

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

**Tuesday 11 February 2020**

**at Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA**

<b>Attendees</b>		
Rebecca Hailes (Chair)	(RH)	Joint Office
Karen Visgarda (Secretary)	(KV)	Joint Office
Adam Bates	(AB)	South Hook Gas
Alastair Tolley*	(AT)	(EP UK Investments)
Alsarif Satti	(AS)	Ofgem
Andrew Pearce*	(AP)	BP
Anna Shrigley	(ASh)	Eni Trading & Shipping
Bill Reed	(BR)	RWE
Chris Wright	(CWrr)	Exxon Mobil
Colin Williams	(CW)	National Grid
Dan Hisgett	(DHl)	National Grid
David Cox*	(DC)	London Energy Consulting
David Horan*	(DHo)	Aughinish Alumina Ltd
David O'Neill	(DON)	Ofgem
Debra Hawkin	(DH)	TPA Solutions
Emma Buckton*	(EBu)	Northern Gas Networks
Henk Kreuze	(HK)	Vermilion Energy
James Jackson*	(JJ)	Sembcorp
Jeff Chandler*	(JCh)	SSE
John Costa	(JC)	EDF Energy
Julie Cox	(JCx)	Energy UK
Kamla Rhodes	(KR)	Conoco Phillips
Laura Johnson	(LJ)	National Grid
Mike Ronan	(MR)	Aughinish Alumina Ltd
Niall Coyle*	(NC)	E.ON
Nick Wye	(NW)	Waters Wye Associates Ltd
Nigel Bradbury*	(NB)	EIUG
Nitin Prajapati*	(NP)	Cadent
Pavanjit Dhesi*	(PD)	Interconnector UK
Penny Garner	(PG)	Joint Office
Riccardo Rossi	(RR)	Centrica
Richard Fairholme	(RF)	Uniper
Sinead Obeng	(SO)	Gazprom
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 (07 January 2020)

The minutes from the previous meeting were approved.

*Rebecca Hailes (Chair) suggested that the 28 January 2020 minutes be approved at the March meeting, following amendments by Ofgem and to allow the Workgroup time to assimilate these changes accordingly.*

### 1.2. Review of Outstanding Actions

**Action 0102:** ENI Trading & Shipping (AS) to provide a practical example of primary and secondary capacity. National Grid (CW) to provide a suitable worked example based on ENI's suggestion.

**Update:** (AS) provided a short verbal synopsis of the material she had supplied to National Grid and (CW) said that National Grid were still assessing this information, prior to producing some slides for Workgroup and so this action should be carried forward. **Carried forward.**

## 2.0 Review of Amended Request.

There were no amendments to the Request for discussion.

## 3.0 Consideration of potential short-haul product

### Managing Inefficient bypass in Charging: Updated Analysis

Daniel Hisgett (DHi) drew attention to the updated analysis from last meeting on 28 January 2020. He provided an overview of the presentation and drew attention to specific areas to note, namely the updated analysis section that now contained the OCC Contribution (£) detailed on Slide 5 of the presentation, which can be viewed via the link:

<https://www.gasgovernance.co.uk/ntscmf/110220>

### Managing Inefficient bypass in Charging: National Grid Proposal

Colin Williams (CW) provided an overview of the presentation and explained that Slides 1-9 were the same as the presentation which had been discussed on 28 January 2020. He then walked through the new Slides 11 – 25 and drew attention to specific areas of interest.

DHi said in relation to Slide 12 – Likelihood of Bypass, he wanted to draw attention to the following link to the CEER paper with details of pipeline costings used, which he hoped would provide clarity, as detailed below:

<https://www.ceer.eu/1767>

The appendix details a report called “Norm Grid Development - TCB18 PROJECT”. The equation National Grid has used can be found in section 2.7, described in the CEER report as follows:

*From these data, ACER proposed average costs in €/km (indicated by green circles on the graph). It is then possible to calculate the following relation according to the diameter:*

• Pipeline Construction Cost (€/km) =  $935.655 D^2$  (") –  $13,922.435 D$  (") +  $589,595.980$

*ACER data were then averaged for each of the diameters (indicated by red diamonds on the graph). These averages have established the following relationship between the*

*pipeline construction cost (€/km) and the outside diameter (") with a correlation coefficient of 0.905:*

$$\bullet \text{ Pipeline Construction Cost (€/km) = } 642.985 D^2 (\text{"}) + 2,464.295 D (\text{"}) + 398,135.326$$

*It can be noted that the two curves are close. However, the relationship defines better the costs at both ends of the graph, so for small diameters and large diameters.*

#### Slide 13 – Likelihood of Bypass (Cont.)

Julie Cox (JCx) questioned the PARCA timescales and asked if this included the construction and build time of part of the asset. DHi said that the shortest PARCA timescale, 12 months, was used for the smallest pipe diameter at 0km, and the longest for the largest pipe diameter considered over 100km, e.g. 8 years of the 10 years, with only 2 years of benefit in that period.

#### Slide 14 – Likelihood of Bypass vs Distance

Bill Reed (BR) asked why there was a 10 year payback and CW explained it was as with the current methodology. Increasing the years would stretch the curve proportionally without changing the shape. Henk Kreuze (HK) said in that case, the 10 years was zero investment for zero kilometres and CW said that the methodology did not make any presumptions and there was no rate of return in this methodology and that it was divided by 10 over 10 years.

