

Workgroup 0678 Summary of Outcomes
Tuesday 29 January 2019
at St Johns Hotel, Warwick Road, Solihull, B91 1AT

Attendees		
Penny Garner (Chair)	PG	Joint Office
Helen Bennett/Cuin (Secretary)		Joint Office
Rebecca Hailes	RH	Joint Office
Alex Neild	AN	Storengy UK Ltd
Anna Shrigley*	AS	ENI
Andrew Pearce	AP	BP
Bill Reed	BR	RWE Supply & Trading GmbH
Chris Wright	CWr	Exxon Mobil
Colin Williams	CW	National Grid
David Mitchell*	DM	SGN
David O'Neil	DON	Ofgem
Debra Hawkin	DH	TPA Solutions
Emma Buckton*	EB	Northern Gas Networks
Graham Jack	GJ	Centrica
Henk Kreuze*	HK	Vermillion
Iwan Hughes	IH	VPI Immingham
James Thomson*	JT	Ofgem
Jeff Chandler*	JCh	SSE
John Costa*	JCo	EDF Energy
Kamla Rhodes	KR	ConocoPhillips (U.K.) Limited
Kay Riley*	KRi	SouthHook Gas
Kirsty Ingham	KI	ESB
Nick Wye	NW	Waters Wye Associates
Nitin Prajapati*	NP	Cadent
Paul Whitton*	PW	SGN
Rebecca Sian Jones*	RSJ	Mercuria UK LLP
Richard Fairholme*	RF	Uniper
Steve Pownall	SP	Xoserve
Terry Burke*	TB	Equinor UK Ltd
Tracey Saunders*	TS	Northern Gas Networks

Industry parties are strongly encouraged to review this document and the changes. Any comments should be sent to Joint Office at enquiries@gasgovernance.co.uk

Meeting material available at: <http://www.gasgovernance.co.uk/0678/290119>

Critical Actions Log is available at: <http://www.gasgovernance.co.uk/0678>

Next Meeting Thursday 31 January 2019

Key Points/Decisions

1. Joint Office welcomed everyone to the meeting and explained the plan for the day's proceedings.
2. National Grid provided the background to raising the Modification 0678. The Modification 0678 proposes to introduce a new Gas Transmission Charging regime that produces stable and predictable transportation charging and is compliant with the forthcoming EU Tariff Code (Regulation 2017/460). This Modification also considers the decision to reject Modification 0621 and its Alternatives due to areas of non-compliance. The Modification Proposal 0678 addresses the areas of compliance identified.
3. Interim Contracts as a concept will not exist. This means that any long-term entry capacity allocated after entry into force of TAR NC (06 April 2017) will float, in terms of pricing.
4. The transition period will not exist.
5. CW summarised the list of items on Page 11 of Modification 0678 for which changes are not being proposed at this time, these were:
 - Auction Structure
 - Entry/Exit Split
 - Gas Year/Formula Year
 - DN Pensions Deficit Charge
 - St. Fergus Compression Charge
 - NTS Metering Charge
 - Shared Supply Meter Point Administration Charges
 - Allocation Charges at Interconnectors
 - Categorisation of Entry and Exit Points
 - Seasonal Factors
 - Fixed Pricing
 - Allowed Revenue
 - Principles and application of Interruptible.
6. CW referred Page 32 (Appendix 2) of Modification 0678 to illustrate the differences between 0621 and 0678. RH also noted that 0678A (0679) had appended a column to highlight the differences. (See appendix 2 of Modification 0678A).
7. JCh challenged the Workgroup to consider Section 3.26.1 of Modification 0678, asking if the section is compliant with the proposed top-up charges and legacy contracts. He wanted better clarity of revenue recovery and its compliance with TAR NC.

ISSUE 01-2901: Section 3.26.1 of Modification 0678 and the impact of top-up charges on existing contracts and compliance with the TAR NC Article 35.

Action 01-2902: National Grid to consider the impact of top-up charges on existing contracts and compliance with the TAR NC.

