

**UNC Workgroup 0765 Agenda**

**New retrospective debit and credit charges to reflect changes to the treatment of Entry Capacity Revenue between October and December 2020**

**10:00 Tuesday 04 May 2021**

**via Microsoft Teams**

<b>Attendees</b>		
Rebecca Hailes (Chair)	(RHa)	Joint Office
Helen Bennett (Secretary)	(HB)	Joint Office
Adaeze Okafor	(AO)	Equinor
Adam Bates	(AB)	South Hook Gas
Alex Nield	(AN)	Storengy
Andrew Pearce	(AP)	BP
Anna Györy	(AG)	Engie
Anna Shrigley	(ASh)	Eni Global Energy Markets SPA
Anna Stankiewicz	(ASt)	National Grid
Chris Wright	(CWr)	ExxonMobil
Colin Williams	(CWi)	National Grid
Daniel Hisgett	(DHi)	National Grid
Daniel Wilkinson	(DW)	EDF Energy
Dave Bayliss	(DB)	National Grid
Debra Hawkin	(DHa)	TPA Solutions
Eric Fowler	(EF)	Joint Office
Henk Kreuze	(HK)	Vermilion Energy
Jeff Chandler	(JCh)	SSE
John Costa	(JCo)	EDF Energy
Joseph Glews	(JG)	Ofgem
Julie Cox	(JCx)	Energy UK
Kamla Rhodes	(KR)	ConocoPhillips
Kirsty Ingham	(KI)	ESB
Kieran McGoldrick	(KG)	National Grid
Laura Johnson	(LJo)	National Grid
Nick Wye	(NW)	Waters Wye Associates Ltd
Nigel Sisman	(NS)	Sisman Energy Consulting
Nitin Prajapati	(NP)	Cadent
Paul Youngman	(PY)	Drax
Pavanjit Dhesi	(PD)	Interconnector UK
Richard Fairholme	(RF)	Uniper
Richard Hewitt	(RHe)	on behalf of BBLC
Sinead Obeng	(SO)	Gazprom
Terry Burke	(TBu)	Equinor
Thomas Bourke	(TBo)	Ofgem
Thomas Paul	(TP)	E.On

Copies of all papers are available at: <https://www.gasgovernance.co.uk/ntscmf/040521>

NTSCMF meetings will be quorate where there are at least six participants attending, of which at least two shall be Shipper Users and one Transporter is in attendance.

## 1.0 Outline of Modification

As Proposer, Colin Williams (CWi) introduced the modification and provided suggested Workgroup discussions to be considered at the June and July 2021 Workgroup meetings:

### Proposed Workgroup discussions:

#### 01 June 2021

- Any Modification updates
- Analysis updated as needed from 04 May 2021
- ROM discussion (requested)
- Legal text review
- Retrospectivity
- Solution proposed in UNC0765
  - Cashflow illustration on capacity neutrality
- Workgroup Report

#### 06 July 2021

- Any necessary updates from previous workgroup/actions
- Workgroup Report

### Overview - Objective

CWi advised in order to reflect the removal of revenues recovered from daily interruptible and within day Entry Capacity (obligated only) from Capacity Neutrality arrangements between 01 October 2020 and 31 December 2020 (inclusive), the purpose of the Modification is to create new debit and credit charges consistent with the prospective change introduced from 01 January 2021 by *Modification 0748 - (Urgent) - Prospective Removal of Entry Capacity Revenue from Capacity Neutrality Arrangements*.

The proposed charges are as follows:

- The debit charge will recover from relevant Users part of the revenue which was distributed to them as a consequence of the Capacity Neutrality mechanism.
  - These Users inadvertently received a payment arising from the treatment of that part of the Capacity Revenue Neutrality Charges associated with interruptible and within day obligated Entry capacity during the period October to December 2020.
- The credit charge will re-distribute the revenue collected via the transitional debit charges to all holders of Fully Adjusted Entry Capacity (except Existing Available Holding) over the period 01 February 2021 to 30 September 2021 (inclusive).
  - Each relevant User will receive transitional credit charges proportional to their capacity holdings over that period.

### Overview

CWi confirmed that this modification will only impact the Entry Users who received a credit charge via the Capacity Neutrality mechanism for the period October 2020 and December 2020 (inclusive) and any Entry Users that have Fully Adjusted Capacity (Excluding Existing Available Holdings) on any day between 01 February 2021 and 30 September 2021

(inclusive). CWi also highlighted, for the avoidance of doubt, this modification has no impact on Exit charges.

