

UNC Transmission Workgroup Minutes
Thursday 04 October 2018
at Elexon, 350 Euston Road, London, NW1 3AW

Attendees

Chris Shanley (Chair)	(CS)	Joint Office
Kully Jones (Secretary)	(KJ)	Joint Office
Adam Bates	(AB)	South Hook Gas
Alex Nield*	(AN)	Storengy
Andrew Blair*	(ABI)	Interconnector
Andrew Pearce	(AP)	BP
Andrew Sealey	(AS)	South Hook Gas
Angharad Williams	(AW)	National Grid NTS
Anna Shrigley	(ASh)	ENI
Bethan Winter*	(BW)	Wales & West Utilities (agenda item 1.3.1 only)
Bill Reed	(BR)	RWE Supply & Trading GmbH
Colin Hamilton	(CH)	National Grid NTS
Edward Fyfe	(EF)	SGN
Graham Jack	(GJ)	Centrica
Jeff Chandler	(JCh)	SSE
John Costa	(JCo)	EDF Energy
Julie Cox*	(JCx)	Energy UK
Kamila Nugumanova	(KN)	ESB
Lea Slokar	(LS)	Ofgem
Malcolm Montgomery	(MM)	National Grid NTS
Mark Carolan*	(MC)	Ofgem (0669R only)
Mark Rixon*	(MR)	Engie
Nick Wye	(NW)	Waters Wye Associates
Penny Jackson*	(PJ)	Npower
Phil Hobbins	(PH)	National Grid NTS
Richard Pomroy*	(RP)	Wales & West Utilities (agenda item 1.3.1 only)
Shiv Singh*	(SS)	Cadent
Steve Pownall	(SP)	Xoserve
Steven Britton*	(SB)	Cornwall
Terry Burke	(TB)	Equinor

Apologies

Nick King	(NK)	CNG Services
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*via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/tx/041018>

1. Introduction and Status Review

1.1. Approval of Minutes (06 September 2018)

The minutes from the previous meeting were approved.

1.2. Ofgem Update

Lea Slokar (LS) provided a brief verbal overview of the Industry update provided for the meeting.

The Ofgem update covered the following topics:

- *UNC0667 - Inclusion and Amendment of the Entry Incremental Capacity Release Net Present Value test in the Uniform Network Code: Decision on request for urgent status*
- *Decision on RIIO-1 Price Control Reopeners (May 2018)*
- Ofgem's decision on networks funding adjustment requests.

In addition, she explained that a workshop was being held on 10 September 2018 to discuss RIIO-2 baselines. John Costa (JCo) suggested that Ofgem may wish to check the distribution list used for the meeting invitation as it did not appear to fully represent industry.

Post-meeting update provided by Ofgem

The invitations to the GT RIIO-2 Policy Working Group Workshop on SO incentives, Capacity Baselines and Environmental Outputs, which will be held on 10 October between 9:30 and 15:30 at ENA, were sent to an audience of potential attendees from the industry, government and NGOs, who may have an interest in the gas transmission policy issues and in the RIIO-2 process.

1.3. Pre-Modification Discussion

1.3.1. Relief from User Commitment obligations when NTS exit capacity substitution is permitted

Bethan Winter (BW) and Richard Pomroy (RP) introduced this pre-Modification. BW briefly explained that this Modification proposes to change the User commitment obligations in TPD Section B to improve the efficiency of NTS Firm Exit Capacity Bookings. It is believed that the current User Commitment arrangements restrict the ability of GDNs to move capacity in response to NTS pricing signals on an annual basis, which may lead to reduced efficiency and higher charges for the GDN and its Users. The proposed change would allow capacity to be moved between DN offtakes without incurring additional user commitment where the increased level does not require additional NTS investment.

Workgroup participants made the following comments in discussion of the proposed pre-Modification:

- a. In response to a question from Phil Hobbins (PH), RP confirmed that the Modification would be subject to Authority Direction as it is likely to have a material effect on commercial activities associated with the transmission of gas through pipes and also on the operation of one or more pipeline systems. PH suggested that the Modification Panel would want more evidence to be included for the justification for Authority Direction.

