

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

Tuesday 05 February 2019

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

Attendees

Rebecca Hailes (Chair)	(RH)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Adam Bates	(AB)	South Hook Gas
Alex Nield*	(AN)	Storengy UK
Andrew Pearce	(AP)	BP
Anna Shrigley	(AS)	ENI
Bill Reed	(BR)	RWE Supply & Trading
Chris Wright	(CW _r)	Exxon Mobil
Colin Williams	(CW _i)	National Grid
David O'Neill	(DON)	Ofgem
Debra Hawkin	(DH)	TPA Solutions
Graham Jack	(GJ)	Centrica
Henk Kreuze	(HK)	Vermilion Energy
James Gudge	(JG)	National Grid
James Thomson*	(JT)	Ofgem
John Costa	(JCo)	EDF Energy
Julie Cox*	(JC _x)	Energy UK
Kamla Rhodes	(KR)	ConocoPhillips
Kirsty Ingham	(KI)	ESB
Nick Wye	(NW)	Waters Wye
Nicky White	(NW _h)	nPower
Nitin Prajapati*	(NP)	Cadent
Paul Whitton*	(PW)	Scotia Gas Networks
Paul Youngman	(PY)	Drax Power
Pavanjit Dhesei*	(PD)	Interconnector UK
Penny Garner	(PG)	Joint Office
Rebecca Jones	(RSJ)	Mercuria UK LLP
Richard Fairholme*	(RF)	Uniper
Scott Keen	(SK)	Triton Power
Sinead Obeng	(SO)	Gazprom Marketing and Trading
Smitha Coughlan*	(SCo)	Wales & West Utilities
Steve Pownall	(SP)	Xoserve
Terry Burke	(TB)	Equinor

* via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0670/050219>

The Request Workgroup Report is due to be presented at the UNC Modification Panel by 16 May 2019.

1.0 Introduction and Status Review

1.1. Approval of Minutes (10 January 2019)

During a brief onscreen review of the 10 January 2019 Workgroup minutes, JG pointed out that references to *'Independent Pipelines'* should actually read as *'Interconnection Points'*.

Thereafter, the minutes of the previous meeting were approved.

1.2. Review of Outstanding Actions

No outstanding actions to consider.

2.0 Consideration of Concepts (Strawman)

2.1. Proposals Presentation

In reviewing the proposed 'High Level Timeline', JG explained that National Grid proposes awaiting developments from the UNC Modification 0678 'Amendments to Gas Transmission Charging Regime' suite of proposals before looking to conclude any 0670R requirements during February / March 2019. RH pointed out that the proposed Centrica 0678 alternative would potentially require the addition of at least one more 0678 Workgroup meeting – it is proposed that an additional meeting is scheduled for Wednesday 20 February 2019.

It was noted that the heavy 0678 workload potentially constrains the 0670R meeting schedule.

JG noted that of the three (3) potential 0670R 'Ideas', two (2) might fall under the 0678 jurisdiction, subject to the various alternatives being proposed.

When asked whether any 0670R aspects would/could be included (accommodated) within the suite of 0678 (and alternative) modifications, JG responded by stating that at this point in time, he would be unable to comment, although in his opinion 0670R would continue to consider shorthaul aspects.

In referring to the Ofgem decision letter for the UNC Modification 0621 suite of modifications¹, DO pointed out that any 0678 modifications with shorthaul aspects included should ensure that they are TAR Code compliant in order to look to avoid inefficient bypass problems.

When it was asked whether a simple 'copy & paste' of shorthaul elements from the 0621 suite of modifications would suffice for the compliance purposes for 0678 provisions, it was suggested that this would not be a good idea on the grounds that if they were not compliant for 0621 purposes, they would not be compliant for 0678 purposes either. A brief onscreen review of the 0621 Ofgem decision letter was undertaken during which attention was drawn to the 'discount' reference within the text on page 9. At this point GJ explained that his proposed 0678 alternative makes reference to a multiplier factor of 1 being a 'hidden' discount and also compliance requirements – in short, he does not necessarily agree with the views of some of 0670R Workgroup colleagues. CWi pointed parties to the top statement box on page 7 of this presentation entitled *'Compliant with relevant legislation'* and explained that there would be scope under the TAR Code to pursue further discussion on compliance going forwards.

Moving on to consider *the 'Current ideas for a charging methodology to avoid the inefficient bypass of the NTS'* slide 12, NW advised that 'Idea 3' might be included in a new 0678 alternative modification in the near future.

¹ A copy of the Ofgem Decision Letter for the suite of UNC 0621 Modifications can be viewed and/or downloaded from the Joint Office web site at: <https://www.gasgovernance.co.uk/0621>

2.2. NTS Bypass Avoidance Charge, National Grid Presentation

In providing an overview of the presentation, JG initially focused attention on the '*Basis of Idea*' slide, noting that the various elements had been considered during creation of the idea around the NTS Bypass Avoidance Charge.