**Solution**

CWi explained that Capacity Neutrality debit is based on the removal of:

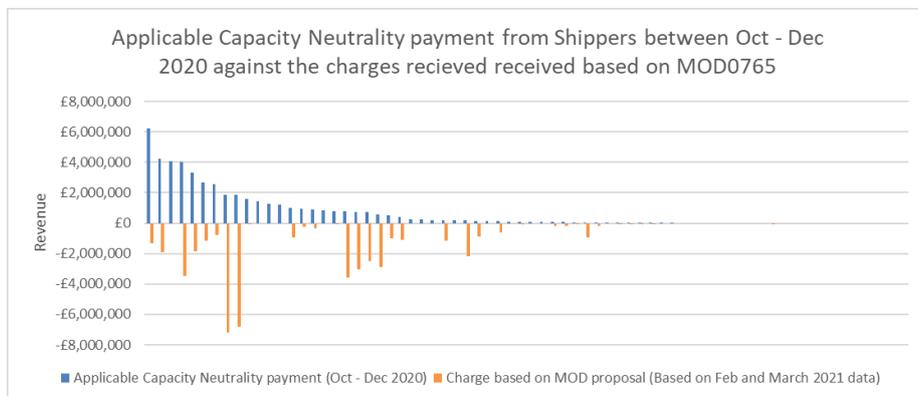
- Daily NTS Entry Capacity.
- Daily Interruptible NTS Entry Capacity.
- NTS Entry Capacity allocated in any IP Interruptible Rolling Day ahead Auction or IP Within Day Auction
  - Note this does not include any Non-obligated Daily NTS Entry Capacity

Capacity Neutrality credit is based on the amount payable to each User for each month (from 01 February 2021 to 30 September 2021) and will be determined on the basis of the formula as highlighted on slide 5 (of 10) of the material provided for the Workgroup.

CWi further clarified the impact is being felt by parties who are paying Entry Recovery Charges, the credit that will be applied will offset the amount that Users are currently paying. The credit that will be applied will not affect any published rates or Revenue Recovery Charges (RRC).

Laura Johnson (LJ) provided a graphical overview of the Analysis, based on data available to date for February 2021 and March 2021 and confirmed this data has been used as the denominator for the credit to be issued to impacted Users.

LJ advised the current data (March 2021) has been applied to the graph which was shown at NTSCMF on 12 April and also shown at the April 2021 UNC Panel. On slide 9 of 10 it shows the orange bars (please see below) that represent the amount of credit that would be redistributed to Shippers under Modification 0765, based on current data for February 2021 and March 2021.



LJ confirmed the denominator value has been applied to this graph and that she will be producing an updated graph for the June 2021 Workgroup.

When asked, it was further clarified that the blue is the debit which will be paid from a User to National Grid NTS (Debit TEAC) and the orange is the credit which will be paid by National Grid NTS to the User (Credit TEAC).

RH clarified that for the Workgroup Report in July 2021, this should reflect the data up to and including May 2021. CWi confirmed that the principle will be clear even if not all of the data is in by the June 2021 Workgroup.

Anna Shrigley (ASh) noted that the information shown and being built upon will only be accurate once the invoice has been produced for September 2021 and suggested this information currently looks misleading as more new capacity will be sold over the Summer months and that therefore this graph will change significantly.

ASh also asked what the justification is for this modification and highlighted that, historically, when capacity credits have been issued previously, retrospection has not been applied, she added that this is now proposing to be a retrospective adjustment, using a completely different method.

CWi clarified that Modification 0748 is forward looking (and has now been implemented) and that the information provided is clear.

Thomas Bourke (TBo) also clarified that the graph showing Applicable Capacity Neutrality payment from Shippers between October and December 2020, against the charges received based on Modification 0765 will change and the principle is clear: the modification addresses misallocations from [2020](#). TB also suggested that the retrospection aspect needs to be addressed.

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It was suggested that the next meeting should focus on National Grid's justification for raising the modification and consideration of the counter arguments.

[JCx noted there is an issue in that existing contract holders received credit but do not pay RRC.](#)

CWi advised that there are two elements to RRC:

1. The under-recovery position (BAU)
2. Capacity neutrality

JCx noted that the market worked perfectly as it should in line with the rules in place at the time and asked for more of a breakdown in the analysis being presented and suggested:

- o Existing Contracts and other
- o Money total that goes through neutrality
- o What % of RRC will be returned through this process

**New Action 0501:** National Grid, CWi, to provide a breakdown of the analysis so far presented: Existing Contracts and other; Money total that goes through neutrality; What % of RRC will be returned through this process.

ASh advised that Users who booked capacity on a long-term basis will have a need to book a lot of capacity over the 2021 Summer period and advised that information is not showing in the graph yet, the proportions will change / reduce for Users booking large quantities on a short-term basis.

CWi confirmed National Grid do have this data and will consider a way which it can be presented and clarified this data will meet confidentiality requirements.

