

UNC Workgroup 0653 Minutes Updating the parameters for the NTS Optional Commodity Charge – Introducing the NTS Optional Capacity Charge

Wednesday 01 August 2018

at Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA

Attendees

| | | |
|-------------------------|-------|-----------------------------|
| Penny Garner (Chair) | (PG) | Joint Office |
| Kully Jones (Secretary) | (KJ) | Joint Office |
| Adam Bates | (AB) | South Hook Gas |
| Alex Nield* | (AN) | Storengy |
| Andrew Pearce | (AP) | BP |
| Bill Reed | (BR) | RWE Supply & Trading |
| Charlotte Friel | (CF) | Ofgem (|
| Colin Williams | (CW) | National Grid NTS |
| Debra Hawkin | (DH) | TPA Solutions |
| Graham Jack* | (GJ) | Centrica |
| Jeff Chandler | (JCh) | SSE |
| John Costa* | (JC) | EDF Energy |
| Julie Cox | (JCx) | Energy UK |
| Kirsty Ingham* | (KI) | ESB |
| Nigel Sisman | (NS) | SEC |
| Paul Brennan | (PB) | Waters Wye Associates |
| Paul Toole* | (PT) | NGN |
| Sinead Obeng | (SO) | Gazprom Marketing & Trading |
| Steve Pownall | (SP) | Xoserve |

**via teleconference*

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0653/010818>

The Workgroup Report is due to be presented to the UNC Panel on 20 September 2018.

1.0 Approval of minutes

The minutes from the previous meeting held on 03 July 2018 were approved.

2.0 Consideration of Amended Modification

Graham Jack, GJ, provided a presentation for the Workgroup of the amended Modification (version 4.0) setting out:

- The background
- Key features of the proposal
- Establishing the Applicable Quantity (AQ) and
- Some worked examples to illustrate how the AQ is calculated.

The following comments were made in discussion of the slides:

Slide 2: Background - Penny Garner (PG) confirmed that there is one more meeting on 04 September 2018 to finalise the Workgroup Report if it is to be submitted to the 20 September 2018 Modification Panel meeting.

PG commented that given the level of analysis to be completed, alongside ongoing discussions with the Proposer's organisation, it may be beneficial to request an extension from the Modification Panel for completion of the Workgroup Report until October 2018.

Slide 3: Key Features of the Proposal - GJ confirmed that the TO entry and exit commodity charges will apply on all gas flows including IPs and Non-IPs if applicable in response to a question from JC.

In response to a question from Debra Hawkin (DH), GJ confirmed that the proposal is based on the current methodology. He also stated that Modification 0653 does not introduce a capacity equivalent charge to TO. He also confirmed that this replaces the current short-haul arrangements.

Sinead Obeng (SO) requested more information on the relationship with this Modification and the 0621 suite of Modifications and in particular how the treatment of IPs would be addressed.

GJ confirmed that another Modification would be required (if considering EU Tariff Code and IPs) and reiterated the proposals in UNC Modification 0653 do not anticipate or predict what might happen from 01 October 2019. He also confirmed that the Modification considers short-haul, as a stand-alone topic.

The implications of the Ofgem decision on UNC Modification 0636/A/B/C/D: Updating the parameters for the National Transmission System Optional Commodity Charge would be discussed internally by Centrica on Monday 06 August 2018 and a decision taken on whether to withdraw the modification or not. In the meantime, Modification 0653 will be progressed as per the timetable set out.

