

UNC Request Workgroup 0705R Minutes
NTS Capacity Access Review
Thursday 05 August 2021
via Microsoft Teams

Attendees

| | | |
|-----------------------------|-------|----------------------------------|
| Eric Fowler (Chair) | (EF) | Joint Office |
| Mike Berrisford (Secretary) | (MB) | Joint Office |
| Adam Bates | (ABa) | South Hook Gas Ltd |
| Alex Nield | (AN) | Storengy |
| Andrew Blair | (ABI) | Interconnector UK |
| Anna Shrigley | (ASh) | ENI |
| Anna Stankiewicz | (ASt) | National Grid |
| Ashley Adams | (AA) | National Grid |
| Bethan Winter | (BW) | Wales & West Utilities |
| Carlos Aguirre | (CA) | Pavilion Energy |
| Chris Wright | (CW) | ExxonMobil |
| Christiane Sykes | (CS) | Shell |
| Daniel Hisgett | (DHl) | National Grid |
| Davide Rubini | (DR) | Vitol |
| Debra Hawkin | (DHa) | TPA Solutions |
| Emma Buckton | (EB) | Northern Gas Networks |
| Hannah Reddy | (HR) | Correla on behalf of Xoserve |
| Helen Seaton | (HS) | Ofgem |
| Henk Kreuze | (HK) | Vermilion |
| Jeff Chandler | (JCh) | SSE |
| Jennifer Randall | (JR) | National Grid |
| Julie Cox | (JCx) | Energy UK |
| Kamla Rhodes | (KR) | ConocoPhillips |
| Lauren Jauss | (LJ) | RWE |
| Nick Wye | (NW) | Waters Wye Associates |
| Phil Hobbins | (PH) | National Grid |
| Phil Lucas | (PL) | National Grid |
| Rachel Hinsley | (RHl) | National Grid (0771S only) |
| Rebecca Hailes | (RHa) | Joint Office |
| Richard Fairholme | (RF) | Uniper |
| Ritchard Hewitt | (RHe) | Hewitt Home and Energy Solutions |
| Sarah Cooper | (SC) | IUK |
| Shiv Singh | (SS) | Cadent |
| Sinead Obeng | (SO) | Gazprom |
| Steven Britton | (SB) | Cornwall Insight |

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0705/050821>

1. Introduction and Status Review

Eric Fowler (EF) welcomed all parties to the meeting.

1.1. Approval of minutes (01 July 2021)

The minutes from the last meeting were approved.

1.2. Approval of Late Papers

EF advised that there was one (1) late paper under item 2. for consideration at the meeting.

1.3. Review of Outstanding Actions

Action 0701: National Grid (ASt) to present a detailed review of overruns for the Workgroup.

Update: Please refer to the presentation provided under item 2. below for further details. Subject to the information provided within the presentation pack, it was agreed that the action could now be closed. **Closed**

Action 0702: National Grid (ASt) to provide analysis (including driver for changes feeding into overruns) to the Workgroup for review.

Update: Please refer to the presentation provided under item 2. below for further details. Subject to the information provided within the presentation pack, it was agreed that the action could now be closed. **Closed**

Action 0703: National Grid (JR) to discuss moving away from a single regime with Ofgem to see how the product options could be progressed.

Update: Please refer to the presentation provided under item 2. below for further details. Subject to the information provided within the presentation pack, it was agreed that the action should remain open for the time being. **Carried Forward**

1.4. Project Management

Please refer to the presentation provided under item 2. below for further details.

2. Review of Exit Regime

In introducing the National Grid '*Capacity Access Review*' presentation, Jennifer Randall (JR) provided a quick explanation behind the '*User commitment & incremental capacity*' slide 3 before handing over to Anna Stankiewicz (ASt) to provide an overview of item '*01 Exit User Commitment*' and specifically, the '*Analysis*' data on slide 4.

ASt provided a brief explanation to the background to the user commitment timeline (4 years) and advised that a further update would be provided at a subsequent Review Group meeting. A Workgroup member asked whether it is appropriate to base the analysis on past data as we now have more stable (gas market) prices. ASt responded by acknowledging the point before suggesting that perhaps it is more a question of whether user commitment is about 'commitment' or 'time'.

Moving on to consider item '*02 Movement of capacity between exit points*' and specifically the '*Principles*' slide 6, JR provided a brief overview focusing mainly on the new lines of information. Focusing attention on the applicable items for the 'Baseline' principle, JR advised that National Grid are considering capacity related aspects such as Charging and FCC related impacts along with other potential interaction (touch) points.