8. It was also noted that currently existing contracts have an element of revenue recovery in terms of a commodity charge. BR asked about the materiality of current commodity charge and what the adjustment would look like under the Capacity Weighted Distance (CWD) model.

9. *Post Meeting update: Anna Shrigley (AS) requested the following to be inserted in to the summary. It was noted under the current regime; existing capacity contracts pay a commodity-based Revenue Recovery Charge only if the capacity is utilised. It is proposed that in the new regime a capacity based RRC will apply on existing contracts, with the exception of existing storage contracts, regardless if the existing capacity is utilised or not. Is the current proposal compliant to TAR Article 35?*
10. GJ highlighted that the principle outlined in Article 35 needs to be considered to look at top-up charges on existing contracts. This was welcomed by the Workgroup.

Action 02-2901: Joint Office to consider the topic list and confirm whether Article 35 fits into the timetable. Suggested for 31 January meeting under Revenue Recovery.

11. It was expected the revenue recovery charges could be quite small if the forecast is accurate.
12. It was believed the Workgroup needs to look at protecting existing contracts and the need to include an aspect of the treatment of combined ASEPs to ensure there is no undue discrimination relating to storage.

Action 03-2902: Workgroup to consider existing contracts and any potential discriminatory aspects relating to storage capacity (reference rules being developed under Modification 0662).

13. NW wished the Workgroup to consider a realistic implementation date and to recognise that this could not be implemented for October 2019. He suggested that realistically the industry should consider working towards an October 2020 implementation timetable, to consider the ACER recommendation process. He believed there is a reasonable amount of time to develop the modification. CW anticipated implementation will be as soon as possible, need to conclude the UNC processes to allow subsequent processed to reach a decision. Compliance is required as soon as possible. Some sequential modifications are required (0670R and 0662).
14. Ofgem stressed the importance of being compliant either by 31 May 2019 or as soon as possible afterwards. He believed at some point the Workgroup and Ofgem will need to consider the best time to implement changes to the regime.
15. AP wanted to understand the impacts to October 2019 contracts. These are being negotiated now despite huge uncertainty as to what the charges will be. He suggested it is more pragmatic to allow the industry to continue under the current regime for Gas Year beginning October 2019 with a realistic view that implementation for Gas Year beginning October 2020 is a more realistic date. BR agreed with this approach.
16. BR explained the purpose of the Postage stamp Modification 0678A and that this solution proposes to use Postage Stamp as opposed to Capacity Weighted Distance (CWD). The methodology on pages 15/16 explain how postage stamp charges are derived.
17. PG summarised the Code Administrator actions following each day. This will include a daily agenda, a topic summary of each day that includes, critical decisions, actions log and points to be addressed at subsequent meetings.
18. PG did not envisage providing full meeting minutes due to the required timescales. If any items would like to be recorded or included PG asked that these are clearly marked and sent to the Joint Office enquiries email enquiries@gasgovernance.co.uk.
19. GJ highlighted that Alternative Modifications need to be raised as soon as possible to ensure they are properly assessed. In addition, PG asked parties to be mindful of the urgency timetable. It was clarified by Ofgem that any Alternatives would be expected to be managed within the existing timetable outlined in the Ofgem Decision Letter.
20. JCh asked for clarity of the process for raising Alternatives. PG referred to the slide on Alternatives within the presentation pack.
21. PG highlighted the three compliance areas identified in the Ofgem 0621 Decision letter:

- Interim Contracts

- Transition period
 - NTS Optional Charge (NOC)
22. PG summarised the expected structure and contents of the Workgroup Report and the expectations with considering the relevant objectives and compliance with the TAR NC.
 23. PG explained that any Alternative should be raised before the completion of the Workgroup Report.
 24. GJ asked about the treatment of Urgent Modifications and the timing of raising 0679.
 25. PG explained that 0679 was raised as an Urgent Modification ahead of the Urgency decision for 0678. For Urgent Modifications, the process followed by the Joint Office is that following a critical friend review and with the agreement of the Proposer, the Joint Office issue the Urgent Modification Proposal, to Ofgem for consideration. For 0679, Ofgem instructed the Joint Office to treat the Modification as an Alternative to 0678. As such, the Modification was withdrawn and renumbered 0678A.
 26. In their decision letter for 0678 Ofgem stated that they expected the UNC Modification Panel to treat any other related Modification proposals on gas transmission charging arrangements seeking to deliver compliance with TAR NC as Alternatives to Modification 0678.
 27. PG stated that all Alternatives should be considered by the UNC Modification Panel to assess whether they are a true Alternatives to 0678. If the UNC Panel consider a Modification is an Alternative, it will then go to Workgroup and proceed within the existing timeline for 0678. If it is not considered as an Alternative, the Modification will be considered a separate Modification. Where a Proposer requests Urgency, their Modification proposal will be sent to Ofgem for consideration.
 28. PG noted a number of potential meeting dates have been reserved as a contingency for the Workgroup to utilise if deemed necessary. Ofgem supported this approach.
 29. PG explained several additional extraordinary Panel meeting dates are being considered to allow assessment of any Alternatives. PG asked parties to engage with the Joint Office to provide as much notification as possible.
 30. The Workgroup observed the need to be pragmatic and the ability to assess Alternatives within the existing timeframe.
 31. It was noted that the concept of an Urgent Modification is for it to be very well formed and for it to be implementable.
 32. The Workgroup considered the ability to incorporate changes to the National Grid 0678 Modification and the ability to avoid an Alternative if the elements of the Alternative can be incorporated.
 33. Parties were encouraged to liaise with National Grid with elements of the Modification they are exploring as an Alternative to enable National Grid to incorporate these if it so wished.
 34. Workgroup report is anticipated to be a combined report.
 35. Workgroup discussed whether the timeline can be flexed. This would need National Grid and Ofgem agreement. At present there is absolutely no flexibility.
 36. CWr asked if shorthaul would be considered as an Alternative. Proposers must make it clear within any Alternative how the Modification is an Alternative solution. DON clarified that any Modification must be compliant with TAR NC.
 37. It was clarified for production of the Workgroup Report the focus will be to capture the Workgroup's assessment of the Modifications. CWr enquired if at the stage of the Workgroup Report production if the Modifications are expected to be finalised. PG asked parties to consider all meetings as potential development sessions as it may be difficult to anticipate finalising changes to any Modifications.
 38. The Workgroup considered the timing of Legal Text. CW explained the importance of having sight of the Alternatives to enable the production of Legal Text in a timely manner.
 39. National Grid provided a presentation providing a summary of compliance issues identified under Modification 0621, the timing of the analysis and the modelling expectations.

40. GJ challenged the ability for Alternative proposers to be able to illustrate alternative charging models and having the access to the appropriate data. It was clarified that National Grid will not be in a position to produce charging models for each Alternative, it was expected that this would be the responsibility of the Proposer to ensure analysis is provided. However, a model will be created which will allow models to be run for the 0678 model with an ability to amend elements of the model to modify it – default will be for 0678. A sensitivity model will be provided.
41. If there is any information needed for comparative analysis which can only be produced or supported by National Grid, National Grid are happy to discuss and support this where it is appropriate.
42. RF requested to see any sets of charges to be presented in a consistent manner to enable analysis of the Alternatives.

Action 04-2901: National Grid to consider the consistent presentation of charges to enable comparative analysis of Alternatives.

43. BR asked if there will be a firm set of proposals for Forecasted Contract Capacity (FCC).
44. JCh noted that Workgroup must assess any impact on the relevant objectives and the impact on customers.

ISSUE 05-2901: Regulatory Impact Assessment must include impact on customers.

Action 05-2901: Workgroup must schedule time to address impact on customers.

45. It was noted a last-minute change to 0621 were made regarding traded capacity contracts and that traded contracts would be exposed to the capacity uplift charge (and when it would attract the revenue recovery charge). Workgroup asked if this was intended for this Modification. National Grid agreed to consider the uplift charge.