NW added that when the rate is set, it sets the expectation and believes there will be an overhang of monies not charged to the capacity holders during this period.

RHa requested that a full description of the graphs presented is provided for the Workgroup Report.

Richard Fairholme (RF) noted that if the retrospective element is allowed, this increases the perception of risk going forward in that Shippers will be generally feeling there may be further changes going forward.

When asked, CWi clarified that each Shipper will know if they have a RRC liability and should know whereabouts they are on the graph and added he does not intend giving Shippers specific impact information.

RF asked if there will be a break down at shipper level in order to provide invoices. CWi advised the expectation is there will be itemised debit or credit invoices.

RHe highlighted that Shippers will not actually know what their position will be. CWi explained that the data, in terms of the final data, will be known by the end of October 2021. Many Workgroup Participants agreed that there remained an unanswered question as to when it will be appropriate to consult with the Industry when the full picture is likely to be unknown at the point of producing the Workgroup Report.

It was explained that, even if capacity bookings are lower than expected in Summer 2021, the expectation is that RRC will deliver more than £47million which Users will have overpaid during February to September. The calculation is done in such a way that the overpayment is paid back, that is how the net effect will work.

Nigel Sisman (NS) clarified his understanding that this will be refunding to all Shippers the amount they will be overpaying from February to September, this addresses an inter-Shipper distortion.

JCh noted that the proposals does not change NBP prices, nor impact competition, but retrospection will create a risk and a precedent and that will open a path for modifications which SSE would never have considered raising before, such as:

1. Charges that Storage pay – 80% discount not coming into effect until October 2021, they would look to recover excess paid in 2020 when there was a 50% and not 80% discount.
2. RRC is applied to all Users in its entirety even though storage is exempt – they would look to reclaim surplus amounts paid in 2020.

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From the retrospection point of view, RF noted that *Modification 0341 – Manifest Errors in Entry Capacity Overruns*, Ofgem decision letter rejected a workable solution due to the retrospective adjustment being undesirable as it introduced uncertainty, which hinders competition and it is generally noted that retrospective adjustments should be considered only in very limited situations.

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RHa urged Workgroup to read the Ofgem Guidance on Code Modification Urgency Criteria: <https://www.gasgovernance.co.uk/mods> and the Ofgem decision letter for Modification 0341: <https://www.gasgovernance.co.uk/0341/> prior to the next meeting.

Terry Burke (TBU) said that the shape of the graph will change significantly as progress is made through the Gas Year and he is not sure the individual Shippers will fully understand the impact. TBU is concerned if the consultation is made too early and he suggested consultation should not commence until after the October 2021 invoices have been processed which would be mid-November 2021.

CWi asked Workgroup to read the Relevant Objectives for the modification and the Initial Representation submitted by Energy UK before the next meeting.

**New Action 0502:** Workgroup to read the Relevant Objectives for the modification and the Initial Representation submitted by Energy UK before the next meeting.

## 2.0 Initial Discussion

### 2.1. Issues and Questions from Panel

#### 2.1.1. Confirmation that there are no leakage effects across to Exit charges.

CWi confirmed there is no impact on Exit charges, as confirmed in the material provided by National Grid.

#### 2.1.2. Consider justification for retrospectivity

CWi confirmed this will be covered in the June Workgroup.

## 2.2. Initial Representations

Julie Cox (JCx) was invited to provide an overview of the content of the Initial Representation submitted by Energy UK, the areas that it covers are as follows:

- Governance and regulatory risk
- Market impacts
- Customer impacts
- Shipper impacts and competition
- Compliance
- Incentives
- Cash flows

JCx suggested it is better to interweave the topics covered with future meetings and maybe use the headings from the Initial Representation in the Workgroup Report to make sure all the points have been addressed as Workgroup progresses.

JCx highlighted that fundamental to the modification is whether competition and compliance are at a point in time issues and asked if you can you go backwards and make competition and compliance better, retrospectively. It was clarified that Relevant Objectives d) and g) may address this point.

NS suggested that the work to assess this modification is assessed at three different levels:

1. Is there a problem that needs to be addressed?
2. Is retrospection justified?
3. What is the actual proposal and does it have any merits?

It was noted that the industry must have progressed into a problem without considering how Modification 0678A - Amendments to Gas Transmission Charging Regime (Postage Stamp), would impact the neutrality regime. Modification 0748 (Urgent) - Prospective Removal of Entry Capacity Revenue from Capacity Neutrality Arrangements was raised to amend the Capacity Neutrality arrangements, therefore, there must have been something that was not fully assessed in the first place.

NS said that he has little doubt the rules were applied faithfully, but questions if the rules had been wrong and wrong for a long time.

