

**UNC Workgroup 0667 Minutes
Inclusion and Amendment of Entry Incremental Capacity Release
NPV test in UNC**

Tuesday 08 January 2019

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

Attendees

Rebecca Hailes (Chair)	(RH)	Joint Office
Kully Jones (Secretary)	(KJ)	Joint Office
Adam Bates	(AB)	South Hook Gas
Alex Nield*	(AN)	Storengy UK
Andrew Blair*	(AB)	Interconnector UK
Andrew Pearce	(AP)	BP
Anna Shrigley*	(ASh)	Eni Trading & Shipping
Bethan Winter	(BW)	Wales & West Utilities
Bill Reed	(BR)	RWE Supply & Trading GmbH
David Adlam	(DA)	Cadent (from 11.30am)
David Cox*	(DC)	London Energy Consulting
Debra Hawkin	(DH)	TPA Solutions
Graham Jack	(GJ)	Centrica
Jeff Chandler*	(JCh)	SSE
John Costa*	(JCo)	EDF Energy
Julie Cox	(JCx)	Energy UK
Jonathan Coe*	(JC)	Ofgem
Kirsty Ingham*	(KI)	ESB
Lea Slokar*	(LS)	Ofgem
Malcolm Montgomery	(MM)	National Grid NTS
Nick Wye	(NW)	Waters Wye Associates
Nicky White	(NW)	npower
Nigel Sisman	(NS)	Sisman Energy Consulting Ltd
Penny Garner	(PG)	Joint Office (am only)
Phil Hobbins	(PH)	National Grid NTS
Richard Fairholme	(RF)	Uniper
Richard Pomroy	(RP)	Wales & West Utilities
Steve Pownall	(SP)	Xoserve
Terry Burke*	(TB)	Equinor

**via teleconference*

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0667/080119>

The Workgroup Report is due to be presented at the UNC Modification Panel by 21 March 2019.

1.0 Introduction and Status Review

1.1. Approval of minutes (06 December 2018)

The minutes of the previous meeting were approved.

2.0 Review of Outstanding Actions

There were no outstanding actions

3.0 Review of Amended Modification

Adam Bates (AB) provided a brief update on the changes to the Modification explaining that the main changes are to help clarify the solution and to aid the production of the Legal Text.

4.0 Consideration of Business Rules

AB provided an overview presentation to illustrate the business rules within the solution section of the Modification. He explained that the Solution includes the following key elements (see slide 2):

- Inserting the Net Present Value (NPV) test into UNC
- Creation of an Incremental Capacity Premium concept
- Requirement for capacity to be signalled in a minimum of 4 separate years
- Clarification that capacity can be reprofiled ahead of the second NPV test prior to allocation at the end of Phase 2
- Initially setting the Estimated Project Cost at the value used for the first NPV test and then subsequently indexing for the second NPV test

He highlighted that one key change is the indexing of Estimated Project Costs for the second NPV test.

Richard Pomroy (RP) highlighted that there is a requirement within the Gas Act for Shippers/Suppliers who ask for new capacity to pass an economic test for the shared use of assets. MM confirmed that for entry the investing party has to commit to 50 per cent of the project costs and as long as this is met, the project is considered to be economically viable and the investment can go ahead. He explained that it is slightly different for exit where there is no economic test and the requesting party receives the capacity rate they have requested but they need to commit for a 4 year period.

AB then took Workgroup through slide 4 illustrating the rules for calculating the Incremental Capacity Premium. He clarified that the Premium would be applied to all capacity including unsold. In addition, he said that all revenues associated with the Incremental Capacity Premium (including any current unsold baseline it is applied to) contribute towards the NPV test. For current unsold capacity the difference between the applicable payable price and reserve price will be used for the NPV calculation.

Slide 5 – Incremental signals required in a minimum of 4 separate years. AB provided 2 illustrative examples; one was a hypothetical scenario showing a profile of sold and unsold capacity at an NTS entry point and the second example showed that in order for a capacity profile to be valid, the signalled incremental capacity must be over a minimum of 4 separate years. A lengthy discussion was held on these slides.

Clarification was sought on whether the Year referenced related to the Gas Year, a rolling 12-month Year or something else.

AB confirmed in response to a question from Julie Cox (JCx) that the 4 years do not have to be consecutive years and can be anywhere in the 8-year PARCA period.

