

Workgroup 0678 Summary of Outcomes

Thursday 31 January 2019

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

Attendees		
Penny Garner (Chair)	PG	Joint Office
Helen Bennett (Secretary)	HB	Joint Office
Helen Cuin (Secretary)	HC	Joint Office
Alex Nield *	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
Debra Hawkin	DH	TPA Solutions
Emma Buckton*	EB	Northern Gas Networks
Graham Jack	GJ	Centrica
Henk Kreuze	HK	Vermillion
James Thomson*	JT	Ofgem
Jeff Chandler*	JCh	SSE
John Costa	JCo	EDF Energy
Julie Cox*	JCx	Energy UK
Kamila Nugumanova	KN	ESB
Kamla Rhodes	KR	ConocoPhillips (U.K.) Limited
Kay Riley*	KRi	SouthHook Gas
Laura Johnson	LJ	National Grid
Nick Wye	NW	Waters Wye Associates
Nigel Sisman	NS	Sisman Energy Consultancy Ltd (left at approx. 9:50)
Nitin Prajapati	NP	Cadent
Paul Whitton*	PW	SGN
Pavanjit Dhesi*	PD	Interconnector
Rebecca Sian Jones*	RSJ	Mercuria UK LLP
Richard Fairholme	RF	Uniper
Richard Pomroy*	RP	Wales and West Utilities
Steve Pownall	SP	Xoserve
Terry Burke	TB	Equinor UK Ltd

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/0678/310119>

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

Next Meeting Tuesday 05 February 2019

Key Points/Decisions

1. Joint Office welcomed everyone to the meeting and explained the plan for the day's proceedings.
2. NS raised a concern relating to the matter of governance for Modification 0678. PG advised that David O'Neil gave a view this and a lengthy debate was had at the first Workgroup meeting held on 29 January 2019. NW added that a challenge was put forward at the first Workgroup to Ofgem around the challenging timeline for Modification 0678/A. It was also confirmed that Joint Office had requested a formal View from Ofgem. JT confirmed a response will be provided in the up and coming meetings. After listening to the points above, NS chose to leave the meeting.
3. Workgroup clarified that the summary presented was a fair and accurate reflection of the Workgroup discussions held on Tuesday 29 January 2019.

4. Reference Price Methodology (RPM)

Workgroup discussion was held on RPM, National Grid provided further clarity around specific aspects of the methodology calculation. These comments were captured as part of the Workgroup Report update.

Figure 1 included in the Modification shows the proposed CWD Model for calculation of Entry and Exit Capacity Base Reference Prices.

The FCC will be informed by a Methodology; the revenue will be linked to the license; the amount of revenue throughout the remainder of the year. National Grid recover revenue in line with the license. April to March as opposed to October to September. The Model will produce a set of annual tariffs covering 12 months. Under the current framework Exit Capacity prices are set for October to September. National Grid sets charges to recover an allowed revenue in line with its Licence that runs a year from April to March. With this mis-alignment of formula year and gas year, the October exit capacity charges often see a see-saw effect with charges being set for 12 months for a six month target revenue.

CW confirmed:

- The sensitivity tool that will be made available will provide a year's set of numbers.
- The tool will be modified to allow existing contracts to be switched included or excluded from the RPM calculation.

CW confirmed and explained the Entry Point Reference Price calculation model.

CW clarified Existing Contracts could be Entry or Exit and explained the Exit output is always zero when the model is run, it just so happens that the qualifying value for Exit Capacity Existing Contracts is nothing.

CS added that every TSO in Northern Europe have no concept of fixed capacity in their markets. All have included Existing Contracts when calculating Forecasted Contracted Capacity.

With regards to the approach of Modification 0678 is concerned, Storage Discount and Interruptible Discount are included within the overall charging approach such that the RPM is being run and reserve prices calculated to recover all the target revenue.

Action 01-3101: RPM: Extra clarity to be added to the Modification to clarify netting-off for existing contracts.

Action 02-3101: RPM: Workgroup to consider the need for a mechanism to allow more equitable recovery.