Slide 5: Establishing the Applicable Quantity (AQ) - a lengthy discussion took place in relation to the formula. GJ provided the following clarification in response to a number of questions from Workgroup:

- The supply point would have to be nominated for short-haul using the current Supply Point Administration (registration) process.
- There is already the option to use the current formula for every eligible exit point on the NTS.
- Approach could work with any reference price methodology. If none of the 0621 modifications were to be implemented this proposal would work with the current Long Run Marginal Cost (LMRC).
- There is no link to the cost of building the pipe.
- This is an extension of CWD which is a cost allocation approach.
- Ofgem view that Optional Commodity Charge (OCC) should be cost-reflective. This proposal aims for OCC to be consistent with the method of allocating cost and consistent with the CWD approach. It does not apply to DN offtake points. CW suggested that for it to apply to distribution points an extended solution would be needed. Currently, for DN-connected offtakes, DNs pay capacity and Shippers pay commodity. This would need to be reconciled if these points were to be able to avail of the charge in the proposals. Concern was raised about the potential for discrimination of certain parties. It was suggested that input from Distribution Network Charging Methodology Forum (DNCFM) may be needed. This may have implications for the current timetable for progressing the modification.

- The NTS Optional Charge is currently available for direct NTS offtakes and IPs but not for storage sites.
- CW confirmed that there are 4 DN sites that currently receive the NTS Optional Charge. Workgroup requested further clarity to understand the materiality around the 4 sites. In response to a question of discrimination, GJ replied that DNs book the exit capacity, probably to a 1 in 20 peak demand level and that Shippers pick up the costs. The transmission arrangements serving large NTS sites is deemed to be appropriate but there is a wider question about whether DN sites should have the same access. This issue has been previously raised by DNs and needs to be included in the Workgroup Report.

New Action 0801: National Grid to provide clarity on materiality of parties who would no longer be able to avail of the charge under the 0653 proposals.

Slide 6: Optional Capacity Charge - This slide summarises how charges would apply on a given day. GJ confirmed that charges will show on the invoicing and those for non-eligible capacity quantities would be based on the weighted average price of a shipper's entitlements. The current system is a complex mix of charges but shippers ought to know what their weighted average capacity costs are.

BR asked if Shippers have to choose the charge or opt-in. It was suggested that there may be system implications that need to be considered.

Slides 7-11: Two worked examples were provided to illustrate Aggregated System Entry Point (ASEP) to a Single Exit Point and for 2 Exit points matched with one ASEP. It was noted that the examples only illustrate how the methodology works and do not indicate actual savings.

Paul Brennan (PB) highlighted that this could be an example of by-pass and that this arrangement would help with the National Balancing Point (NBP) and price liquidity. The encouragement of gas to the NBP should be recorded as a benefit in the Workgroup Report. GJ explained that the modification will show how the relevant objectives are furthered by the improvements on current short-haul arrangements.

Slide 11: Transition Rules - National Grid provides Shippers with new OCC rates to help OCC shippers decide whether to remain on OCC arrangements from 1 October 2019. Clarification was sought on what the prevailing OCC rate meant and GJ replied that this is simply the OCC price. If necessary, the modification will be amended to capture this.

New Action 0802: Centrica to check and, if necessary, re-word the transition rules in the modification proposal.

3.0 National Grid Analysis

National Grid provided a presentation in response to Action 0701 which requested some 'dummy' examples of how the proposed processes and models are expected to work going forward. CW confirmed that the analysis provided in the presentation builds on the background information shared at the 03 July meeting and replaces the interim analysis published on the 12 July 2018. He then provided a more detailed walkthrough of the analysis.

Slide 2: Key Assumptions/Questions - CW reiterated that the analysis is based upon the current charging methodology and makes no assumptions around other modifications or dependencies. It uses historical flows in the formula year April 17 to March 18. Charges are recalculated from April 2017 Commodity charges.

Slide 3: Key Assumptions/Questions - CW confirmed in response to a question from DH that the analysis does not look at whether some Shippers have obtained capacity at a cheap price.

Slide 4: The calculations required – confirms that all eligible flows pick up TO Entry and To Exit Commodity charges and do not pay SO Commodity,

Slide 5: General observations on access to the optional charge as per UNC 0653 – sets out other assumptions confirming that access will be by Shipper choice.

Slide 6: Access to NTS Optional Charge – A brief discussion took place on the number of available points where a discount would be obtainable (87% Entry and 88% Exit). AB asked if any analysis had been undertaken to illustrate what the percentage is now. DH suggested that because it is affecting a large number of entry/exit points we may expect to see a wider take up than currently depending on Shipper commercial decisions.