Action 06-2901: National Grid to consider traded capacity contracts and exposure to the capacity uplift charge and when it would attract the revenue recovery charge and if this was intended for this modification

46. Ofgem stated that Alternatives should be well formed properly consider and brought forward in a timely manner as there are implications if they are not available in good time.
47. Analysis is dependent on well timed Alternatives, Proposers need to be seen to be acting appropriately to ensure good timing and ensuring the GB regime is legally compliant.
48. Ofgem expects constructive discussion and behaviour in a manner to bring discussions to a conclusion.
49. The Workgroup considered the Draft Modification Report (DMR) and Final Modification Report (FMR) and that these need to contain robust analysis against the relevant objectives, to enable Ofgem to consider any impact assessment.
50. Feedback was requested from Ofgem on any areas they believe are missing or the analysis is not as expected. Ofgem agreed to provide feedback as the assessment progressed.
51. Ofgem expect the industry to be compliant with relevant legislation and TAR NC, as soon as possible (31 May 2019). The sooner the FMR is available the more likely there will be a decent notice period for implementation. Ofgem were aware of notice periods required for price changes.
52. Concern was expressed about the level of uncertainty and agreeing deals with customers when there is an unknown element on the charging regime. It was encouraged that a realistic view on the anticipated implementation date would allow the industry to have more certainty.
53. The pressing need to be compliant was understood. Ofgem will likely need to come to a minded-to decision possibly involving an IA, given TAR NC requirements for 2 months consultation followed by 2 months for ACER feedback, followed by Ofgem's final decision. Ofgem acknowledged that the feasibility of achieving 01 October 2019 would be extremely difficult.

54. It was challenged if there would be a within year price change. Ofgem had not ruled out a within year price change. However, at this stage Ofgem did not have an appropriate amount of information to decide on the likely implementation date.
55. Ofgem stressed the importance of being compliant as soon as possible. It was noted that non-compliance infringement proceedings could be enacted for not being compliant.
56. The Workgroup asked Ofgem to provide a view on the timing of implementation to support commercial contracts entered into for the Gas Year. Views were requested on achieving 01 October 2019, a mid-year price change, or delaying the price change to take effect from 01 October 2020, given the timetable and the need to be compliant as soon as possible.
57. Concern was expressed that there was no clarity as to when the charges for the new methodology will take effect. The Workgroup was keen to understand what the charging regime was going to look like from 01 October 2019 until 30 September 2020.

Action 07-2901: Ofgem to provide a formal View on the feasibility of achieving 01 October 2019 implementation date and the impact of not achieving this date and being compliant as soon as possible. (JO to action this)

58. HK stressed the industry really should be striving towards the 01 October 2019, and that the industry should not be considering delaying compliance.
59. The Workgroup considered the assurances and if there was an ultimate backstop. PG stressed that the timeline must be adhered to as communicated by Ofgem, unless Ofgem advise otherwise.
60. Proposers of potential Alternatives need to consider analysis and Legal Text. Ofgem stressed the need to be sensible and work to ensure the industry adhere to the dates communicated in the decision letter.
61. The Workgroup was mindful that late Modifications will not be useful, and the industry must conclude the Workgroup Report on 06 March 2019.
62. CW explained the intention of the implementation text in his Modification. Ultimately Ofgem have the power to implement the changes at the earliest point.
63. It was stressed that a within-year price change has not been ruled out and if parties have concerns on the impact of a within-year change then evidence need to be provided to Ofgem to understand the materiality of this.
64. The Workgroup considered the effective date of the price change being effective from 01 October 2019.
65. [AP confirmed the Netherlands have implemented changes to the gas industry and have implemented a regime that is compliant with TAR NC which will take effect for charges from 01 January 2020 as this will be the start of the Netherlands tariff year which immediately follows 31 May 2019 which is the date that a compliant methodology shall apply from as per Article 38.](#)
66. The Workgroup considered the implementation date to allow the system to be ready verses the effective date of when prices would change from. (Systems impact)
67. Infringement Proceedings against GB was considered and who would be responsible for damage claims. The Workgroup wished to understand the implications of not being compliant and properly understanding who would be liable?
68. The Workgroup considered the discussions from the Workgroup meetings and ensured the Workgroup Report appropriately captured all the concerns raised.