CW was advised that Modification 0621L approach did not have any adjustments in their calculations to accommodate anything to counter for under-recovery charges.

DH checked with CW as part of the calculation, are Storage Discounts being included. CW clarified feature of the overall RPM that incorporates adjustments to include anticipated under recovery from storage and interruptible discounts.

Figure 3 - Exit Point Reference Prices calculation model.

CW confirmed that the qualifying value for Exit Capacity Existing Contracts is zero.

CW will add some additional text in to the Modification to explain why Capacity Weighted Distance (CWD) is going to be the preferred approach for Modification 0678. The Ofgem letter mentions a Postage Stamp approach but there is no decision on this particular approach, this is left to the judgement of the Proposers.

CW advised that National Grid, with its Licence obligations on cost reflectivity, it would be difficult to propose a Methodology based around Postage Stamp. In addition to the required cost reflectivity drivers in the Tariff Code, National Grid feel it is beneficial to proceed with CWD rather than Postage Stamp.

Action 03-3101: RPM: National Grid to add commentary to the Modification as to the decision behind choosing the Capacity Weighted Distance approach.

It was suggested that reflection on Article 7 should be made, this covers costs incurred. This should be covered as part of Compliance discussions. This is one of the Articles that ACER looks at.

Action 04-3101: RPM: Workgroup to consider Article 7 as part of Compliance discussions.

RF referred to Ofgem's comments on Postage Stamp. It was asked if Ofgem would consider suspending/amending the licence condition that included cost reflectivity. JT advised that Ofgem have no intention to amend Licence conditions at the moment. It was added that the Baringa Impact Assessment did not mention the Licence conditions.

The views of the Workgroup were reflected in the Workgroup Report and reviewed by Workgroup.

Action 06-3101: RPM: National Grid to provide the FCC Methodology and figures.

Action 07-3101: RPM: AS to provide text for her comments made around Existing Contracts and this will be reviewed by Workgroup at the next meeting.

Issue 08-3101: Workgroup to review Capacity Handback in light of Action 07-3101

Article 35, Compliance needs to be discussed regarding Postage Stamp approach and Capacity Weighted Distance approach.

5. Forecasted Contracted Capacity (FCC)

CW introduced the topic of FCC and updated the workgroup that the numbers are not yet ready. There are lots of data points to put together and this is currently being worked on to publish as soon as possible.

Initial principle points were made which advises of the approach being made of a potential combination of the available data:

- Historical flows, historical capacity; Existing Contracts will be a feature of the methodology.
- Historical sales of the capacity split in to Non-zero priced sales and zero priced sales.
- Historical flows and the relationship between them.
- Forecast flows – Future Energy Scenarios, shorter term view – what has been paid for and what has been take for free.
- Starts to build a picture of how historical flows have made up priced capacity and forecasted flows make up from historical sales, and
- Existing Contracts will be overlaid.

JCo added there needs to be a fair and equitable distribution of costs; there should not be a massive pass through of costs to some parties and not others. Everyone should have the same FCC assumption.

RP this is a Revenue Recovery Methodology under the CWD. Historically, DN's have funded 80% and used 60% of the capacity.

CW confirmed the Principles will be included in the Methodology Statement and not in the Modification. National Grid want a methodology that will accompany the consultation, this will be provided by 6 March.

CW encouraged Workgroup to put forward their thoughts on anything outside of the principles shared at this meeting, to highlight the considerations they would like as soon as possible.

Understanding of the governance of this approach, routinely, how often will these prices be made available. In terms of being able to progress the Modification, need to see the numbers coming out of the methodology. PG advised the next discussion on FCC will be 11 February. National Grid confirmed drafting of the Methodology Statement and the Sensitivity Tool will be made available towards the end of next week. A number of parties are interested in the governance around the methodology statement.

BR requested that both the prices and Statement need to be made available at the same time.

JT added that, for existing Methodology Statements the view is that there should be a limited involvement from Ofgem. Ofgem requested justification for governance if required as a part of any new methodology.

The views of the Workgroup were reflected in the Workgroup Report and reviewed by Workgroup.

JCx advised that without having the FCC Methodology could potentially hinder the development and assessment of potential Alternatives.

