

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

Tuesday 04 June 2019

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

Attendees		
Rebecca Hailes (Chair)	(RH)	Joint Office
Helen Cuin (Secretary)	(HC)	Joint Office
Adam Bates	(AB)	SouthHook Gas
Andrew Pearce	(AP)	BP
Anna Shrigley	(AS)	Eni
Bill Reed	(BR)	RWE Marketing and Trading
Colin Williams	(CW <i>i</i>)	National Grid
Daniel Hisgett	(DH)	National Grid
David O'Neill	(DON)	Ofgem
Debra Hawkin	(DH)	TPA Solutions
Graham Jack	(GJ)	Centrica
Henk Kreuze*	(HK)	Vermilion
James Gudge	(JG)	National Grid
Jeff Chandler	(JCh)	SSE
John Costa	(JCo)	EDF Energy
Julie Cox	(JCx)	Energy UK
Kamla Rhodes	(KR)	ConocoPhillips
Kirsty Ingham	(KI)	ESB
Niall Coyle*	(NC)	E.ON
Nick Wye*	(NW)	Waters Wye
Nicky White	(NW <i>h</i>)	npower
Sinead Obeng	(SO)	Gazprom Marketing and Trading
Steve Pownall	(SP)	Xoserve
Terry Burke	(TB)	Equinor
* via teleconference		

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0670/040619>

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 (30 April 2019)

The minutes of the previous meeting were approved.

1.2. Review of Outstanding Actions

0401: National Grid to provide views on the various optional methods at the next meeting.

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

0402: National Grid to confirm if there are any further methods which could be considered at the next meeting.

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

0403: All other parties to provide suggestions for a new method or one of the methods outlined in Modifications 0678.

Update: National Grid received no further inputs. **Closed.**

0404: Parties to state if they have a view on Optional Charges.

Update: National Grid received no further inputs. **Closed.**

0405: Parties to provide feedback/queries/questions on the Optional Charge Analysis.

Update: National Grid received no further inputs. **Closed.**

2.0 Consideration of Optional Methods

JG provided a presentation on the review of the charging methodology to avoid the inefficient bypass of the NTS. He provided two timelines to illustrate the objectives of the review, considering the potential options and concluding the Workgroup Report for the August 2019 UNC Panel meeting with a view that any suggested modifications could be raised in September 2019.

GJ noted that potential solutions may have filtered into the 0678 Modifications, but noted a view provided by National Grid that none of the optional methods included in any of the 0678 Modifications were in its view compliant with Article 35 of the TAR NC, it considered them to provide a discount. It was not clear how a solution could be found. GJ did not agree that the methods provided a discount. NW noted that Article 35 offers protection of contracts. He challenged whether Article 35 would be contravened if a User is given a choice, allowing the User to operate under existing arrangements or opt for an optional charge.

CWi clarified that the protection offered is to apply a cap.. GJ challenged what type of solution can be presented to address this hurdle. It was suggested it could be possible to have a mechanism that takes into account a User's eligibility and the point at which the cap would be applied.

JG further explained the objective to avoid inefficient bypass of the NTS (this was outlined on page 7). The Workgroup briefly considered when a bypass may be used and what the potential benefits of an optional change could be. DH expressed the need to be careful about compliance and adjusting prices without justification. The phrase 'wider bypass of the NBP' was discussed with some Workgroup Participants unsure whether this was relevant.

BR noted there are a number of locations where it would be economical to build pipelines. GJ noted this is why this needs to be looked at holistically, the wider impact needs to be understood. However, DH disagreed, she believed that a holistic approach is not required.

JG outlined the agreed principles (detailed on page 8) and noted that the current NTS Optional Commodity Charge will cease to exist on implementation of any of the 0678 Modification Proposals.

JG outlined the issues and concerns raised (page 10) and provided an overview of the consultation responses to Modifications 0678 (page 12). The three key points raised by National Grid were:

- Mechanisms proposed under 0678 are 'commercial' options with no requirement to demonstrate (apart from 0678I) where bypass is a genuine consideration (i.e. wheeling). This is one of the concerns under the current regime.
- Where the charge is widely accessible, has substantial discounts or has the potential for significant uptake, this will result in charges for other routes increasing which remains a concern.
- The charges change the prices payable and under all Proposals, as designed, effectively have the capability to change (where used) the price for Existing Contracts as described in TAR NC Article 35. This undermines the fixed price nature of the Existing Contract as defined in Article 35 of TAR NC.

BR enquired about the commercial options and the potential need to have a criteria-based process that evaluates the risk of bypass.

JG outlined three types of categories (definitions) for charges (slide 15). These were:

- Distance based adjustment of RPM
- Update of current OCC methodology, using generic pipeline cost to generate capacity charge
- Standard multiplier? Minimum fee? Value of access to the NTS?

Workgroup noted that the third bullet above is where a new method may be developed. NW noted that the fee included in those 0678 Modifications utilising method 2 was an annual fee.

It was recognised that it will be an intensive process to consider the solutions and any significant issues with these. It was noted some work could be undertaken to assess how elements could work and fit together. JG believed 0670R should focus on the key drivers and principles that can form the basis of any future modifications raised. It does not need to deliver the specific solution since nothing can be agreed/finalised until Modification 0678 is decided upon.

DON confirmed that Ofgem are currently considering the 0678 Final Modification Report, it has not yet been decided what and when to communicate to the industry. It was recognised some compliance assessment will need to be undertaken. National Grid stressed that they did not want to put 0670R on hold until a decision on 0678 was forthcoming as they still wanted to discuss the various options. DH supported the need to consider what solutions could be viable.

