

UNC Workgroup 0670R Minutes
Review of the charging methodology to avoid the inefficient bypass
of the NTS

Tuesday 02 July 2019

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

| Attendees | | |
|---------------------------|--------------------|-----------------------|
| Rebecca Hailes (Chair) | (RH) | Joint Office |
| Helen Bennett (Secretary) | (HB) | Joint Office |
| Alan Raper | (AR) | Joint Office |
| Alsarif Satti* | (AS) | Ofgem |
| Andrew Pearce | (AP) | BP |
| Benoit Enault | (BE) | Storengy |
| Bill Reed | (BR) | RWE Supply & Trading |
| Chris Wright | (CW _r) | ExxonMobil |
| Colin Williams | (CW _i) | National Grid |
| Daniel Hisgett | (DH _i) | National Grid |
| David O'Neill* | (DON) | Ofgem |
| Debbie Baker | (DB) | CF Fertilisers UK Ltd |
| Debra Hawkin | (DH) | TPA Solutions |
| Graham Jack* | (GJ) | Centrica |
| Henk Kreuze* | (HK) | Vermilion |
| Julie Cox* | (JC _x) | Energy UK |
| Kamla Rhodes | (KR) | ConocoPhillips |
| Kirsty Ingham* | (KI) | ESB |
| Laura Johnson | (LJ) | National Grid |
| Niall Coyle* | (NC) | E.ON |
| Nick Wye | (NW) | Waters Wye |
| Nicky White | (NW _h) | npower |
| Paul Youngman | (PY) | Drax Power Limited |
| Richard Fairholme* | (RF) | Uniper |
| Steve Pownall | (SP) | Xoserve |
| Terry Burke* | (TB) | Equinor |
| * via teleconference | | |

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0670/020719>

The Request Workgroup Report is due to be presented at the UNC Modification Panel by 15 August 2019.

1.0 Introduction and Status Review

1.1. Approval of Minutes (04 June 2019)

The minutes of the previous meeting were approved.

1.2. Review of Outstanding Actions

0601: Parties to provide views for consideration against the presentation provided for potential inclusion within the Workgroup Report.

Update: Nothing received. **Closed.**

0602: National Grid to provide how products could be formulated.

Update: Presentation provided. See item 2.0. **Closed.**

2.0 Consideration of Optional Methods

Colin Williams (CWi) provided a presentation to satisfy Action 0602 which includes suggested Criteria for an Optional Charge (slide 6); European Proposals; Examples for potential new design / updates and Next Steps.

Workgroup agreed that the list of criteria shown on slide 6 should include an economic test (based on the cost of building a pipeline) as that is the first test any potential bypassing party will do. CWi advised that he will consider this and asked for views to be sent directly to National Grid for any other additions to be included in the criteria.

BR asked how you would incentivise Users to remain connected to the NTS.

Daniel Hisgett (DHi) updated the Workgroup on the approach taken in other European countries. Four member states have gone to ACER with their conditional products. He explained Netherlands is the only member state that has something in place and approved from January 2020.

DHi then went through the ACER comments which can be found on slide 10. He said that Workgroup need to ensure what is proposed for GB is consistent with TAR. It appears that ACER would be happy with a product or RPM whereby the knowledge of the effects upfront removes any ex-post aspects.

Nick Wye (NW) commented that, if someone is inefficiently bypassing, then it should not be called a cross-subsidy.

In reference to Slide 12 where National Grid suggested three strands of findings for the Workgroup Report, Workgroup discussed the third strand entitled 'No bypass product'. A majority felt that from a compliance perspective the product is not necessary, However, without an incentive to use the NTS there will be undesirable consequences of fewer Users of the NTS. Thus, there should be a charge or product of some sort that avoided inefficient bypass of the NTS. Workgroup agreed a well-designed product is desirable. Workgroup also noted that Ofgem has urged participants of Request Workgroup 0670R to continue work at pace.

It was agreed that a draft WGR will be reviewed at the next meeting on 30 July 2019.

Workgroup reviewed the slides 14-18 presented by National Grid which gave some results of analysis relating to consequences of various scenarios relating to a 'shorthaul' type charge. However, Workgroup did not find the results helpful in considering the options.

Most Workgroup participants only found two aspects of the data useful: in Slide 18 the far right hand side bar and the far left hand side bar. These show the two extremes of the scenarios presented:

- The far left hand side bar represents a scenario where no NTS Bypass Product exists (the NTS Bypass Product is removed and not replaced). This scenario assumes **no** users bypass the system and all users pay the Reserve Price.
- The far right hand side bar represents a scenario where no NTS Bypass Product exists (the NTS Bypass Product is removed and not replaced). This scenario assumes all volumes would be there in setting charges but then choose to not use the NTS. Therefore, it assumes **all** current NOCC users bypass the system and all IBP revenue is lost from those users.

Regarding Slide 19 some Workgroup participants felt the points made on slide 19 covering the 0678 Modifications with Ofgem were not helpful.

On Slide 21 some Workgroup participants felt the word refinement should be removed. Some Workgroup participants took exception to the word redistribution.

Most Workgroup participants considered that it was appropriate to look at lost revenue as a consequence of Users who come off the NTS.

Workgroup came to the general conclusion that a 'shorthaul' charge was required and should be cost reflective in order to achieve only efficient bypass of the NTS.

NW stated that if Ofgem wants a 'shorthaul' type product they must give some guidance on the format required in the event that any Modification chosen by Ofgem is not one of the suite of 0678 Modifications include a 'shorthaul' option. In addition, and just as importantly, NW continued, Ofgem must allow adequate time for development of a suitable 'shorthaul' solution. This time should be in the format of a period between any implementation and effective date, as discussed in Workgroup 0678. Ideally Ofgem should indicate which if any of the Modification under consideration are closer to compliance in its view.

Further Work

The outcome of this Workgroup will form the basis for a Modification to be raised. Ordinarily any new Modification coming out of a review group would go straight to consultation, having been fully develop as part of the Review. Further work in this case needs to be based on additional understanding from Ofgem regarding Modification 0678 or one its alternatives.

Workgroup noted that a baseline needs to be understood in order to meaningfully develop any 'shorthaul' type charge.

All of the work in the forthcoming Workgroup Report will be subject to reconsideration in light of any Ofgem decision or indication of decision on the 0678 suite of Modifications. If and when Ofgem provide a minded to position or indication of compliance assessment, the topic of 'shorthaul' is expected to be brought back to NTSCMF for further discussion.

Workgroup agreed unless it received any Modification 0678 Ofgem decision or a 'minded to' position, the Workgroup Report would be finalised to draw a line under the work completed so far.

3.0 Next Steps

- Further Consideration of Optional Methods / Charges to be undertaken at the next meeting.
- Conclusion of the Request Workgroup Report

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 30 July 2019 | Elexon, 350 Euston Road, London NW1 3AW | Consideration of Optional Methods / Charges Conclusion of Request Workgroup Report |

Action Table (as at 02 July 2019)

| Action Ref | Meeting Date | Minute Ref | Action | Owner | Status Update |
|------------|--------------|------------|--------|-------|---------------|
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|------|----------|-----|---|--------------------|---------------|
| 0601 | 04/06/19 | 2.0 | Parties to provide views for consideration against the presentation provided for potential inclusion within the Workgroup Report. | All | Closed |
| 0602 | 04/06/19 | 2.0 | National Grid to provide how products could be formulated. | National Grid (CW) | Closed |