DH added that there is frustration in the delay of getting data for the FCC methodology by 11 February, this should be being thought of at this early stage and not 11 February.

The views of the Workgroup were reflected in the Workgroup Report and reviewed.

6. Revenue Recovery Methodology (RRM)

CW talked through the Transmission Services Revenue Recovery Mechanism found on Figure 5 of the Modification.

TO Commodity charges are currently updated twice a year.

CW explained that currently National Grid set revenue recovery charges with a profile expected for the year, which can be updated in line with its Licence and can be updated subject to appropriate notice periods. Typically, advance notice of change is made 150 days and 2 months' notice is required for the charges to take effect. Typically, updates are made April and October and National Grid are not proposing to change this frequency.

Workgroup debated the principles being used for Revenue Recovery and the use or non-use of the K Factor. BR asked should the industry within year carry a cost and suffer the volatility that National Grid creates by not using the K Factor.

Any forecast will bed in over time, BR challenged this as there will be no transition with the implementation of this Modification advising that there has to be a Methodology from day one that works.

AS wants to minimise the use of K Factor. She was of the view that Users will see a change in their prices as a result of National Grid forecasting error. The risk to Users could be limited to something like a 7% variation. This was also agreed by Alex Nield.

There was a large variance of opinion, CW suggested the National Grid position is used within the Workgroup Report and then variants can be included.

GJ suggested that if there is a Revenue Recovery charge, amendment should only be allowed once within year.

The views of the Workgroup were reflected in the Workgroup Report and reviewed by Workgroup.

7. Existing Contracts

CW advised that the proposal is to apply the Revenue Recovery charge to all capacity apart from Existing Contracts for Storage.

CW advised that the National Grid proposal is not to incorporate the principles for Modification 0662 - Revenue Recovery at Combined ASEPs, GJ suggested if this is the case, Modification 0678 is not a workable solution. National Grid proposes to consider 662 as a dependency on the outcome of 678 and be a future modification.

AS invited National Grid to offer Users the opportunity to return capacity that is not utilised. Existing capacity Users could formally accept a significant change in their contract, this was not envisaged when Users booked their capacity.

CW confirmed National Grid are not proposing to change Capacity processes.

Rapid development process for this Modification, could start a new Review Group post 0678.

It was requested that there is a comment made in the Workgroup Report that National Grid recognise that abandoned capacity needs to be dealt with, this could be done post implementation of Modification 0678 or one of its Alternatives.

It was confirmed that any Long-Term Entry Storage Capacity traded before April 2017, would not attract a top-up charge.

The views of the Workgroup were reflected in the Workgroup Report and reviewed by Workgroup.

RF suggested that the Workgroup may wish to review the text provided within the Workgroup Report for 0621. Workgroup could look to utilise text for areas where there was previous agreement. This text could be put forward to the 0678 Workgroup for consideration.

Action 09-3101: RPM: Workgroup to consider previous 0621 considerations in line with Ofgem's Decision Letter.

Action 10-3101: RPM: National Grid to provide a set of principles / algorithm for the FCC methodology

Action 11-3101: RPM: AN requested that his views on Interim Contracts are considered within the Workgroup Report

8. AOB

8.1. AN mentioned his concerns raised regarding Interim Contracts post April 2017. CW confirmed that Modification 0678 has no plans to have any protection around Interim Contracts. This concept was part of Modification 0621, this is not part of Modification 0678 in light of the Ofgem decision that interim contracts was considered non-compliant with TAR NC.

AN would like his views to be included within Workgroup Report 0678.

8.2. Workgroup attendees suggested that where there is spare capacity Topic areas are brought forward to advance discussions. However, it was noted that some attendees may not be present and miss pertinent discussions that they were expecting to be discussed on a certain day.

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 Tuesday 05 February 2019 at Elexon, 350 Euston Road, London, NW1 3AW.

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

Agenda and papers: <http://www.gasgovernance.co.uk/0678/050219>

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 screen sharing https://join.me/JointOffice	WG06 <ul style="list-style-type: none"> Workgroup Report
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