JG provided a slide on the application criteria (page 17) summarising the current options. These were:

1. Commercial decision, open to all specified site types
2. Limited to NTS Direct Connects, not DN or Storage
3. Wheeling Charge has distance cap of 0km
4. Stepped distance related application process?
5. Site type? Load factor? Customer profile? Who and where?
6. Proof of pipeline? Criteria? Likelihood bands? A tiered approach.

Items 4&5 above are areas where additional or further methods could be considered. SO enquired if there should be consideration, where it is appropriate and there is justification, for differential treatment. NW expressed concern about layers of complexity and urged the Workgroup to focus on finding a simple charge calculation, and economic tests. The Workgroup briefly considered the benefits to the wider community of using 'Shorthaul'. DH wanted to find a sensible and practical solution.

It was suggested that feedback on the application of charges and the particular options would be useful for consideration at the next meeting, for inclusion in the Workgroup Report.

GJ noted that the risk of bypass should be considered but the risk to other customers and the economic impacts of those routes which might otherwise be bypassed and those Users would then no longer be part of the cost base) also needs to be thoroughly investigated.

JCo enquired about the proof of pipelines. JG questioned if part of the application should include a feasibility study including the pros and cons of building a pipeline.

JG outlined the main consequences (page 19) and that 0670R should review all the options including considering the redistribution of revenue and lost revenue. BR suggested this should also include the risk to consumers of loads disappearing. JCo challenged that the Workgroup should forecast the potential outcomes, he stressed there was a need for accurate cost reflective formulas, to understand the risk of losing customers. BR emphasised the need to provide a product that incentivises users **not** to bypass the NTS and remain part of the

charging base. It was agreed that the Workgroup needs to consider the significance of the loads that could be lost from the charging base.

AS wanted to see a simple process which was equal for everybody with consideration of the required administration. It was suggested that the impact consideration should not be solely based on charges, it needs to consider also the social balance of charges and the broader impacts. It was suggested that certain points on the system also need to be considered, as it may be justifiable to provide a discount.

NW emphasised the need for cost reflectivity and a proxy with reasonable cost reflectivity. He stressed that the use of standard multipliers will add levels of complexity.

The Workgroup discussed the question of universal availability of the product and that it should be limited, not universally accessible.

Having discussed the elements, National Grid clarified that any modification for an optional charge to avoid the inefficient bypass of the NTS, should include the following:

- Eligibility criteria that is not a decision based on optional charge vs RPM (i.e. it should be a more fundamental assessment of risk of genuine bypass)
- Reflection of transmission services received in any charge levied. (Some workgroup participants suggested that wider benefits - potentially mutual benefits – should be considered)
- Level of uptake and redistribution impact
- Consideration of who as well as where (and how use system)
- Tiered approach to application and charge.

BR enquired about the tiered approach and whether this was a tiered charge. CWi believed a tiering structure maybe useful to assess risks of bypass by looking at ranges.

NW was concerned about layers of complexity and arbitrary thresholds. He emphasised the need for transparency, equal application and having a natural cap.

JCx noted from the Energy UK representation on the 0678 Modifications that three sites which currently avail of the OCC, represent total revenue £60mn which is 10% of TO revenues. This highlights the potential impact of those Users no longer being part of the cost base.

National Grid recognised there is unlikely to be one outcome that will draw universal support. In terms of how the 0670R Workgroup Report format and findings can be reported, National Grid suggested covering the following three options:

1. New design of charge
2. Refinement of the options available via those presented in 0678 alternatives
3. No bypass product

RHa asked parties to further consider the presentation provided. To assist with capturing views in the Workgroup Report RHa requested that parties provide their views to the Joint Office 5 business days ahead of the July meeting.

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

GJ enquired if there were any outline modifications for parties to consider. CWi was keen to provide an assessment of the viable options to enable these to be re-considered upon the decision of 0678 and wanted the Workgroup Report to capture elements that could be built into a product. DON suggested the Workgroup may also wish to include lessons learnt from other areas, for example what has worked in other EU states, after ACER has given its recommendations.

JCh believed at the moment it would be difficult to provide views on a conceptual basis. CWi suggested National Grid could provide some examples of how some products could be structured.

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

CWi wished to provide the Workgroup with some potential timings and provided two additional slides. These outlined the dependency on the 0678 Modifications and the timely delivery of the 0670R Request Workgroup Report. It was envisaged three months would be required for a Modification assessment, with an aim of six months for the end to end process and provision of the Final Modification Report to Ofgem.

The Workgroup considered the likely date of the 0678 decision and having a base case on which any new modification would be made. The varying pathways were considered such as urgency, timing of Ofgem's 0678 decision, likelihood of further Modifications, likelihood of Alternatives.

3.0 Next Steps

Further Consideration of Optional Methods / Charges to be undertaken at the next meeting.

Development of 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 02 July 2019	Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA	Consideration of Optional Methods / Charges Development of Request Workgroup Report
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 04 June 2019)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0401	30/04/19	2.0	National Grid to provide views on the various optional methods at the next meeting.	National Grid (CWJ/JG)	Closed
0402	30/04/19	2.0	National Grid to confirm if there are any further methods which could be considered at the next meeting.	National Grid (CWJ/JG)	Closed
0403	30/04/19	2.0	All other parties to provide suggestions for a new method or one of the methods outlined in Modifications 0678.	All	Closed

Action Table (as at 04 June 2019)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0404	30/04/19	2.0	Parties to state if they have a view on Optional Charges.	All	Closed
0405	30/04/19	2.0	Parties to provide feedback/queries/questions on the Optional Charge Analysis.	All	Closed
0601	04/06/19	2.0	Parties to provide views for consideration against the presentation provided for potential inclusion within the Workgroup Report.	All	Pending
0602	04/06/19	2.0	National Grid to provide how products could be formulated.	National Grid (CW <i>i</i>)	Pending