- b. Julie Cox (JCx) commented on exchange rates suggesting that it should be consistent with the substitution methodology. She asked how many locations this would apply to and whether a 1:1 exchange rate would apply. She also asked if it would apply to other points, for example 2 power stations that were geographically close together. RP stated that in principle 2 locations close together could swop capacity. She concluded to suggest that the proposal could be a significant change. BW agreed that this is an issue that Workgroup should consider if the Modification is approved.
- c. A brief discussion took place on the issue of whether the proposed change could be realised purely through a UNC change as it also impacts methodology statements. Malcolm Montgomery (MM) raised a concern that the change may cause a conflict between the UNC and the methodology statements. RP suggested that there is a hierarchy and that the UNC transcends the methodology statements. It was suggested that the modification acknowledges any impact on the methodology statements.
- d. Kamila Nugumanova (KN) sought clarification on the whether the price effects could change in the context of a CWD model if Modification 0621 was implemented in the future. RP confirmed that the proposer wishes to proceed now and does not want to wait for the decision on Modification 0621. He also stated that this Modification would not consider pricing.
- e. Graham Jack (GJ) sought clarification on the system benefits asking if there were any other DN system benefits in addition to NTS exit cost reductions.
- f. Nick Wye (NW) questioned the link between the cost of transporting gas to the efficient operation of the NTS system, suggesting that this is unsubstantiated and more evidence is needed.
- g. Adam Bates (AB) asked if this change can be achieved without putting User Commitment into the UNC? GJ added that it may be appropriate to look at User Commitment as a whole to understand if it was appropriate for all Users.
- h. Bill Reed (BR) asked whether there is a link to Forecast Contracted Capacity (FCC) and Modification 0621 and also with TAR compliance. MM asked if the modification could be delayed to follow the outcome of Modification 0621 as it adds uncertainty to FCC. In addition, the Workgroup would need to consider this Modification against LRMC methodology if the proposed timetable is followed. JCx added that it is Exit Charging volatility that is causing the current issues.
- i. The proposed timetable was considered to be ambitious as there are a number of wider questions the modification raises that need to be considered. RP confirmed that a July 2019 implementation date is sought and the timetable has been set to help achieve this.
- j. RP stated that Wales and West Utilities had previously raised this issue in their response to the capacity methodology statement consultation in May 2017.
- k. John Costa (JCo) asked if other options had been discussed with National Grid. In particular if non-obligated capacity had been discussed as an option? RP confirmed that this had not been considered but their safety case requires some level of certainty that they can meet their 1 in 20 obligations.

BW concluded by confirming that WWU intend to submit a new Modification to the Joint Office on 05 October 2018 for discussion at the October Modification Panel meeting.

1.3.2. 0667 Inclusion and Amendment of Entry Incremental Capacity Release NPV test in UNC

Adam Bates (AB) provided a very brief update, explaining that following Ofgem's decision to reject Urgent status they are intending to submit an amended Modification for discussion at the October Modification Panel. A compressed timetable with a 3-month development time will be proposed.

At this stage South Hook Gas are undecided on the minimum quarter duration and whether the 20-quarter signal in the NPV test is appropriate. AB asked Ofgem and National Grid if the methodology review would address this question.

Post-meeting update provided by Ofgem

Ofgem cannot comment on the desirability of specific aspects of a Modification as it is up to the Panel to review the Modification, taking into account the proposer's relevant supporting legal and economic analysis regarding what is the correct solution.