Action 08-2901: Workgroup to review the draft Workgroup Report at the end of each session and provide any updates ahead of the start of the next session/meeting.

69. The Workgroup considered the best way forward to ensure the Workgroup Report captures discussions, issues and possibly related actions. It was agreed that the Workgroup Report would capture discussions once conversations have concluded.

The Critical Actions

The Actions recorded above will be available in the Action Log at: <http://www.gasgovernance.co.uk/0678>

Next Meeting

The next meeting will be held on Thursday 31 January 2019 at Radcliffe House, Blenheim Court, Warwick Road, Solihull, B91 2AA.

Please note meetings will start at 9:30am and finish at 4:00pm.

Agenda and papers: <http://www.gasgovernance.co.uk/0678/310119>

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

Time / Date	Venue	Teleconference	Workgroup Programme
09:30 Tuesday 29 January 2019	St John's Hotel, Warwick Road, Solihull, B91 1AT	Teleconference Number 0203 582 4515 Conference ID 401-706-701 screen sharing https://join.me/JointOffice	WG01 <ul style="list-style-type: none"> • Approach • Compliance
09:30 Thursday 31 January 2019	Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA	Teleconference Number 0203 582 4515 Conference ID 401-706-701 screen sharing https://join.me/JointOffice	WG02 <ul style="list-style-type: none"> • Integration of RPM, • Forecast Contract Capacity (FCC), • Revenue Recovery • Existing Contracts
10:00 Tuesday 05 February 2019	Elexon, 350 Euston Road, London NW1 3AW	Teleconference Number 0203 582 4515 Conference ID 401-706-701 screen sharing https://join.me/JointOffice	WG03 <ul style="list-style-type: none"> • Multipliers and Discounts • Shorthaul Approach
09:30 Monday 11 February 2019	Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA	Teleconference Number 0203 582 4515 Conference ID 401-706-701 screen sharing https://join.me/JointOffice	WG04 <ul style="list-style-type: none"> • Compliance • Forecast Contract Capacity (FCC)
09:30 Wednesday 13 February 2019	Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA	Teleconference Number 0203 582 4515 Conference ID 401-706-701 screen sharing https://join.me/JointOffice	WG05 <ul style="list-style-type: none"> • Non-transmission charges. • Final overview
09:30 Thursday 14 February 2019	Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA	Teleconference Number 0203 582 4515 Conference ID 401-706-701	WG06 <ul style="list-style-type: none"> • Workgroup Report

		screen sharing https://join.me/JointOffice	
09:30 Monday 18 February 2019	Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA	Teleconference Number 0203 582 4515 Conference ID 451-364-066 screen sharing https://join.me/bob.fletcher	WG07 <ul style="list-style-type: none">• Workgroup Report
09:30 Monday 25 February 2019	Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA	Teleconference Number 0203 582 4515 Conference ID 401-706-701 screen sharing https://join.me/JointOffice	WG08 <ul style="list-style-type: none">• Workgroup Report
09:30 Wednesday 27 February 2019	Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA	Teleconference Number 0203 582 4515 Conference ID 401-706-701 screen sharing https://join.me/JointOffice	WG09 <ul style="list-style-type: none">• Workgroup Report
09:30 Monday 04 March 2019	Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA	Teleconference Number 0203 582 4515 Conference ID 401-706-701 screen sharing https://join.me/JointOffice	WG10 <ul style="list-style-type: none">• Workgroup Report• Compliance
09:30 Wednesday 06 March 2019	Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA	Teleconference Number 0203 582 4515 Conference ID 401-706-701 screen sharing https://join.me/JointOffice	WG11 <ul style="list-style-type: none">• Finalise Workgroup Report