New Action 0803: National Grid to provide clarification on the proportion of entry and exit points prevailing in relation to the 87% and 88% and the % of points availing of the current optional charge.

A further discussion took place about whether any more analysis should be undertaken to provide comparisons with UNC 0621. CF raised a question about timing of this modification and suggested the proposer refer to related comments in the UNC 0636 decision letter.

PG reminded the Workgroup that the Proposer had confirmed that internal discussions would take place on 06 August and that this modification has been developed at the tail end of the other Charging Modifications and as such can only be assessed against the current baseline.

It was suggested that the timing of any implementation dates and the legal text would need to be managed to avoid any contradictions.

DH suggested that UNC 0653 could be implemented after the decision on UNC 0621 but a high-level discussion would be needed on short-haul if industry wish to keep it.

Some Workgroup members suggested that it would be difficult to recommend UNC 0653 for consultation as it can only be assessed against the current baseline.

PG reminded the Workgroup that there are 3 options in terms of next steps:

- a. The proposer withdraws the modification
- b. The Modification Panel recommends the modification proceeds to consultation
- c. The Modification Panel sends the modification back to Workgroup for further analysis.

Workgroup suggested that the system implications also need to be considered if the baseline changes and the modification needs to be re-evaluated against a new 0621 baseline. There may not be sufficient development time between the 0621 decision and the proposed implementation date of October 2019 leading to a potential delay in implementation. SP reminded Workgroup that system changes will also need to be considered by the DSC Change Management Committee.

Industry frustrations were noted as many Workgroup participants considered that time was being wasted to continue to progress this modification.

Concerns were also raised in relation to the National Grid analysis not considering zero price capacity and considering a behavioural aspect in the analysis. This would want to take into account which capacity has been bought for the period and the price in combination with the choice between the new optional charge or to not opt for it. The benefit would be greater for Shippers who have bought the equivalent of long term firm. The benefit is less if buying at zero capacity. This level of benefit of taking the optional charge would be dependent on the value of the standard commodity charges and the potential level of the optional charge under 0653.

Slide 7: Potential impacts on commodity charges – A brief discussion took place in relation to the analysis provided. Concern was raised that the analysis did not take into account behavioural considerations. It was suggested that National Grid undertake some further analysis to include behavioural considerations.

PG reminded Workgroup participants that there needs to be adequate time allocated to review the analysis and have a meaningful discussion against the standard and charging relevant objectives. She indicated that an extension to the date for reporting to the Modification Panel may be required.

Slide 8: Summary of potential impacts – Following a brief discussion, Workgroup requested some further analysis.

New Action 0804: National Grid to provide a) updated analysis taking into account capacity bookings and the price paid to introduce some behavioural assumptions b) sensitivity analysis based on % changes in uptake and c) National Grid to liaise with the GJ to assess if any further analysis is required.

Slides 9 and 10: Potential impacts of UNC 0653 optional charge arrangements: overall summary – An illustration was provided in slide 10. Workgroup requested further clarification of the analysis provided together with a commentary to summarise what the analysis shows.

New Action 0805: National Grid to provide further clarification of the table showing potential impacts (slide 10) and a commentary to summarise the impacts.

GJ thanked CW for the hard work and input into the analysis provided to support the modification.

4.0 Completion of Workgroup Report

PG stated that based on analysis to date, in her view there was insufficient to develop and complete the Workgroup Report for the September Modification Panel. In addition, based on earlier discussions of the Workgroup and the implications of the Ofgem decision letter on UNC 0636 more time was needed in the timetable for analysis and review to ensure a high-quality Workgroup Report. She suggested that National Grid wait for the outcome of Centrica discussions on UNC 0653 due to be held on 6 August 2018 before proceeding with the analysis.

Workgroup participants also agreed to delay the development of the Workgroup Report pending the outcome of GJs internal meeting on 06 August 2018 and because of the additional analysis requested from National Grid at the meeting.

