UNC Workgroup 0823S Minutes
Amendment to the Allocation of Entry Capacity and Flow Quantities to Qualifying CNCCD Routes

10:00 Tuesday 04 October 2022

via Microsoft Teams

Attendees		
Eric Fowler (Chair)	(EF)	Joint Office
Karen Visgarda (Secretary)	(KV)	Joint Office
Ashley Adams	(AA)	National Grid NTS
Alex Nield	(AN)	Storengy
Anna Shrigley	(AS)	ENI
Anna Stankiewicz	(ASt)	National Grid NTS
Brian McGlinchey	(BG)	Vermilion Energy
Carlos Aguirre	(CA)	Pavilion Energy
Colin Williams	(CW)	National Grid NTS
Dan Wilkinson	(DW)	EDF
Dave Bayliss	(DB)	National Grid NTS
Davide Rubini	(DR)	Vitol
Debra Hawkin	(DHa)	TPA Solutions
Jeff Chandler	(JC)	SSE
Joseph Glews	(JG)	Ofgem
Julie Cox	(JC)	Energy UK
Kieran McGoldrick	(KM)	National Grid
Lauren Jauss	(LJ)	RWE
Marion Joste	(MJ)	ENI
Nick Wye	(NW)	Waters Wye Associates
Nigel Sisman	(NS)	Sisman Energy Consulting
Richard Fairholme	(RF)	Uniper
Oliver Weston	(OW)	Ofgem
Oreoluwa Ogundipe	(OO)	Interconnector
Paul Whitton	(PW)	SNG
Ritchard Hewitt	(RH)	Hewitt Home and Energy

The Workgroup Report is due to be presented at the UNC Modification Panel by 15 December 2022.

This Workgroup meeting will be considered quorate provided at least two Transporter and two Shipper User representatives are present.

Please note these minutes do not replicate/include detailed content provided within the presentation slides, therefore it is recommended that the published presentation material is reviewed in conjunction with these minutes. Copies of all papers are available at: https://www.gasgovernance.co.uk/0823/041022

1.0 Outline of Modification

Lauren Jauss (LJ) introduced the Modification and explained it was seeking to amend the apportionment of Entry Capacity and Entry Flow between multiple Conditional NTS Capacity Charge Discount qualifying routes that share an Entry Point, so that both are based on the minimum of the Exit Capacity and the Exit Flow at the Exit Point of each route.

LJ advised that the proposed status of the Modification was Self-Governance (SG) with a Workgroup assessment duration of 3 months.

LJ explained the reason for the change as detailed below:

- *In order to be eligible for the CNCCD discount on nominated routes, Users must buy Entry Capacity and Exit Capacity and must flow gas at the Entry Point and Exit Point.*

- *If a User has two or more routes that share an Entry Point, the User's Entry Capacity holding and Entry flows are apportioned to each route for the purposes of determining eligibility for CNCCD. But the* ***Entry Capacity and Entry flow are apportioned differently****, based on the User's Exit Capacity and Exit flows, respectively.*

- *However,* ***where there is unused Exit Capacity on one route,*** *that route will attract an unnecessary allocation of Entry Capacity not used on that route. A reduced and often insufficient amount of Entry Capacity is then allocated to the other routes i.e., the* ***allocated Entry flows can exceed the allocated Entry Capacities.***

- ***In this scenario, a User does not fully qualify for the CNCCD discount on all the flows, even though the User has bought sufficient Entry Capacity and Exit Capacity and has flowed gas at the Entry Point and Exit Points.***

- *The proposer believes that the effect was an unintended oversight when the CNCCD discount arrangements were developed and implemented with UNC Modification 0728B.*

- *The current apportionment methodology does not reflect the operation, costs, and benefits of access to and use of a pipeline that is owned and operated by the User, which is the intent of the current CNCCD arrangements.*

LJ noted that she had already discussed the problem with National Grid Gas who have advised that an amendment to the calculation of Entry Capacity and Entry flow proportions would require a UNC Modification proposal because they are defined in the UNC TPD B9.3.8

LJ provided a brief overview of the proposed Solution, as detailed below:

- *The proposed solution is to amend the apportionment calculation so that both the Entry Capacity and Entry Flow are allocated to nominated routes in the same proportions based on the minimum of both the Exit Capacity and Exit Flow at each of the Exit Points.*
- *The allocated proportions of Entry Capacity and Entry flows would then be matched, and the Entry Capacity would be allocated to where it is used, to accommodate the Entry flows also allocated along each route. The overall ratio of Entry Capacity to flow for each route would then be the same as the actual total ratio at the Entry Point.*
- *The use of the minimum of Exit Capacity and flow to determine the Entry proportions correctly matches the quantities eligible for CNCCD which is also based on the minimum of Entry Capacity, Exit Capacity, Entry flow and Exit flow.*
- *LJ believes this problem affects a minority of CNCCD qualifying routes because the majority of routes do not share Entry Points. The proposed arrangements would redistribute a relatively small amount of Entry and Exit Capacity charges that become eligible for the CNCCD discount across all Users.*

EF provided a brief overview of the background of Modification 0728/A/B/C/D (Urgent) - Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS. EF explained that Modification 0728B had been chosen as the least unfavourable of the proposals, and the solution was attempting to avoid excessive discounting. LJ agreed and said her proposed Modification was the next level of detail regarding this complex area.

Ritchard Hewitt (RH) proposed that this would not change the mechanics of the shorthaul process. Nigel Sisman (NS) noted that an objective outcome for the Modification should be that it must lead to lower reserve prices and LJ advised she was not sure that was a prerequisite, but that yes that could be the case.

NS said that within the Modification itself there was no mention of any by-pass which could pose a risk. Unless the modification results in the NTS retaining a load that would otherwise be lost then the effect would be to increase unwarranted (i.e. wasteful) discounts and the effect of that would be to increase reserve prices for other customers.

LJ restated that the purpose remained to avoid inefficient by-pass of the NTS which had been established in Modification 0728B and that the current arrangements are a barrier to accessing the discount as was intended in UNC0728B. NS indicated that UNC0728 consultation responses had identified that avoiding all by-pass is unlikely to be efficient. The UNC0728/A/B/C/D decision acknowledged this and confirmed that even in the preferred option (UNC0728B) some by-pass would be anticipated. LJ said that at the time UNC0728B was implemented, the discount was chosen to be set at an appropriate level, but these levels cannot currently be accessed under the current arrangements.

Many participants deemed the current calculation of the Election Entry Proportion as unacceptable. One participant disagreed. A lengthy general discussion took place in relation to the potential shorthaul charge for each route.

CW overviewed the 'Initial Findings' Presentation documentation which encompassed the Current Process for Proration of Multi routes and the Proposed Process for Proration of Multi routes, Slides:3,4, which can accessed via the link:
https://www.gasgovernance.co.uk/0823/041022

The first of the slides (3) CW gave an overview of the current rules shown on the slide to illustrate how the current arrangements work and the way in which values are apportioned. A key takeaway is that the capacity component for ASEP is prorated per route to Exit based on capacity values. And for flows (commodity) or Allocations are prorated based on flow values.

Business Rules as described in UNC Modification 0728B

37 Where a User specifies a single Entry Point as the relevant Entry Point for more than one route (i.e. in respect of more than one Exit Point):

37.1 the Entry Capacity (CAP_{En}) for the relevant route will be equal to the User's Entry Capacity at the ASEP pro-rated on the basis of the Exit Capacity quantity as a proportion of the aggregate of the Exit Capacity quantities (for which the Entry Point is the relevant Entry Point for the nominated routes);

37.2 the quantity of Entry Capacity procured via an Existing Contract (EC_{En}) for the relevant route will be the equal to the User's Entry Capacity procured via an Existing Contract at the ASEP pro-rated on the basis of the Exit Capacity quantity as a proportion of the aggregate of the Exit Capacity quantities (for which the Entry Point is the relevant Entry Point for the nominated routes);

37.3 the Entry Allocation (A_{En}) for the relevant route will be the equal to the User's Entry Allocation at the ASEP pro-rated on the basis of the Exit Allocation quantity as a proportion of the aggregate of the Exit Allocation quantities (for which the Entry Point is the relevant Entry Point for the nominated routes).

37.4 the Apportionment Quantity (AQ_{En}) for the relevant route will be the equal to the User's Apportionment Quantity pro-rated on the basis of the Exit Capacity quantity as a proportion of the aggregate of the Exit Capacity quantities (for which the Entry Point is the relevant Entry Point for the nominated routes);

Reflecting on these steps for proration, the changes that UNC Modification 0823 would introduce were highlighted on the slides (4) and the main change would be that capacity and

allocations would be prorated using the same method that would use a lower of value of capacity or flows.

