

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

**Tuesday 07 January 2020**

<b>Attendees</b>		
Rebecca Hailes (Chair)	(RH)	Joint Office
Kully Jones (Secretary)	(KJ)	Joint Office
Adam Bates*	(AB)	South Hook Gas
Alan Raper	(AR)	Joint Office
Alex Nield*	(AN)	Storengy
Alsarif Satti	(AS)	Ofgem
Anna Shrigley	(ASh)	Eni Trading & Shipping
Bill Reed	(BR)	RWE
Colin Williams	(CW)	National Grid
Chris Wright	(CWr)	Exxon Mobil
David Mitchell	(DM)	CIA
David O'Neill	(DON)	Ofgem
Debra Hawkin	(DH)	TPA Solutions
Henk Kreuze	(HK)	Vermilion Energy
James Jackson*	(JJ)	Sembcorp
John Costa	(JCo)	EDF Energy
Julie Cox	(JCx)	Energy UK
Kamla Rhodes	(KR)	Conoco Phillips
Kirsty Ingham	(KI)	ESB
Laura Johnson	(LJ)	National Grid
Niall Coyle	(NC)	E.ON Energy Economics UK
Nick Wye	(NW)	Waters Wye Associates Ltd
Nicky White	(NWWh)	Npower
Nitin Prajapati*	(NP)	Cadent
Paul Youngman*	(PY)	Drax
Penny Garner	(PG)	Joint Office
Rebecca Jones*	(RJ)	Mercuria
Richard Fairholme	(RF)	Uniper
Sinead Obeng	(SO)	Gazprom
Steve Pownall	(SP)	Xoserve
Terry Burke*	(TB)	Equinor

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0670/070120>

The Request Workgroup Report is due to be presented at the UNC Modification Panel by 16 January 2020.

## 1.0 Introduction and Status Review

### 1.1. Approval of Minutes (03 December 2019)

The minutes of the previous meeting were approved.

### 1.2. Review of Outstanding Actions

There were no outstanding actions.

## **2.0 Review of amended Request**

Following the discussion on Modification 0678 as part of the NTSCMF Workgroup, Colin Williams (CW) reminded the review Workgroup that the timescales pose a considerable constraint on the development of a potential short-haul product. He confirmed that National Grid would be providing a short-haul product for discussion. His view was that the timetable for a decision on a short-haul Modification should align with the timetable for Modification 0678 though he acknowledged this was an aggressive timetable.

CW suggested that Modification 0678A should be used to as the baseline for a short-haul product.

Bill Reed (BR) indicated that RWE have some ideas for a potential short-haul product. He agreed that timetable constraints support the need to consider a specific set of proposals. CW welcomed this and suggested if industry parties are willing to share their ideas in advance, National Grid would be happy to provide a perspective on them. David O'Neil agreed that it would be sensible to avoid a duplication of effort. BR agreed to share RWE thinking with National Grid.

Workgroup re-visited the process discussion that took place as part of NTSCMF Workgroup reaffirming that it would be desirable to have an implementable decision in line with Modification 0678. A Workgroup participant suggested that the two areas of work around short-haul and storage discount could not both be implemented at the same time because of Legal Text issues. There was some disagreement within Workgroup about this view with Laura Johnson (LJ) suggesting that the Legal Text issues could be overcome.

Workgroup considered BR's suggestion that short-haul could be a 'bolt-on' product based on Modification 0678A. NW cautioned against any crossover between Modification 0678A, short-haul and storage discount Modifications. CW advised that Legal Text should be kept as concise as possible. DON agreed that waiting for a decision on Modification 0678 was not pragmatic. He added that any future Modifications would need to be assessed on their own merits including compliance.

Anna Shrigley (AS) asked for the outcomes of any discussions between RWE and National Grid to be shared with industry. RH confirmed that views on short-haul would be published against the Request 0670R (<http://www.gasgovernance.co.uk/0670>) and storage related information would be published on the NTSCMF page (<http://www.gasgovernance.co.uk/ntscmf>).

Richard Fairholme (RF) suggested it would be sensible to share the proposed plans with the Modification Panel to raise awareness and provide an opportunity for Panel Members to raise any observations.

Penny Garner (PG) urged Workgroup to be specific in what is being requested from the Panel whether it is observations, advice or something else.

CW agreed that it would be helpful to raise awareness of the likely direction of travel in relation to the development of potential Modifications for short-haul and storage discount and so provide Panel Members with an opportunity to raise any questions or concerns. He clarified that this would be limited to the procedure and not the product itself.

