

National Grid are still to consider retrospection.

Storage

Discussions with Storage operators to be planned in to understand any storage specific requirements in more detail.

DH concluded his presentation by stating that the intention is to present a draft Modification for pre-modification discussion at the December meeting so that the Modification can be presented to the December Panel meeting.

8. Development of Request Workgroup Report

LOS updated the draft Workgroup Report which had been provided in advance of the meeting for Workgroup to review. She explained that previous discussions recommendation to UNC Panel is to Request an extension for 12 months is being sought with an interim report after 6 months to continue analysis and workgroup discussions

Workgroup reviewed and agreed the updated Workgroup assessment section.

BW provided text in relation to the exit user commitment for inclusion in the report. LOS asked BW to co-ordinate and provide any additional comments from the DNs not present at the meeting and provide updates before the 8th October for papers to be submitted to the UNC Panel in October.

Post Meeting Update

WWU, NGN, SGN and National Grid provided additional paragraphs to be included in the Workgroup report. An updated Workgroup Report has been published on the <u>meeting page</u>.

9. Next Steps

LOS confirmed that the next steps are for the Workgroup to request an extension at the next UNC Panel meeting on 15 October 2020.

The following topics would be discussed at the November meeting:

- Stakeholder mapping priorities for different network Users
- Exit User Commitment reduction
- Substitution Disconnected sites exchange rate

10. Any Other Business

None

11. Diary Planning

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

Time / Date	Venue	Workgroup Programme	
10:00 Thursday 05 November 2020	Teleconference	 Standard items plus Stakeholder mapping – priorities for different network Users Exit User Commitment reduction Substitution - Disconnected sites – exchange rate 	

Action Table (as at 01 October 2020)					
Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0404	02/04/20	2.1	Amended: National Grid (JR) to explore longer-term options for the exit capacity regime (including mirroring the entry regime on the exit side and zonal options and feed into consultation. Review Date: September 2020.	National Grid (JR)	Closed
0501	07/05/20	2.1	National Grid to develop consultation regarding the User Commitment options in September.	National Grid (JR)	Closed
0701	02/07/20	2.1	<i>Entry User Commitment:</i> National Grid (JR) to provide a progress update on the changes to the User Commitment requirements in the ECR methodology.	National Grid (JR)	Closed
0901	03/09/20	2.0	<i>Entry User Commitment</i> - Workgroup participants to review the text provided to support Action 0701 and feedback to National Grid, Jennifer Randall (JR).	All Workgroup	Closed

0902	03/09/20	3.0	<i>Exit User Commitment</i> - National Grid (JR) to advise Workgroup National Grid's decision on the proposed Exit User Commitment option forward by the November 2020 meeting, providing a progress update in October 2020.	National Grid (JR)	Closed
0903	03/09/20	3.0	<i>Exit User Commitment Progress</i> – National Grid (JR) to launch holistic review of the Exit Regime.		Closed
0903a	03/09/20	3.0	<i>Exit User Commitment Progress</i> – National Grid (JR) to provide a transparent scope of what the holistic review will look like including timelines.	National Grid (JR)	Closed
0904	03/09/20	4.0	Substitution Progress - National Grid (JR) to provide further information around the disconnection process and how physical and commercial disconnection interact.	National Grid (JR)	Carried forward
0905	03/09/20	4.0	Substitution Progress - National Grid (JR) to further investigate whether capacity at disconnected sites could be prioritised in the substitution process.	National Grid (JR)	Closed
0906	03/09/20	4.0	<i>PARCA Process</i> – National Grid (JR) to provide an understanding of the obligation on the 6 months Phase 1 stage and what happens if the analysis can be delivered sooner; if the analysis is ready earlier do National Grid liaise with the applicant; what is the process when National Grid has completed the analysis?	National Grid (JR)	Closed
0907	03/09/20	5.0	Secondary Capacity Assignment – Principle - All Workgroup participants to advise National Grid (JR) if consideration should be given to Exit alongside Entry.	All Workgroup	Closed
0908	03/09/20	5.0	Secondary Capacity Assignments – Existing Contracts – National Grid and Ofgem to explore options.	National Grid (JR) and Ofgem (ML)	Carried Forward
0909	03/09/20	5.0	Within Day Off-Peak/Interruptible Capacity Product Options: All Workgroup participants to provide any feedback to JR as to where National Grid is best to focus its attention to JR.	All Workgroup	Closed
0909a	03/09/20	5.0	Within Day Off-Peak/Interruptible Capacity Product Options: Within Day Off- Peak/Interruptible Capacity Product Options: National Grid (JR) to work up 'promising'	National Grid (JR)	Closed

			options in further detail.		
0910	03/09/20	7.0	<i>Development of Workgroup Report</i> – National Grid (JR) agreed to provide an update to the Impact on Central Systems and Process.	National Grid (JR)	Closed
0910a	03/09/20	7.0	Development of Workgroup Report - National Grid (JR) to review next steps under each section of the Workgroup Report and consider how it is to progress.	National Grid (JR)	Closed
0910b	03/09/20	7.0	Development of Workgroup Report. All Workgroup participants to review the Workgroup Report ahead of the next Workgroup	All Workgroup	Closed
0910c	03/09/20	7.0	Development of Workgroup Report - NGN (EB) and National Grid (JR) to provide further clarity on why Exit User Commitment is being removed.		Closed
1001	01/10/20	4.0	<i>Exit User Commitment Progress</i> - National Grid (ASt) to provide feedback from NTSCMF in relation to the final report on the impact of the new charging regime on 2020 Enduring flat applications. Further information to be provided to show how bookings have changed including increases and reductions, customer types and impact on annual bookings. The links to the analysis to be provided when available as a post-meeting update.		Pending
1002	01/10/20	5.0	National Grid (JR/ASt) to develop a matrix of stakeholders and priorities, to include views on variety of options discussed to date.	National Grid (JR/ASt)	Pending
1003	01/10/20	5.0	Substitution Progress – National Grid (ASt) to investigate basis on which 3:1 exchange rate was established and whether it would pass an economic and efficiency test today.	National Grid (ASt)	Pending
1004	01/10/20	6.0	Product Development – Workgroup to provide comments to National Grid on requirements for a short-term firm product.	Workgroup	Pending