Business Rules as described in UNC Modification 0823

37 Where a User specifies a single Entry Point as the relevant Entry Point for more than one route (i.e. in respect of more than one Exit Point):

37.1 the Entry Capacity (CAPEn) for the relevant route will be equal to the User's Entry Capacity at the ASEP pro-rated on the basis of the minimum of Exit Capacity quantity and Exit Allocation quantity as a proportion of the aggregate of the minimum of Exit Capacity quantities and Exit Allocation quantity per route (for which the Entry Point is the relevant Entry Point for the nominated routes);

37.2 the quantity of Entry Capacity procured via an Existing Contract (ECEn) for the relevant route will be the equal to the User's Entry Capacity procured via an Existing Contract at the ASEP pro-rated on the basis of the minimum of Exit Capacity quantity and Exit Allocation quantity as a proportion of the aggregate of the minimum of Exit Capacity quantities and Exit Allocation quantity per route (for which the Entry Point is the relevant Entry Point for the nominated routes);

37.3 the Entry Allocation (AEn) for the relevant route will be the equal to the User's Entry Allocation at the ASEP pro-rated on the basis of the minimum of Exit Allocation quantity and Exit Allocation quantity as a proportion of the aggregate of the minimum of Exit Allocation quantities and Exit Allocation quantity per route (for which the Entry Point is the relevant Entry Point for the nominated routes).

37.4 the Apportionment Quantity (AQEn) for the relevant route will be the equal to the User's Apportionment Quantity pro-rated on the basis of the minimum of Exit Capacity quantity and Exit Allocation quantity as a proportion of the aggregate of the minimum of Exit Capacity quantities and Exit Allocation quantity per route (for which the Entry Point is the relevant Entry Point for the nominated routes);

A general discussion took place regarding the funding apportionment quantity. LJ clarified that presently the entry capacity was apportioned on entry flows only and the exit flows were exit flows only. LJ noted the proposal was to apportion the capacity flows in the same amounts.

Debra Hawkin (DH) stated that she was more concerned about the flows rather than the capacity and LJ added the problem arises because the flows and capacity do not match. EF offered to rephrase the problem and that rather than refer to capacity for a route the terminology could be used to refer to ‘eligibility to discount’ for a shorthaul route.

EF introduced the discussion material provided by National Grid at short notice and published alongside the meeting agenda.

CW stated that the initial analysis had been undertaken in a confidential manner due to the sensitivity of the information and he noted the following:

- *There are currently 41 nominated routes*
- *There are currently 8 Shippers and 2 Entry Points with active routes to multiple Exit Points*
- *24 multi-routes in total will be affected by this change*

High Level Figures

Invoicing data for the period Oct-21 to Jul-22 has been used to calculate the

following:

- *The 24 multi-routes contributed circa £2.5m in combined Entry & Exit Revenues from Eligible Quantities over this ten-month period.*
- *Approximately £22.2m was socialised due to the discounts applied.*

- *This contribution is generated from approx. 22.3m kWh of Eligible Quantities.*
- *This is approximately 35% of the potential Entry Eligible Quantities and 18% of the potential Exit Eligible Quantities observed across those routes*

Clarification was sought from, and provided by CW, about the definition of multi-route. It was noted that these routes represented more than half of the eligible routes that are subject to a CNCCD election. However, CW confirmed that some of these routes are unused. Participants enquired what comprised the Eligible Quantities and whether the units m kWh (i.e. GWh) were correct. CW said he would re-investigate this area and confirm at the November meeting.

LJ asked what the 35% of potential Entry Eligible Quantities represented and CW explained that it was the Eligible Quantities as a percentage of the maximum possible Eligible Quantity of the maximum capacity had been procured and maximum flow had taken place. LJ suggested that the potential for an increase in eligibility was limited and would never reach 100%, particularly since power station load factors are never expected to increase to baseload levels again and were now in fact in decline, and some routes are completely unused including due to site closures and decommissioning. CW agreed that the potential for increased flow was limited and also confirmed that some of the routes were not being used at all. LJ said that she did not think the actual Eligible Quantities as a percentage of maximum possible Eligible Quantity was a meaningful figure because it does not give an indication of the likely increase in Eligible Quantities. LJ said she agreed instead with CW's proposal to back calculate what the historic Eligible Quantities and total discount would have been if the proposed arrangements had been in place to assess the increase compared with the current arrangements. CW said he would do this calculation and revert with the results at the November meeting.