2. European Update

2.1. EU Codes update

Colin Hamilton (CH) and Phil Hobbins (PH) provided a walkthrough of the National Grid NTS 'EU Update' presentation provided for the meeting. The presentation covered the following areas providing a forward look:

- a. ACER's report on TSO's revenues - A report from the event held on 20 September 2018 is expected at the end of October and an update will be provided at the November meeting. Possible future work around common definitions and transparency and consistency of terminology.
- b. Madrid Forum 16-17 October 2018 - Focus has shifted from implementation to the future role of gas.
- c. Func: Issue Overview - Table setting out key issues, next steps and key dates.
- d. EU Data Exchange - Key update on EU Data Exchange. A workshop was held by ENTSOG-EASEE on 04 October 2018 to share information with the market on recent data exchange developments and to discuss Edigas v6. PH reported that ENTSOG and ACER are in discussion with relevant stakeholders about potential solutions.
- e. Other Issues - 2 other issues were notified. The first was the ACER study on conditional capacity products. CH stated that we don't currently have any conditional capacity products. GJ asked if the issue is whether the conditional products are EU compliant with TAR. CH suggested that there is a lack of clarity around this as they could be interpreted as both compliant and non-compliant. Jeff Chandler (JC) suggested that it might be helpful to consider the list of conditional capacity products before the 04 December workshop. The second issue related to the EC consultation of summertime arrangements. It was reported that ENTSOG are considering a change to the gas day that would be subject to a new consultation.

3. Workgroups

3.1. 0662 – Revenue Recovery at Combined ASEPs

(Report to Panel 18 April 2019)

<https://www.gasgovernance.co.uk/0662>

3.2. 0669R – Review of the Gas Deficit Warning (GDW) and Margins Notice (MN) Arrangements

(Report to Panel 21 March 2019)

<https://www.gasgovernance.co.uk/0669>

4. Issues

No new issues were discussed at the meeting.

5. Any Other Business

5.1. Upcoming Review of Capacity Methodology Statements

MM provided a detailed walkthrough of his presentation titled *Capacity Methodologies Review 2019*. The presentation covered the following areas:

Slide 2 – Background

Slides 4 – 16 - Scope of change

Slide 18 – Timetable

Workgroup participants raised questions and comments throughout the presentation. The key points are provided below:

MM explained that there are 5 capacity methodologies:

- ECR: Entry Capacity Release
- ExCR: Exit Capacity Release
- ECS: Entry Capacity Substitution
- ExCS: Exit Capacity Substitution and Exit Baseline Revision
- ECTT: Entry Capacity Transfer & Trade

The last review was in July 2017. The change drivers are alignment with UNC Modifications, feedback from stakeholders on the PARCA process and removal of the NPV test for substitution. In response to a question from AB, MM confirmed that Modification 0667 provides relevant context for this review.

MM informed the Workgroup that National Grid are favourable to the removal of the NPV test for situations where the solution for additional capacity can be met solely through substitution. The minimum duration rule can be maintained at 16 quarters.

Workgroup participants considered the need to review why 16 quarters is needed and why a 2-year lead-time is needed for substitutions given that no build is required?

New Action 1001: National Grid (MM) to provide more information on the background and original thinking for the 16 quarters and 2-year lead time rules.

MM then explained that the Long Run Marginal Cost (LRMC) methodology would cease to exist following implementation of Modification 0621 but certain parameters of the current NPV test are inextricably linked to the methodology (Project Value and Price Steps). National Grid are exploring 2 options. Replacement of Project Value with an estimated increase in allowed revenue and replacing Price Steps with a variable premium for incremental pricing (similar to the CAM approach) under CWD model.

AB asked what legacy rules would be needed with the change from Project Value to allowed revenue as they are currently going through the PARCA process?

New Action 1002: National Grid (MM) to provide worked examples of how Project cost is used and recovered both in the current regime and in the new regime to aid understanding of the proposed changes. Worked examples to compare the current versus the EU codes approach to also be provided.

The duration question was also debated. National Grid suggested that the options for a duration rule ranged from no duration to 60 quarters. National Grid expressed unease that no duration might lead to stranded assets and a financial risk. 60 quarters was considered by some Workgroup participants as too big a commitment.

A brief discussion took place around the PARCA Window and ad-hoc applications. NG confirmed that ad-hoc applications received within an Exit PARCA Window will be allocated, provided they can be satisfied from the unsold baseline. MM confirmed that this includes obligated and non-obligated. Workgroup participants thought that more consideration was needed to understand the implications.