PG asked if the Ofgem Codes team (Industry Codes and Licensing) should also be consulted, suggesting it would be helpful to have clarification from Ofgem and Codes team on the process and whether there are any hurdles or barriers that the Workgroup needed to be aware of. DON indicated that he would be speaking with the Codes team and agreed to provide an update before the Panel meeting on 16 January 2020.

### 3.0 Consideration of potential short-haul product

BR shared his thinking on a possible short-haul product. He stated that the product was based on three tests/stages as follows:

1<sup>st</sup> test – A short-haul bypass credibility test. The aim is to demonstrate publicly that a pipeline could be built.

2<sup>nd</sup> test – What discount should be applied? Ofgem views are that it is better for Parties using shorthaul products to contribute to the NTS than not to contribute at all. Ofgem have expressed concerns about using NTS Exit Point Offtake Rate (MNEPOR) and suggested that other discounts could be considered such as those based on FCC.

3<sup>rd</sup> test – Demonstrate that cross -subsidy is compliant with TAR NC:

- a. BR confirmed the solution would be enduring based on FCC with load factors taken into account.
- b. Pipeline distance would be derived from FCC methodology.
- c. There is a need to ensure there is some User commitment at the site.
- d. NW suggested that the first test is very difficult as it is challenging to produce criteria to demonstrate credibility. He expressed concern that the process to demonstrate credibility could be challenging and costly for applicants and thus would act as a disincentive. In response, BR clarified that a commitment is not being sought but rather confirmation of the feasibility of the route between point A and point B. This would need to show that it is practical and deliverable. He indicated this would be a tick box list rather than a User Commitment. There would also be confirmation that the Directors are willing to commit.
- e. BR also clarified that the User in this case is the “connectee”. The connectee could be multiple Users or a consortium. Sinead Obeng (SO) highlighted that in the case of a consortium the information would be commercially sensitive.
- f. BR suggested that the eligibility criteria would need to be developed but he envisaged the outcome would be a small number of sites that would be affected.
- g. Clarification that revenue is calculated on FCC so the discount would be based on FCC. The FCC would be determined by National Grid.
- h. CW clarified if gas is not flowed, there would be no eligibility for the short-haul discount.
- i. Paul Youngman (PY) suggested it would be helpful to consider the benefits over a period of time. Ofgem analysis was based on an aggregate but this would be on an individual basis. BR suggested that modelling could be done but some criteria would need to be developed for quantifying sites such as the entry point. For example, is there sufficient capacity for what is being taken off at the exit point? However, if the entry point is decommissioned it would no longer be feasible.

CW shared some thoughts on a possible National Grid short-haul product, suggesting that there would be elements of commonality with the RWE proposal for example in terms of eligible values. He indicated that capacity bookings would be needed to back up flow. He suggested there would be an emphasis on charging and cross subsidy threshold at exit and entry. He added that flow would be needed at both ends.

David Mitchell (DM) suggested that the discount should be aligned to the opportunity cost for building a pipeline.

DM sought Ofgem’s views on the RWE and National Grid initial ideas, asking if there were any concerns that been raised.

DON expressed concern about how the RWE proposal would work in practice, indicating that there are likely to be governance issues where there is a role for someone to test cases for bypass. BR clarified that the intention is to have directors’ declarations alongside a tick box

exercise but ultimately it would be a compliance issue with the UNC. DON suggested that there would need to be an appeals process. He asked Workgroup to consider if there are other options that don't involve director certification and also other ways of demonstrating credible risk of bypass. Julie Cox (JCx) suggested that within the PARCA process there is a concept of demonstration of information which sits between the party and National Grid.

DON also indicated that multiple short-haul Modifications would be very undesirable, and a formula option should also be considered.

Nick Wye (NW) said a formula approach would need to reflect the opportunity cost of building a pipeline.

BR expressed support for the formula route, stating that this is beneficial to an administrative process as it is less burdensome.

CW confirmed that he was happy to share more details on National Grid's proposals for a short-haul product at the next meeting and invited industry parties to discuss commonality of ideas.

BR asked Ofgem for an interpretation of MNEPOR and FCC and how the Workgroup can better understand this. He asked if the methodologies can be tweaked?

NW suggested that the short-haul discount doesn't provide sufficient discount in the case of Teeside. He added that a calculation that adversely affects 'vulnerable customers' is also not desirable. He also queried the CEPA analysis suggesting that it is not accurate because it is under-estimating the number of sites affected. He asked for further clarification from Ofgem on this aspect of the CEPA analysis.