LJ advised she too was surprised by these figures and percentages and was pleased that CW had already agreed to sense check the data. LJ added that it would be helpful if the eligibility could be assessed to see how it would affect the discount across the 24 multi-routes.

NS inferred from the high-level figures that the shorthaul discounts equated to 89.9% for multi-routes. He said that given the accuracy of the data provided this suggests that all of the multi-route distances involve zero distances and hence could only be associated with a few entry points. He indicated that more information should be made available about which routes were involved and the quantities associated with each route. CW advised the locations were Bacton and Teesside and that he was not at liberty to discuss this matter due to confidential nature. NS repeated that more information was required especially relating to the derivation of the 35% potential Entry Eligible Quantities and the likely increase in Eligible Amounts were the proposal be implemented. CW agreed to re-assess the data.

2.0 Initial Discussion

2.1. Issues and Questions from Panel

EF advised that Panel had requested the Workgroup consider the following questions:

2.1.1. Given it was the principle that exit, and entry were not tied together, this seems to define entry capacity by reference to exit capacity or usage. Can Workgroup comment on this please?

The consensus from the Workgroup was that historically at the highest level the regime was designed with separate entry and exit. However, the concept of a shorthaul service was approved by the Authority as a deviation from this principle and established a point-to-point contract. In this way shorthaul does link specific entry and exit points and this modification does not amend or contradict this special exception.

2.1.2. Consider appropriate Governance route.

LJ noted that this Modification was proposed with a Self-Governance (SG) status. EF added that this had been discussed at Panel, where the Transporters had voted against the Self-Governance status.

EF said that greater understanding and clarification was needed concerning the materiality of the change to a get a clearer view. NS also added the materiality needed to be known to conduct the correct analysis of the potential risk of not implementing and whether the modification could lead to lower reserve prices. Anna Shrigley (AS) offered support for the SG status, as only the formula was being corrected. AS argued that any other review of this proposal would in effect be a challenge to the status of shorthaul which is already an agreed service.

NS acknowledged the appropriateness of shorthaul arrangements in so far as they avoid inefficient bypass and said that there was no suggestion that the principles for shorthaul needed reviewing. He added that the proposal is about amending the extent of Eligible Amounts to which the discount is applied and the decision about implementation of this proposal would therefore have to assess the merit of the change against the status quo i.e. retaining the current method of determination of the Election Entry Proportion. NS noted that the documentation available to Workgroup suggested a mistake had been made. NS questioned if National Grid has a view that it has made an error by applying the wrong formula for the multiple routes. CW stated that National Grid's view is there was no historical error and that the proposal now was looking at changing the arrangements.

EF reiterated to the Workgroup the question was concerning the governance and materiality and if the Modification should have an Authority Direction status.

AS said that she felt more information was required within the Modification regarding the materiality and what was the capacity booked and not used. LJ advised that 4 specific components had been explored to quantify the SG status and that she had not encompassed the scenario of buying more exit capacity and that this was also not discussed when Modification 0728B was being developed. Debra Hawkin (DHa) asked if there was a financial level when a Modification could not be classed as SG and EF said he was not aware of such a level.

EF pointed out that Workgroup would need to answer the governance question when completing the workgroup report.

2.1.3. What analysis is required to assess this Modification?

CW said that further analysis would be undertaken to extrapolate more data regarding the 'Proposed Process for Proration of Multi routes' together with the materiality.

2.2. Initial Representations

None received.

2.3. Terms of Reference

As matters have been referred from Panel within initial representations a specific Terms of Reference will be published alongside the Modification at https://www.gasgovernance.co.uk/0823

3.0 Next Steps

4.0 EF confirmed that his aspiration for the next meeting in November, was to review the additional data analysis to be provided by National Grid and to capture in a report the various points being made relating to the potential benefits of the proposal.

5.0 Any Other Business

None.

6.0 Diary Planning

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

Workgroup meetings will take place as follows:

Time / Date	Paper Publication Deadline	Venue	Workgroup Programme
10:30 Tuesday 01 November 2022	5pm 21 October 2022	Microsoft Teams	Detail planned agenda items. • Review of additional data analysis – National Grid • Capture of potential benefits for Workgroup Report