In considering the '*Cost reflectivity*' bullet, JG explained that with this, National Grid are trying to address cost reflectivity of pipeline costs and acknowledged that care would be needed in order to accurately define what services are being provided.

Examining the '*justified distance cap*' aspects, it was noted that issues raised under the previous UNC Modification 0621 discussions focusing on linking the distance cap to pipeline costs could add complexity and ultimately makes identification of potential risks difficult.

When JG went on to suggest that 'non-use charges' have been based around the incurring of costs when a party is not utilising their full capacity allocation, GJ pointed out that he would be looking to include utilisation aspects within his forthcoming 0678 alternative modification. It was also noted that where a party builds a pipeline they pay for all the associated costs, but a user utilising a shorthaul pipeline would potentially incur non-use charges (i.e. a qualifying 'use of' based charge).

When JG made reference to the Ofgem decision letter for the 0621 suite of modifications, and specifically the subject of the straight line distance aspects, it was noted that perhaps an alternative option would be to adopt a capacity linked charge rather than a non-use based approach.

Moving on to consider the '*Current Assumptions*' slide, it was noted that further debate would be needed around what constitutes a genuine risk. When asked whether the associated timeline of one (1) year is fixed, JG responded by indicating that National Grid would be happy to consider other time periods.

Some concerns were voiced around linking the provision to the underlying methodology and whether a concept of being able to 'dip in and out' of the proposed provisions is the correct approach. At this point GJ made reference to his previous concerns around offshore networks and whether gas comes into the UK Gas Market (or not, as the case might be) – NW provided a brief and informative overview of how the UK Market operates, suggesting that what is being proposed is a sensible and pragmatic approach and mindful of the objective of developing a service that aims to provide a fair, equitable transparent and efficient service (exc. Storage).

Moving on to next consider the '*Methodology*' slide, enquiries were made as to whether the reference to 'users' refers to a single user or multiple users (shippers), at which point JG indicated that National Grid would be more than happy to consider the matter further. When it was suggested that perhaps one alternative option could be to have multiple users but apply some form of a 'collective cap', it was agreed to investigate the matter under consideration of booking aspects in due course.

In considering whether the Capacity (FCC) process flow map forms part of the recovery charge, JG explained that it actually forms part of the setting of Firm Capacity, similar in concept to the Interruptible Discounts. When asked, JG confirmed that 'NTS BAC' refers to the Bypass Avoidance Charge.

When asked whether the calculation provided on page 10 of the presentation applies to all parties on an individual basis, JG confirmed this to be a correct assumption.

In considering the '*How to define project/pipeline costs?*' question, JG pointed out that this matter had already been the subject of significant industry debate in the past. Referring to the 'complexity factor' JG explained that this involves a 15% uplift referenced in GCD11 to account for the distances involved and that the reference to straight line routes reflects an 'as the crow flies' based approach – furthermore it was noted that GCD11 had costs built in to cater for increasing distances (i.e. banded).

When some parties voiced concerns around the distance and pipe size relationships and wondered whether a capacity cap (due in part to compressor related aspects) might be a preferred option, NW pointed out that there is no predefined definition for distance (km), although it is assumed that a pipeline distance of circa 300km would not necessarily invoke shorthaul. Some felt that the longer distanced pipelines might invoke greater (cost) risks. Responding, JG suggested that it depends on how you would apply a complexity factor and whether the industry looks to adopt a simple or complex process solution.

It was noted that these matters are not an exact science and all charges should be realistic (i.e. reasonable, sensible, pragmatic and reflective), especially when bearing in mind that there are a number of sites built close to the Entry point that are utilising shorthaul right now – in short, the industry need to make sure it creates a charge that does not overlay multiple costs onto customers.

In looking to consider the methodology for calculating bypass related costs, JG noted that the Workgroup would need to establish what a suitable shorthaul tariff would be – it was suggested that sites that have been successful in applying for a discount, should be visible to other industry parties to aid transparency and that adopting some form of approval criteria would be beneficial.

Looking at the Option 1 '*Reserve Charges for the Applicable Quantity*' calculations, JG suggested that one possible option would be to leave the 'Nen' and 'Nex' (which are trying to link to receiving the NTS service) off altogether.

In referring to the elements contained within the red box, JG explained that this is in essence looking for security of supply aspects. When it was noted that what is needed is a fair contribution to the costs of using the system other than your shorthaul contracted Entry point, JG accepted that further consideration around receiving the transmission service and associated charges is needed – JG advised that whilst he might have some high level figures in mind, he would await the developments from UNC Modification 0678 before looking to share these with a wider audience.

When concerns were voiced around the 'MNEPOR' and how any pipeline construction elements would be potentially impacted, NW explained how parties would assess building a pipeline to 'match' a 1:20 winter requirement, which is essentially what MNEPOR relates to. NW also took this opportunity to indicated that he does not believe that Option 1 is viable.

