

UNC 0670R Workgroup Minutes

Review of the charging methodology to avoid the inefficient bypass of the NTS

Tuesday 06 November 2018

at Elexon, 4th Floor, 350 Euston Road, London, NW1 3AW

Attendees

| | | |
|-------------------------|--------------------|------------------------------|
| Rebecca Hailes (Chair) | (RH) | Joint Office |
| Kully Jones (Secretary) | (KJ) | Joint Office |
| Alastair Tolley | (AT) | EP UK Investments |
| Alex Nield* | (AN) | Storengy |
| Alison Langford | (AL) | Exxonmobil International Ltd |
| Alsarif Satti | (AS) | Ofgem |
| Andrew Pearce | (AP) | BP |
| Anna Shrigley | (AS) | ENI |
| Bill Reed | (BR) | RWE Supply & Trading |
| Charlotte Friel | (CF) | Ofgem |
| Colin Hamilton | (CH) | National Grid |
| Colin Williams | (CW) | National Grid |
| Debra Hawkin | (DH) | TPA Solutions |
| Gerry Hogan | (GH) | Scottish Power |
| Graham Jack | (GJ) | Centrica |
| Iwan Hughes* | (IH) | Vitol - VPI Immingham |
| James Gudge | (JG) | National Grid |
| Jeff Chandler | (JC) | SSE |
| John Costa | (JCo) | EDF Energy |
| Julie Cox | (JCx) | Energy UK |
| Kamla Rhodes | (KR) | Conoco Phillips |
| Kirsty Ingham | (KI) | ESB |
| Mark Rixon* | (MR) | Engie |
| Nick Wye | (NW) | Waters Wye |
| Nicky White | (NW _h) | Npower |
| Nitin Prajapati | (NP) | Cadent |
| Paul Youngman | (PY) | Drax |
| Pavanjit Dhesi* | (PD) | Interconnector |
| Richard Fairholme* | (RF) | Uniper |
| Scott Keen* | (SK) | Triton Power |
| Sinead Obeng | (SO) | Gazprom Marketing & Trading |
| Smitha Coughlan* | (SC) | Wales & West Utilities |

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|------------------|------|--------------|
| Steve Pownall | (SP) | Xoserve |
| Wenche Tobiasson | (WT) | Intergen |
| Will Webster | (WW) | Oil & Gas UK |

* via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0670/061118>

The Workgroup Report is due to be presented at the UNC Modification Panel by 16 May 2019.

1.0 Outline of Modification

Rebecca Hailes (RH) provided a brief introduction stating that this is the first meeting of the Workgroup and that the Workgroup Report is expected to be presented to the Modification Panel on 16 May 2019. She stated that the Panel had noted the interactions with UNC 0621 - *Amendments to Gas Transmission Charging Regime* and highlighted a number of issues to be addressed by the Workgroup through 4 specific questions:

- Consider the current revenue allocation to SO, should such a charge exist in the future is this still appropriate? (Note this is a licence condition)
- Consider interactions with Modification 0621 and update Panel once an Ofgem decision on Modification 0621 is received
- Impact of the proposal on the charging regime.
- Consider the definition of inefficient bypass.

She also confirmed that for meeting governance purposes, quoracy was 2 Transporter representatives plus 2 User Representatives and the meeting was therefore declared as quorate.

James Gudge (JG) provided a short scoping document to help provide further clarity on the expectations of the Working group in terms of scope, timing and objectives. In addition to this JG provided a presentation titled *Review of the charging methodology to avoid the inefficient bypass of the National Transmission System (NTS) – Objectives and Core Principles*. The presentation was used to focus discussion on the following areas:

- Timeline
- Objectives
- Core Principles
- Next Steps.

The following points were raised in discussion of the paper and presentation:

Steve Pownall (SP) commented on the 2021 implementation date and the draft modification availability by April/May 2019 (Gate 3 in the timetable) which coincides with the timescales for the decision on UNC 0621X. In terms of solution development any early thinking on 0621 in November/December would be helpful.

Additional meetings – RH sought views on support for extra meetings from February 2019. She indicated that there was pressure for Joint Office to manage resources and where possible to use the dedicated Joint Office facilities in Solihull. From a cost perspective Transmission and NTSCMF meetings will therefore alternate between London and Solihull. Graham Jack (GJ) pointed out that attendance at the Transmission Workgroup meeting held on 01 November had a high proportion of attendees who joined the meeting by phone. RH acknowledged this confirming that attendance will continue to be monitored. She also pointed out that it is more difficult to get room space at Elexon for shorter notice or unscheduled meetings. Graham Jack (GJ) emphasised the need to have meeting papers in advance for meetings to be effective, particularly with increased meetings.

A brief discussion took place on what the expectation is of when the modification will be raised following the work of the Review Group. JG suggested that National Grid would not wish to delay the modification but would need to take into consideration any identified conflicts that may arise following the decision on UNC 0621X. Ofgem queried whether the modification needs to be subject to the 0621 decision. A number of Workgroup participants considered that clarity was needed on the 'baseline' and whether it would be what is in place at the time or based on 0621 if implemented. Colin Williams (CW) suggested that work can start without knowing the final outcome of UNC 0621X by agreeing on the objectives and principles then consideration of a range of options and finally possible outcomes.