Workgroup participants were not in favour of having capacity withheld in relation to daily auctions in the event that a constraint is occurring or predicted.

MM concluded his presentation with a slide showing the proposed timetable. A formal consultation of 28 days is expected around mid-March to mid-April with an opportunity for informal discussions with stakeholders from now to mid-March.

Workgroup participants agreed that the review of methodology statements should be considered within the remit of the Transmission Workgroup as it was considered helpful to consider the whole landscape within one forum given the links with two UNC Modifications.

Steve Pownall (SP) notified Workgroup participants that the Baringa 0621 analysis report was due to be sent to Ofgem on 01 October 2018. A next steps letter is expected from Ofgem mid to late November. A short discussion was had on whether this information could feed in to the review or not.

5.2. Information Provision Enhancement Proposal

PH informed Workgroup participants that the consultation document was published on 26 September via ENA and closes on 06 November 2018. Feedback is sought on three areas:

- Standardisation of the system maintenance window
- Closure of data item gaps
- Publication of additional data items.

Responses can be provided in writing by email to karen.thompson@nationalgrid.com or verbally by arrangement.

6. Review of Outstanding Actions(s)

Action 0901: Reference Future Demand Side Review Scope - National Grid NTS (PH) to provide a view on the proposed Request proposal scope, and how best to progress this matter going forwards.

Update: PH provided a one page slide providing an update on the Gas DSR arrangements. He explained that NG has a licence obligation to review these arrangements annually and that the next review must be completed by April 2019. BR sought more information on the terms of reference for the review particularly what are the key questions to be addressed by it. It was agreed that if possible PH would provide a post meeting update and this action would be carried forward to the next meeting.

Action 0902: Reference Non-obligated capacity related information – CNG Services (NK) to feedback the Stakeholder request for a National Grid provision of non-obligated information, especially rejected capacity aspects to Jenny Philips of National Grid.

Update: As Nick King was not present for this meeting this action was carried forward.

Action 0903: Reference Decommissioned Sites – Ofgem (RD) to consider possible options for resolving decommissioned sites (capacity) related issues (i.e. R110-T2 or FCC etc.).

Update: Lea Slokar agreed to provide an update on this action following the meeting so this action was carried forward.

7. Diary Planning

Further details of planned meetings are available at:

<https://www.gasgovernance.co.uk/events-calendar/month>

Time / Date	Venue	Workgroup Programme
10.00, Thursday 01 November 2018	Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	Transmission Workgroup standard Agenda
10.00, Thursday 06 December 2018	Elaxon, 350 Euston Road, London NW1 3AW	Transmission Workgroup standard Agenda

Action Table (as at 04 October 2018)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0901	06/09/18	1.3.2	<i>Reference Future Demand Side Review Scope - National Grid NTS (PH) to provide a view on the proposed Request proposal scope, and how best to progress this matter going forwards.</i>	National Grid NTS (PH)	Carried Forward
0902	06/09/18	6.0	<i>Reference Non-obligated capacity related information – CNG Services (NK) to feedback the Stakeholder request for a National Grid provision of non-obligated information, especially rejected capacity aspects to Jenny Philips of National Grid.</i>	CNG Services (NK)	Carried Forward
0903	06/09/18	6.0	<i>Reference Decommissioned Sites – Ofgem (RD) to consider possible options for resolving decommissioned sites (capacity) related issues (i.e. RIIO-T2 or FCC etc.).</i>	Ofgem (RD)	Carried Forward
1001	04/10/18	5.1	National Grid (MM) to provide more information on the background and original thinking for the 16 quarters and 2-year lead time rules.	National Grid NTS (MM)	Pending
1002	04/10/18	5.1	National Grid to provide worked examples of how Project cost is used and recovered both in the current regime and in the new regime to aid understanding of the proposed changes. Worked examples to compare the current versus the EU codes approach to also be provided.	National Grid NTS (MM)	Pending