#### Slide 16 – Likelihood of Bypass

BR questioned the resulting equation shape of the curve and the 10% collar which in turn, affected the Cross-Subsidy limitation, and he said he did not understand why this was the starting point. CW said it was the general nature being applied in this instance, in that, all parties in that area would do it and it was looking at the materiality of the uptake, which had to be encompassed into the overall methodology. He added it was in the way the curve was plotted, socialised and redistributed and the assessment of the impacts of any potential outcome.

A lengthy general discussion then took place in relation to the cap on the curve based on the revenue and whether this was appropriate from a distance and variable cap perspective. Laura Johnson (LJ) explained the revenue amount percentage was fixed with the only difference being the TO. Jeff Chandler (JCh) said it would be useful if National Grid could provide the Excel version of the equation so that Workgroup participants could then calculate the rates themselves, in a uniform way. DHi agreed to make this available.

**New Action 0201:** National Grid (DHi) to provide the Excel version of the equation to enable Workgroup participants to calculate the rates.

#### Slide 19 – Discount vs Distance (km)

A lengthy general discussion took place in relation to discount versus distance aspect and (HK) said he understood this was transmission only and was the distance from the entry point and CW confirmed this. BR said that the determination of revenue amount was different the further away from the exit point you were on the curve and so some parties would not get the discount. CW said that this might be the case, and he reiterated that if the party was in the curve then they would receive the discount and that they would not, if they were outside the curve. He added that the nomination was enduring if they had an increase of rates in the shorter distance. Both JCx and ASH said that there was no assessing of the bypass and the shorthaul, as to who could use the bypass and the allowed revenue and who had the FCC regarding the demand, and that they were concerned about the allowed revenue discount. ASH also said she was concerned about the 'cut-off' of the distance and that it was more appropriate to get a solution for bypass and shorthaul in her opinion. RR asked what the acceptable percentage was and how long that percentage was set for and would that change the distance, adding that he understood the percentage was 7% and DH agreed.

#### Slide 22 – Discount vs Distance (km)

Nick Wye (NW) asked if the level of discount would stop the bypass off the NTS. CW said the generic methodology had to blend to what had actually happened in the NTS. NW said in that case, this would not achieve the objective of stopping parties coming off the NTS. CW said that the 62.7% discount was still a very substantial figure and BR said he appreciated this fact, but added from a pipeline builder and operator perspective, this did not help in trying to optimise the costs.

Richard Fairholme (RF) said that the 62.7% was insufficient to avoid the likelihood of bypass for one of the power stations he was interested in and that this figure needed to be higher and that if this was not addressed, then he might have no option but to raise an alternative Modification. NW added that the SO charges also needed to be investigated further, as it did not make sense, to assume the same level of charges applied to the SO charges in a 'blanket coverage' perspective, JCh concurred with this comment. CW said it was the generic methodology that was applied.

CW requested that if anyone was considering raising an alternative Modification, please could they discuss their plans/thoughts directly with National Grid in the first instance in an expedient manner. He added that he would be talking with the Capacity Access Review (CAR) team internally regarding the capacity trading of existing contracts and non-existing contracts.

<b>New Action 0202:</b> National Grid (CW) to discuss internally with the Capacity Access Review Team the area of capacity trading for existing and non-existing contracts.
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#### **4.0 Next Steps**

RH said there were various areas that required further clarification and discussion, especially in relation to the Relevant Objectives, Business Rules and she reminded Workgroup that implementation for 01 October 2020 was still extremely challenging. DON concurred with the timeline pressure and said that realistically Ofgem would probably need to make a decision in May, for October 2020 implementation which would require the consultation in March 2020. He added that even if the industry process runs as smoothly as possible, there would be a very limited window for Ofgem to make a decision.

RH then said her aspirations for the March meeting were to review the Modification and detailed below, are the areas to be taken into consideration with regards to the Modification process:

- Shorthaul proposal fully developed Modifications, (5 days prior to meeting date of 03 March 2020).
- New Modification Friday is 06 March 2020
- Short Notice
- Urgent (consider urgency criteria, potential for Panel view on urgency, if required by Ofgem)
- Implementation for 01 October 2020
- Consideration of timelines – any Alternative Modifications would risk the timeline
- Potential shorthaul Alternative Modification
- Ideally enable publication of prices before end of May for 01 October 2020 start (Annual charges cannot change)
- Storage discount

The April meeting will be held on 07 April 2020 in Solihull.

#### **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:

Time / Date	Venue	Workgroup Programme
10:00 Tuesday 03 March 2020	Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA	<ul style="list-style-type: none"> <li>• Review of Modification or draft Modification</li> <li>• Review of Business Rules</li> <li>• Review of Relevant Objectives</li> <li>• Review of UNC process and next steps</li> </ul>

**Action Table (as at 11 February 2020)**

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
<b>0102</b>	28/01/20	1.0	ENI Trading & Shipping (AS) to provide a practical example of primary and secondary capacity. National Grid (CW) to provide a suitable worked example based on ENI's suggestion.	ENI (AS) and National Grid (CW)	<b>Carried forward</b>
<b>0201</b>	11/02/20	3.0	National Grid (DH <i>i</i> ) to provide the Excel version of the equation to enable Workgroup participants to calculate the rates.	National Grid (DH <i>i</i> )	<b>Pending</b>
<b>0202</b>	11/02/20	3.0	National Grid (CW) to discuss internally with the Capacity Access Review Team the area of capacity trading for existing and non-existing contracts.	National Grid (CW)	<b>Pending</b>