PG confirmed that an extension of one month (October 2018) would be sought from the Modification Panel.

5.0 Review of Outstanding Actions.

Action 0701: Reference current Shorthaul and OCC process impacts and the proposed future process changes - National Grid NTS (CW) and Centrica (GJ) to provide some 'dummy' examples of how the proposed processes and models are expected to work going forwards.

Update: Please refer to discussions under item 3.0 above. **Closed**

6.0 Next Steps

PG suggested that the focus of the September meeting should be more strategic with the objective to develop and agree the priorities.

Many of the 0621 modifications do not include an enduring solution for short-haul (post any transitional arrangements for the applicable modification proposals).

CW said that NG will be developing a methodology for the enduring Forecasted Contracted Capacity (FCC) that can be discussed and developed through NTSCMF. The enduring arrangements for disincentivising inefficient bypass of the NTS through the charging framework (i.e. a review of short-haul arrangements) would also be subject to a review, most likely through a review group. There was some debate on the timing of any such review of the short-haul arrangements and the method of facilitating a review.

It was suggested that National Grid provide a project plan on the FCC and thinking on these two areas to NTSCMF and also a Request to be submitted to the Modification Panel at the same time for this work to be undertaken by a review group.

New Action 0806: National Grid to develop and share a project plan for forecasted contracted capacity.

New Action 0807: National Grid to share thinking on a review of the charging arrangements to discourage inefficient bypass.

7.0 Any Other Business

None.

8.0 Diary Planning

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

| Time / Date | Venue | Workgroup Programme |
|---|--|--|
| Included in the NTSCMF Monday 04 September 2018 | Elexon, 350 Euston Rd, London NW1 3AW | <ul style="list-style-type: none">• Amended Modification• National Grid Analysis• Development and Completion of Workgroup Report |

Action Table as at 01 August 2018

| Action Ref | Meeting Date(s) | Minute Ref | Action | Owner | Status Update |
|-------------------|------------------------|-------------------|--|--|------------------------|
| 0602 | 05/06/18 | 5.0 | RH to request an extension to August 2018 at UNC Panel on 21 June 2018. | Joint Office (RH) | Carried Forward |
| 0701 | 03/07/18 | 3.1 | <i>Reference current Shorthaul and OCC process impacts and the proposed future process changes - National Grid NTS (CW) and Centrica (GJ) to provide some 'dummy' examples of how the proposed processes and models are expected to work going forwards.</i> | National Grid NTS (CW) & Centrica (GJ) | Closed |
| 0801 | 01/01/18 | 2.0 | National Grid to provide clarity on materiality of parties who would no longer be able to avail of the charge under the 0653 proposals. | National Grid NTS (CW) | Pending |
| 0802 | 01/01/18 | 2.0 | Centrica to check and, if necessary, re-word the transition rules in the modification proposal. | Centrica (GJ) | Pending |
| 0803 | 01/01/18 | 3.0 | National Grid to provide clarification on the proportion of entry and exit points prevailing in relation to the 87% and 88% and the % of points availing of the current optional charge. | National Grid NTS (CW) | Pending |
| 0804 | 01/01/18 | 3.0 | National Grid to provide a) updated analysis taking into account capacity bookings and the price paid to introduce some behavioural assumptions b) sensitivity analysis based on % changes in uptake and c) National Grid to liaise with the GJ to assess if any further analysis is required. | National Grid NTS (CW) | Pending |
| 0805 | 01/01/18 | 3.0 | National Grid to provide further clarification of the table showing potential impacts (slide 10) and a commentary to summarise the impacts. | National Grid NTS (CW) | Pending |
| 0806 | 01/01/18 | 7.0 | National Grid to develop and share a project plan for forecasted contracted capacity. | National Grid NTS (CW) | Pending |
| 0807 | 01/01/18 | 7.0 | National Grid to share thinking on a review of the charging arrangements to discourage inefficient bypass. | National Grid NTS (CW) | Pending |