In examining the '*Capacity movement in July 2021 window*' slide 7, ASt advised that it appears from the analysis that a mechanism might have been used, that consideration remains ongoing and that calculation of exchange rates might prove beneficial. i.e. users should not assume that the exchange will always be 1:1 as this will be influenced by constraining factors on the network. Exchange rates may thus need to be determined on a case-by-case basis.

Moving on to next consider the '*Offtakes in close geographical proximity*' slide 8, ASt explained that consideration of this matter also remains ongoing. When asked whether any of the examples provided were off the same feeder pipeline, ASt responded by advising that she is not 100% certain, but believes that they might be, although they could also be serving different geographical locations – in some instances, the locations are only circa 20m apart.

New Action 0801: *Reference Offtakes in Close Geographical Proximity – National Grid (ASt)* to look to provide additional evidence relating to geographical locational separation distances and to also provide some supporting definitions.

When Bethan Winter (BW) highlighted that Ross-on-Wye geographical aspects would benefit from further consideration if this matter is developed further, ASt acknowledged the point.

In providing an overview of item '*03 Entry Capacity Assignments*', Dan Hisgett (DH) enquired whether parties in attendance believed there would be merit in revisiting this area after the withdrawal of the previous UNC Modification.

When asked whether Workgroup participants had potentially amended their 'original' views on this matter, Nick Wye (NW) responded by suggesting that this could be the case especially now that more detailed information relating to the shorthaul product assignment has come to light – this was supported by several other participants. Anna Shrigley (ASh) also believed that inclusion of assignment aspects within Code would be beneficial, especially as she is of the opinion that assignment of any 'rights' should be a secondary consideration.

When asked whether it is proposed that the mechanism to assign shorthaul would be incorporated into the Uniform Network Code (UNC) going forward, JR pointed out that 'the Modification' would be raised on the basis that any existing contractual arrangements would be lost upon assignment. In noting that the payable price for assigned capacity should / would also be a prime consideration, Richard Fairholme (RF) enquired whether this would be based on a previous or current year assessment to which DHi responded by advising it would be the year in which the capacity is / was utilised.

When asked what happens when an existing contract moves to the assignee, and whether it would stay as 'standard capacity', DHi confirmed that it would and would also be subject to RRC provisions.

When asked what the potential next steps might be in respect of this matter, JR advised that as Friday 06 August 2021 is the new Modification submission cut off date, National Grid could look to formally submit the new Modification in time for consideration at the 19 August 2021 Panel meeting. Rebecca Hailes (RHa) explained that should the Modification 'land' with the Joint Office, they would undertake a Critical Friend exercise as soon as possible thereafter.

Moving on next to consider item '*04 Overruns*', discussions focused on the '*Exit data (October 2020 – May 2021)*' slide 12, and whether or not apparently less penal overrun charges have materially diminished the incentive to book correctly. ASt suggested that it is more about finding the correct 'balance' and considering whether the circa £723k Charge Amount for 2020/21 is to be deemed excessive – perhaps it is more to do with the intrinsic processes involved. However, some parties remained concerned that the data might be suggesting that user behaviours are getting worse although perhaps it could also be a product of an incorrectly set multiplier level – in essence, how we compare years is of paramount importance.

Some parties believe that further lowering the multiplier level might go some way towards addressing user behaviour, especially as the nature of capacity and current prices results in capacity being booked with lower tolerance – concerns were voiced that should a 3% tolerance level be accepted for Shipper nominations this would lead to contribution to the Transmission Service Revenue (TSR) rather than through Neutrality Charges. Two key areas to consider might be a) overrun multiplier reductions and / or b) reduction of administration related errors.

ASh explained that her Eni administrator colleagues are instructed to book capacity as needed on the day. However, she does acknowledge that there can be administration errors and points out that these can be compounded by the fact that bids via the Gemini system means that there are NO limits on how much capacity can be booked. It is believed that a monitoring system such as the one suggested to provide an alert to users can only be beneficial.

BW explained that as a GDN (Gas Distribution Network) operator the concern is to ensure that everyone is paying a fair price. The position being taken by Shippers contrasts with the GDN 1:20 Licence Obligations to book capacity. GDNs would be concerned at any dilution of obligations by providing an additional 3% tolerance for Shippers – in short, parties should book the capacity they need.

JR observed that in respect of administration type errors, it appears from the data that Shippers are not booking their capacity accurately in order to 'match' their respective flows. If a 3% tolerance level was to be introduced, this might simply result in Shippers trying to then 'target their capacity booking at 97% of expected flow. In noting that as far as the entry side of the equation is concerned, the number of overruns had increased threefold (twofold in volumetric terms) in more recent times, due in part to the number being applied, some believe that most Shippers would look to avoid breaching the 3% tolerance, although it is noted that Shippers do have different booking behaviours and risk appetites.