That UNC0748 was raised, and subsequently implemented, adds weight to the argument that a problem existed in relation to cashflows into and out of capacity neutrality during the period Oct-Dec 2020.

It was noted that UNC0765 includes some element of retrospection in so far as it involves the unwinding of some of the capacity neutrality payments made by National Grid Gas, in its capacity neutrality settlement agent role, to Users in respect of the Oct-Dec 2020 period. Changes that involve any element of retrospection need careful consideration given that there are likely to be some downsides arising from any retrospection. However, NS also noted, the introduction of this modification could correct the position that some Users may be several million pounds down in comparison to their peers.

JCh queried what the route cause was, is it having a dual regime? He said if there were no legacy contracts all Shippers would have been treated the same and asked if that should be the issue Workgroup should be looking at.

JCx highlighted that the total RRC to be recovered is £146million and only a third of that affects neutrality which must mean the forecasting is inaccurate.

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NW clarified that the sanctity of the Code needs to be respected and if correcting something, will it always be the case that retrospectively it gets changed, and added this undermines the contract.

RHe supported NW and added, historically, large modifications have been raised with significant money flows, those modifications did not look to retrospectively adjust. Every large modification has some unforeseen consequences that usually leads to alternative modifications.

ASh noted that Workgroup developing new charging regime rules has highlighted the problem with neutrality and it was assumed that National Grid would complete an administrative correction. ASh then provided the following information to support her comment:

*The link to Draft Modification Report 0621 where it was identified that:*

*"Workgroup participants noted that any income from sales of Interruptible capacity would contribute to Non-Transmission Services Charges. Workgroup expressed the view that, logically, that Interruptible capacity should be a Transmission Service charge and revenue should feed into the Transmission Owner price control but that is constrained by the current price control arrangements. Some viewed this as a compliance issue:*

<https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2018-05/Part%20I%20Draft%20Modification%20Report%200621%20ABCDEFHJKL%20v1.0.pdf>

NW added he does not think that the existence of existing contracts has led to distortion.

Debra Hawkins (DH) noted that National Grid incentives are being looked at, the position is now some Shippers have had money given back to them and some Shippers are paying for something they have already paid for, this issue has got to be looked at very carefully.

It was also mentioned that the reason RRC is high is because the Forecasted Contracted Capacity was forecasted incorrectly and that new capacity purchases are paying more because they do not have existing contracts.

This concluded the initial discussion.

### 2.3. Terms of Reference

As matters have been referred from Panel a specific Terms of Reference will be published alongside the Modification at [www.gasgovernance.co.uk/0765/](http://www.gasgovernance.co.uk/0765/)

Workgroup accepted the individual Terms of Reference.

### 3.0 Next Steps

RH confirmed that the next meeting agenda will include the suggestions by CWI:

- Any Modification updates
- Analysis updated as needed from 04 May 2021
- ROM discussion (requested)
- Legal text review
- Retrospectivity
- Solution proposed in Modification 0765
  - Cashflow illustration on capacity neutrality

RH confirmed that worked examples need to be embedded in the modification.

Workgroup agreed, given the critical nature of this modification, the next meeting should focus purely on retrospection.

Paul Youngman (PY) asked if everything within the modification that is looking to be done is compliant with TAR NC. It was confirmed this is covered under Relevant Objective g).

#### 4.0 Any Other Business

None.

#### 5.0 Diary Planning

Further details of planned meetings are available at: [www.gasgovernance.co.uk/events-calendar/month](http://www.gasgovernance.co.uk/events-calendar/month)

Workgroup meetings will take place as follows:

Time / Date	Paper Publication Deadline	Venue	Programme
10:30 Tuesday 01 June 2021	5pm Thursday 20 May 2021	Microsoft Teams	Detail planned agenda items. <ul style="list-style-type: none"> <li>• Any Modification updates</li> <li>• Analysis updated as needed from 04 May 2021</li> <li>• ROM discussion (requested)</li> <li>• Legal text review</li> <li>• Retrospectivity</li> <li>• Solution proposed in Modification 0765                             <ul style="list-style-type: none"> <li>• Cashflow illustration on capacity neutrality</li> </ul> </li> <li>• Development of Workgroup Report</li> </ul>

**Action Table (as at 04 May 2021)**

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0501	04/05/2021	1.0	National Grid, CWI, to provide a breakdown of the analysis so far presented: Existing Contracts and other; Money total that goes through neutrality; What % of RRC will be returned through this process.	National Grid (CWI)	<b>Pending</b>
0502	04/05/2021	1.0	Workgroup to read the Relevant Objectives for the modification and the Initial Representation submitted by Energy UK before the next meeting	Workgroup	<b>Pending</b>