Moving on next to consider the Option 2 '*Reserve Charges for the Applicable Quantity*' calculations, JG explained that there is not a significant difference between this and option 1 and to this end, National Grid are looking for the Workgroup to agree that neither option really works and as a consequence the Workgroup should then look to develop justification for generic risks via a different route (i.e. a cost reflective charge). When asked, JG confirmed that this would be classed as a transmission service on the grounds that it would be related to a capacity charge.

It was noted that as such a charge would be part of the 'charging base', it would depend on how we incentivise parties to remain part of the community, rather than building their own pipelines.

Attention then focused on the final (content) slide entitled 'Proposed Assessment Criteria' whereupon JG explained that the analysis would be conducted inline with previous industry discussions on similar matters.

In noting that the criteria are not presented in any particular order of preference, the Workgroup recognised that 'Compliance' is of paramount importance and as a consequence, should be one of the very first areas for consideration, if not the first.

DO advised that Ofgem would expect that any party raising a new UNC Modification that potentially impacts upon this area (either directly or indirectly), would take into account

compliance requirements and impacts, as the modification(s) itself would need to be compliant.

In summarising the discussions, JG advised that he would look to crystallise the feedback provided with a view to providing some analysis based around a comparison between UNC Modifications 0670R and 0678, including existing versus future usage predictions and also limiting factors for sites in or around the NTS, the Workgroup suggested that generic costs and cost of gas and gas sources are also important considerations when considering whether to construct a pipeline.

New Action 0201: Reference NTS Bypass Avoidance Charge - National Grid (JG) to look to provide analysis based around a comparison between UNC Modifications 0670R and 0678, including existing versus future usage predications; limiting factors for sites in or around the NTS; generic costs and cost of gas and gas sources in respect of construction of a pipeline.

Some parties believe that it would also be beneficial for National Grid to undertake some analysis in order to assess the potential risk and impact of the NTS losing capacity revenue (due to construction of independent pipelines), and how this would potentially impact upon other industry parties and NTS revenue (i.e. a revenue sensitivity risk assessment aspect). It was noted that discussions on UNC Modification 0636 suggested a factor of around 15%, based on the current system.

In referring to Ofgem's UNC Modification 0621 decision letter, DO once again pointed out that assessment of generic risks and compliance aspects remain crucial to any Workgroup considerations.

NW provided a brief explanation behind how parties usually (potentially) undertake a simplistic commercial assessment approach – in short, 'is it cheaper to build your own pipeline or connect to the NTS?'. However, it was noted that during development of UNC Modification 0636, very few parties were willing to share their commercial decision-making mechanisms, or commercially sensitive information, resulting in a lack of true transparency. Responding, NW suggested that what is needed should be a simple, flexible and reflective process built around how parties make their commercial decisions. CWi reminded everyone present that whilst some information could be made public, other information could not and has to remain 'shielded'.

In noting that there are potential benefits associated with incentivising the bringing of gas to the UK Market (i.e. a potential consumer impact), GJ suggested that care would be needed especially as we are already changing the charges over the next 12 to 18 month period.

New Action 0202: Reference NTS Bypass Avoidance Charge - National Grid (JG) to look to provide analysis based upon the UNC Modification 0678 model and to also look to provide a view on the potential NTS Revenue Sensitivity Risk Assessment aspects.

It was agreed further consideration around this area would be required at the next meeting.

3.0 Next Steps

RH summarised the next steps as being:

- Consideration of UNC Modification 0678 developments;
- Consideration of National Grid analysis, and
- Consideration of NTS Revenue Sensitivity Risk Assessment aspects.

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 05 March 2019	Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	Standard Workgroup Agenda, plus <ul style="list-style-type: none"> • Consideration of UNC Modification 0678 developments; • Consideration of National Grid analysis, and • Consideration of NTS Revenue Sensitivity Risk Assessment aspects.
10:00 Tuesday 02 April 2019	Elexon, 350 Euston Road, London NW1 3AW	Standard Workgroup Agenda
10:00 Tuesday 30 April 2019	Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	Standard Workgroup Agenda

Action Table (as at 05 February 2019)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0201	05/02/19	2.2	<i>Reference NTS Bypass Avoidance Charge</i> - National Grid (JG) to look to provide analysis based around a comparison between UNC Modifications 0670R and 0678, including existing versus future usage predications; limiting factors for sites in or around the NTS; generic costs and cost of gas and gas sources in respect of construction of a pipeline.	National Grid (JG)	Pending
0202	05/02/19	2.2	<i>Reference NTS Bypass Avoidance Charge</i> - National Grid (JG) to look to provide analysis based upon the UNC Modification 0678 model and to also look to provide a view on the potential NTS Revenue Sensitivity Risk Assessment aspects.	National Grid (JG)	Pending