CW indicated that if the MNEPOR is replaced with a lower value this would result in an increase in the tariff value.

Debra Hawkin (DH) suggested looking at it from the perspective of those sites that should get short-haul discount. Laura Johnson (LJ) indicated that commercial information would be needed in relation to entry and exit points so it would be difficult to make any estimates.

BR suggested that some modelling could be done based on FCC distance matrix using minimum distance to an entry point as the filter.

DON reminded Workgroup that the minded to decision letter comments on the issue of the use of MNEPOR as part of NOC Methodology 2 (pages 48-50). In particular, Ofgem noted that under the NOC Methodology 2, the proposed NOC discount was calculated on the basis that users flow gas equal to their MNEPOR – i.e. load factors are effectively equal to 100%. In practice, Ofgem would expect actual load factors to be below 100%, in some cases substantially below. This would lead to the costs of building a bypass pipeline being recovered over a smaller volume of flows, hence making a bypass pipeline less commercially attractive than the design of the methodology assumes. However, related to the above, Ofgem assumes that users would build a bypass pipeline at their MNEPOR if they choose to build one, reflecting estimates of peak capacity flows. Any assumption other than building at MNEPOR would be somewhat arbitrary.

Anna Shrigley (AS) suggested consideration of the impact from a customer perspective where the short-haul discount is not received i.e. what is the level of cross-subsidy? She also suggested looking at allowed revenue and in particular cross-subsidy as the percentage of aggregate with an adjustment at the end to align to aggregate level.

RH concluded this part of the discussion by saying that industry and National Grid need to liaise on options and provide some more information for discussion at the next meeting.

The possible options for short-haul papers:

- A formula-based option, tweaking the NOC Methodology 2
- Lower MNEPOR
- Use FCC instead of MNEPOR

- Based on eligibility criteria

RH invited Workgroup to consider in more detail what analysis is required and what could realistically be provided within the short timescales. Workgroup agreed the following:

#### **0670R Analysis requests to National Grid**

Exploring the impact of potential changes to NOC Method 2 using FCC instead of MNEPOR (compared with 0678A baseline)

1. Use FCC instead of MNEPOR in the NTS Optional Capacity Charge Methodology 2 formula with annual fee (from 0678 D/G/H/I) as a basis for qualifying sites – how many sites then qualify? What is the level of cross subsidy (aggregate discount) which results from the tariffs generated under this adjusted formula?
2. Use pipeline distance instead of straight-line distance and then proceed as above. (trying to look at shortest route)

Other variations which could be analysed by Workgroup participants if they wish:

- Replace nomination with nearest point (assume whole of FCC is used for shorthaul) and then proceed as above\*. (Trying to look at shortest route)
- Check there is sufficient gas at Entry (FCC at Entry greater than or equal to FCC at Exit) and then proceed as above.
- Check specifically for any clusters/aggregations of Exit points and then proceed as above.

\*National Grid expressed concern that this is not necessarily possible, Ofgem expressed some concern that this would not generate realistic results (overestimate number of routes).

The Workgroup debated what would be an acceptable result.

Workgroup agreed that National Grid would undertake the analysis identified in 1 and 2 above and at the same time they would provide similar analysis using National Grid's own formula. The analysis will be provided for the additional meeting on 28 January 2020.

DON pointed out that any future short-haul modification must have consideration of transparency to the user, i.e. the end user (the connectee) needs to be aware that there is a discount available to the transmission charge.

#### **4.0 Next Steps**

RH confirmed that an additional Workgroup meeting would be held on Tuesday 28 January 2020 between 13:00 and 15:30 via teleconference. She confirmed that papers for discussion would need to be provided to the Joint Office by 5pm on 17 January 2020. If enough papers were provided the meeting could take place as a face to face meeting.

New Action 0101: Joint Office to arrange an additional meeting for 28 January 2020 13:00-15:30 by teleconference.
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#### **5.0 Any Other Business**

None.

#### **6.0 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:

<b>Time / Date</b>	<b>Venue</b>	<b>Workgroup Programme</b>
<b>13:00</b> Tuesday 28 January 2020	Teleconference	Consideration of Potential Short-haul products and corresponding analysis (note start time).
10:00 Tuesday 11 February 2020	Elexon, 350 Euston Road, London NW1 3AW	TBC

**Action Table (as at 07 January 2020)**

<b>Action Ref</b>	<b>Meeting Date(s)</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
<b>0101</b>	07/01/20	4.0	Joint Office to arrange an additional meeting for 28 January 2020 13:00-15:30 by teleconference.	Joint Office	<b>Pending</b>