Bill Reed (BR) asked about the content of the proposals that would be available as part of Gate 1 in January 2019 suggesting that specific proposals would be more helpful than just a direction of travel or conceptual ideas. This is particularly important with the electricity Capacity Market Auctions taking place around the same time.

Workgroup participants welcomed the approach to discuss ideas and principles to filter options with the expectation that this will lead to a natural reduction of options and a more manageable short-list.

Slide 11 – a general discussion took place around the original objective – “*avoid inefficient bypass of the NTS by large sites located near to entry terminals*” and whether it still holds true. BR asked if the movement of demand by DNs from one offtake to another leads to inefficient by-pass of the NTS. A number of questions were raised for consideration as part of the scoping:

- How can promotion of efficient wholesale gas markets and encouragement of the use of efficient gas power generation best be achieved?
- Potential impact on GB plc and/or the UK economy.
- Does the review scope only include the current arrangements and whether they are fit for purpose or also the current market and wider market?
- What is the risk and what are the criteria or factors that lead to the development of a private pipeline? If private pipelines are built what should be done about it if anything?
- Whether negotiated arrangements for particular users are in scope? For example, entry contracts within UNC 0621 context which have a separate price arrived at by a separate process?
- Compliance implications of separate pricing arrangements.
- Impact on consumers – is the objective to maximise the use of NTS and thereby reduce the unit cost to customers?
- Approach for historical versus new investors.
- Need clarification of the definition of “inefficient bypass” as “efficient bypass” is to be allowed.
- What is the opportunity cost benefit? Example of Shell building an offshoot pipeline to bypass NTS from field to Interconnector which was subsequently closed. Did Shell build the pipeline because it was cheaper?
- SP mentioned that there is no distance cap in the current framework yet some routes are in excess of 100km. UNC 0621 proposes a cap at 60km for next 2 years and then no cap.

There was broad agreement that historical projects/decisions should be included in the review. There was also general agreement that the original objective is the key question to be addressed by the Review Group.

The need to future proof against UNC 0621X particularly as many of the UNC 0621 alternatives did not address short-haul in development suggested assessment against 2 baselines (current arrangements including current Optional Commodity Charge) and Capacity Weighted Distance (most of the 0621 suite of modifications).

JCx reminded the Workgroup that the one of the reasons the Modification Panel did not recommend implementation of any 0621X Modification was because of gaps in the Forecasted Contracted Capacity methodology and short-haul. CF stated that Ofgem would only be able to approve proposals which are included in the appropriate legal text.. If there is a case for an inefficient by-pass charge then the Workgroup needs to make it.

CF also encouraged Workgroup to consider the work in the electricity sector on private wires and load deflection. She suggested that the Workgroup look at any crossovers particularly at a principles level.

JG concluded the discussion on objectives by confirming that the Workgroup decision on the objective is as follows:

Decision: 0670R Workgroup agreed that the definition of the objective should be as follows “to avoid inefficient by-pass of the NTS”.

JG then invited Workgroup participants to consider the core principles which must be observed in the context of the objective (see slides 15 and 16) and sought views on the key elements that should be included.

In general Workgroup broadly agreed with the principles provided.

CW provided clarification on ‘stand-alone’, stating that current charges are interchanged and linked to other charges and should a principle be that charges are less integrated than they currently are and/or can they be completely separated?

NW queried whether it is permitted to set a stand-alone charge for a particular section of a route and suggested that a more obvious solution is to charge on the basis of the cost of developing/building the pipeline. CF commented on this to confirm that this is not a decision currently being considered by Ofgem.

The timing principle is more about commitment and duration.

Workgroup considered that the impact of historical decisions should be taken into account, but they should not necessarily be part of the final solution. Equally, entry and exit should be included if they qualify for short-haul. In addition, there should be no discrimination between previous users and future users.

Finally, Workgroup considered that the problem should be scoped in the context of the CWD model and compliance with the TAR NC framework and suggested that National Grid rephrase the problem statement with an overarching framework.

2.0 Initial Discussion

2.1. Issues and Questions from Panel

Discussed under agenda item 1.0.

2.2. Initial Representations

None received.

3.0 Next Steps

RH confirmed that the focus for the next meeting on 04 December 2018 will be to further develop the scope, objectives and principles. She encouraged Workgroup participants to share any ideas and thoughts for discussion in advance of the meeting with National Grid and Joint Office.

GJ asked for the shorthaul proposal contained in UNC 0653 – *Updating the parameters for the NTS Optional Commodity Charge – Introducing the NTS Optional Capacity Charge* to be assessed by this Workgroup (see: <http://www.gasgovernance.co.uk/0653>).

NW suggested the consideration of setting cost-based charges outside the CWD regime (a conditional capacity product).

JG, in response to a question from CF about how compliance with TAR NC will be tested, confirmed that compliance will be a core principle and as such all ideas/proposals will be tested against compliance.

4.0 Any Other Business

None.

5.0 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 04 December 2018 | Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA | Detail planned agenda items. <ul style="list-style-type: none"> • Consideration of Scope • Consideration of Objectives and Principles • Consideration of Ideas |
| 10:00 Thursday 10 January 2019 | Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA | Detail planned agenda items (<i>TBC</i>) <ul style="list-style-type: none"> • Consideration of Ideas • Consideration of Proposals |

Action Table (as at 06 November 2018)

| Action Ref | Meeting Date | Minute Ref | Action | Owner | Status Update |
|------------|--------------|------------|------------------------|-------|---------------|
| | | | No outstanding actions | | |