MM confirmed that the Project costs are updated annually and published, and the methodology is set out in the UNC.

A debate was had on the purpose of the test and was it was designed for. Nigel Sisman (NS) suggested that historically the test was designed to ensure a fair and even distribution of risk. Nick Wye (NW) suggested that the Modification is aimed at seeking to fix the problem of parties that want incremental capacity having to book a quantity of unsold summer capacity and hoarding it unnecessarily. It is a simplistic way to overcome unsold capacity at certain quarters of the year and in his opinion, he could see the logic of doing this. In addition, he indicated that the issue is prevalent at almost every terminal and it is not just an issue at Milford in that there is unsold capacity that parties would have to buy whether they want it or not, just to pass the NPV test

NW indicated that the Shipper would still have to pass the NPV test for National Grid to make the investment.

Slide 6 – AB provided clarification of the ability to reprofile ahead of the second NPV test. He confirmed the need for PARCA applicants to be able to alter their capacity profile ahead of the second NPV test required for allocation. This would include the recalculation of the Incremental Capacity Premium.

Bill Reed (BR) asked if it should be subject to a minimum requirement in terms of the level of commitment. AB responded by saying that the PARCA tolerance level is linked so the level of commitment cannot be reduced because it would still be subject to the same PARCA rules.

A discussion then followed on the setting of the estimated project cost at the first NPV test (slide 7). Malcolm Montgomery (MM) offered an observation that the National Grid licence terms are linked to the Retail Price Index (RPI) whereas the proposal is to use the Consumer Price Index (CPI), suggesting that it may be appropriate for Industry to align with RPI. AB agreed to consider the use of RPI.

The discussion was concluded with AB confirming the timetable and the intention the Workgroup Report is submitted to the 14 March 2019 meeting of the Modification Panel.

5.0 Review of Relevant Objectives

This was considered as part of Workgroup Report.

6.0 Consideration of Wider Industry Impacts and Costs

This was considered as part of Workgroup Report.

7.0 Consideration of Legal Text

MM confirmed that Legal Text would be provided for discussion at the February meeting. It is expected that the Modification Panel will formally request the Legal Text on 17 January. In addition, Steve Pownall (SP), confirmed that there are no systems changes required for this Modification.

BR signalled that paragraph 5.59 and 7.19 of Ofgem's RIIO-2 Sector Specific Methodology Annex: Gas Distribution consultation document available here:

<https://www.ofgem.gov.uk/publications-and-updates/riio-2-sector-methodology-consultation> contains relevant information to this Workgroup in terms of arrangements for the re-allocation of unsold gas capacity and references to the NPV test. In his view he didn't think it should affect implementation of UNC 0667. It was suggested that AB should consider the implications of this document.

8.0 Development of Workgroup Report

RH confirmed that the version of the Workgroup Report being reviewed included the changes provided as part of the amended Modification. She then took the Workgroup through the Report inviting input in the following sections:

- It was confirmed the Modification should be subject to authority direction as it is a material change.
- It was confirmed the Workgroup Report will be presented to the Modification Panel meeting on 21 March 2019.
- It was agreed that the impact on Shippers should remain as 'high' but the impact on National Grid NTS should be reduced from 'high' to medium'.
- No changes to the timetable were proposed.
- The reference to UNC 0621 on Page 13 was removed as this Modification and the alternative Modifications have been rejected by Ofgem.
- Impact on consumers was considered to remain the same.

RH amended the Workgroup Report sections relating to impacts and other considerations, Relevant Objectives, Implementation and Recommendation to Panel during discussion.

Workgroup participants had a lengthy discussion about whether Relevant Objective a) is positively impacted by the Modification. The consensus view was that effect is marginally positive and Relevant Objective d) should be the primary focus for this Modification.

9.0 Next Steps

RH confirmed that the next steps are to consider the Legal Text at the next meeting in February and to complete the Workgroup Report.

10.0 Any Other Business

None.

11.0 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 Thursday 07 February 2019	Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA	Detail planned agenda items. <ul style="list-style-type: none"> • Review of Impacts and Costs • Review of Relevant Objectives • Consideration of Wider Industry Impacts • Consideration of Legal Text • Development and Completion of Workgroup Report

Action Table (as at 08 January 2019)

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