Lauren Jauss (LJ) added that the cost of the overruns needs to be reflective of the marginal cost of running the system; the example provided is that RWE has to 'guesstimate' the electricity requirements and thus assess whether they need to run their power station, RWE does not want to book capacity unnecessarily. It may be a disbenefit to consumers if electricity prices are higher as a result of generators having to book expensive gas capacity. At this point JR advised that National Grid is considering these matters and wonder whether there is a potential to trade-off between the electricity and gas sides.

Some parties believe it is odd to suggest that parties deliberately seek to overrun and that care is needed to avoid penalising the inherent gas market flexibility. Whilst it remains difficult to compare year-on-year data, it is apparent that it costs money to overrun and that the way the market is set up ultimately results in overruns occurring – in essence, the question boils down to what we want the market to do, especially when it is believed that the monies involved are potentially going to the wrong sector (i.e. a potential revenue).

Julie Cox (JCx) noted that it cannot be simply assumed that making money on the electricity side of the market, is and can, be utilised to offset the gas capacity costs. Some parties in attendance suggested that perhaps it relates to achieving an optimal cost balance.

When ASH suggested that National Grid generate revenue through capacity and that care would be needed to ensure any regime changes ensure that revenue passes through / follows the TSR route, ASt responded by advising that she does not agree with this assumption and that mechanism rewards the good performers. EF suggested that the industry view the purpose of overruns as a way to regularise the regime and ensure delivery of a fair process for all parties involved.

JCx reminded everyone present that the overrun process was originally established at a time when the gas industry was rapidly expanding, and that now, the network is less constrained and that in her view, these (changing) factors should have been considered as part of the Charging Regime changes – several parties supported this view.

It was acknowledged by those present that it is about protecting users from the actions of fellow users and that this approach was reflective of an expanding (gas) market, which is why it was capacity revenue being generated and not TSR in the first instance.

Moving on to consider the 'Tolerance' slide 13, ASt advised that the information provided is based in part on previous Workgroup discussions.

Attention then moved to the 'Overrun v costs' slide 14, during which RHa observed that the 1.1 factor is not a multiplier in the same extent as the 6 and 8 values are.

When asked whether the factor 8 multiplier value results in any additional costs, ASt advised that it is not there to 'cover off' National Grid's costs, but is related to better incentivising user behaviours, rather than simply seeking to be cost reflective. RHe pointed out that the multipliers were selected during extensive debate and were previously put in place on the basis of being reviewed, which has not happened. – it was suggested by one party that the figure '8' was simply a number selected and that a review of the 'ticket to ride' is needed.

It was also suggested that security of supply and market drivers also need to be considered as we look to move forward.

In considering the final slide in the presentation, the 'Reasons for overruns' slide 15, ASt advised that the information provided is based in part on discussions with various users.

3. Review of Overrun Multiplier

3.1 Overrun Reporting

Please refer to the presentation provided under item 2. above for further details.

4. Any Other Business

None.

5. Next Steps

EF explained that he would now report on the progress at the 19 August 2021 Panel and that moving forward, identification of the various reasons behind the options would be included within the Request Workgroup Report.

6. Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/events-calendar/month

| Time / Date | Venue | Workgroup Programme |
|------------------------------------|-----------------|---------------------------|
| 10:00 Tuesday 07 September 2021 | Microsoft Teams | Standard Workgroup Agenda |
| 10:00 Thursday 07 October 2021 | Microsoft Teams | Standard Workgroup Agenda |

Action Table (as at 05 August 2021)

| Action Ref | Meeting Date | Minute Ref | Action | Owner | Status Update |
|------------|--------------|------------|--|---------------------|-----------------------------------|
| 0701 | 01/07/21 | 2.0 | National Grid (ASt) to present a detailed review of overruns for the Workgroup. | National Grid (ASt) | Update provided. Closed |
| 0702 | 01/07/21 | 2.0 | National Grid (ASt) to provide analysis (including driver for charges feeding into overruns) to the Workgroup for review. | National Grid (ASt) | Update provided. Closed |
| 0703 | 01/07/21 | 2.0 | National Grid (JR) to discuss moving away from a single regime with Ofgem to see how the product options could be progressed. | National Grid (JR) | Pending due 07/09/21 |
| 0801 | 05/08/21 | 2. | <i>Reference Offtakes in Close Geographical Proximity</i> – National Grid (ASt) to look to provide additional evidence relating to geographical locational separation distances and to also provide some supporting definitions. | National Grid (ASt) | Pending due 07/09/21 |