

UNC Workgroup 0705R Minutes
NTS Capacity Access Review
Thursday 09 January 2020
at Elexon, 350 Euston Road, London, NW1 3AW

Attendees

Alan Raper Chair	(AR)	Joint Office
Karen Visgarda (Secretary)	(KV)	Joint Office
Adam Bates	(AB)	South Hook Gas
Alex Neild*	(AN)	Storengy UK
Andrew Pearce	(AP)	BP
Angela Fletcher*	(AF)	Ancala Midstream
Anna Shrigley	(AS)	Eni Trading & Shipping
Anna Stankiewicz	(ASt)	National Grid
Ashley Adams	(AA)	National Grid
Bill Reed	(BR)	RWE
Chris Wright	(CW)	ExxonMobil
Christiane Sykes	(CS)	Shell
David Adlam	(DA)	Cadent
David Cox*	(DC)	London Energy Consulting
Debra Hawkin	(DH)	TPA Solutions
Edd Fyfe*	(EF)	SGN
Emma Buckton*	(EB)	Northern Gas Networks
Jeff Chandler*	(JC)	SSE
Jennifer Randall	(JR)	National Grid
Julie Cox	(JCx)	Energy UK
Kamila Nugumanova	(KN)	ESB
Kamla Rhodes	(KR)	Conoco Phillips
Lea Slokar	(LS)	Ofgem
Malcolm Montgomery	(MM)	National Grid
Nick Wye	(NW)	Waters Wye Associates
Paul Youngman*	(PY)	IUK
Phil Hobbins	(PH)	National Grid
Richard Fairholme*	(RF)	Uniper
Shiv Singh*	(SS)	Cadent
Steve Pownall	(SP)	Xoserve
Steven Britton*	(SB)	Cornwall Energy
Terry Burke	(TB)	Equinor

**via teleconference*

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0705/090120>

The Workgroup Report is due to be presented at the UNC Modification Panel by 15 October 2020.

1.0 Introduction and Status Review

1.1. Approval of Minutes (05 December 2019)

The minutes from the previous meeting were approved.

2.0 Consultation Overview

Jennifer Randall (JR) explained that following the discussions at the last Workgroup meeting in December, the ambition statement had now been amended and the short-term issues table had not been amended to include the BBL capacity issue. JR said that this was due to the publication of Ofgem's initial impact assessment and minded-to position for accessing baseline capacity at Bacton IP (09 December 2019) BBL were now happy for this not to be included in the Capacity Access Review short-term issues list.

Ashley Adams (AA) then provided an overview of the purpose of the consultation and explained it was to seek feedback on what the industry as whole wanted for the future capacity access regime to deliver, through testing the ambition statement and the required functions, including the developments generated as part of the GMaP process. AA added that the consultation would be published during January 2020 and the close out date would be Thursday 20 February 2020.

3.0 Overrun charges

Anna Stankiewicz (ASt) provided an overview of the Overrun Charges and explained that the industry had recently expressed concern with the upcoming implementation of the new Charging Regime, since overrun charges would rise as these were calculated using the highest accepted daily auction bid price multiplied by 8, (and these reserve prices were set to increase). She explained there was also a concern regarding a lack of treating overrun charges resulting from manifest errors as specific cases, though conversely, the removal of zero price products may result in Shippers making bookings more closely aligned with actual requirements.

ASt then drew attention to the principles as defined below:

- 'Ticket to ride' principle remains the fundamental aspect of the capacity regime
- The ticket to ride principle is underpinned by Overrun charges, which provides shippers with commercial incentives to purchase the capacity they require to flow gas. The lower the overrun, the weaker the incentive to purchase Capacity
- 100% of Entry Overrun charges are initially smeared back to Shippers on a monthly basis via capacity neutrality
- Entry overruns are one of the NTS Constraint Management Incentive revenue components, (56% of which is returned to shippers)
- Charges apply on Exit when flows exceed aggregate capacity holdings
- 100% of any revenues generated from NTS Exit overruns is being passed back to Users through reduced SO commodity charges

ASt also provided a brief history in relation to Entry Overruns as defined below regarding specific Modifications:

2000 onwards: multiple rejected proposals attempting to reduce Entry overrun charges: 0401, 0589... Ofgem concluded that these proposals may reduce the incentive on shippers to acquire capacity rights to cover their intended flows and could increase the risk of shippers under-booking capacity.

0341 – Manifest errors in Entry Capacity Overruns – 2011 Ofgem concluded that the proposal was too broad in its scope and could undermine the commercial incentives to operate in a reasonable and prudent manner. Ofgem was also not convinced that it would be appropriate for the proposal to apply retrospectively from April 2010.

0426 - Amendment to the NTS System Entry Overrun Charge (Removal of zero charges) – 2012 rejected by Ofgem on basis of significant proportion of implementation costs falling on consumers while commensurate benefits have not been demonstrated. The four-year period analyzed in the FMR only shows benefits of £37,000 which is small relative to the potential implementation costs of up to £102,000.

Whilst the Workgroup (0426) appreciated the importance of cost reflectivity across the regime, it is its view that the overrun charging components are primarily an incentive for Shippers to purchase capacity consistent with their flow requirements and therefore are not necessarily reflective of the costs incurred by National Grid NTS as a result of an overrun (quote from the 0426 Final Modification Report).

ASt then drew specific attention to the revenue from the overrun charges as detailed below:

ENTRY		
Financial year	Total Charge Amount (£)	Charge Quantity (kWh)
17-18	2,299,116	2,214,403,275
18-19	391,142	350,723,880
19-20 (up until 13th Oct)	508,850	3,524,888,523

EXIT		
Financial year	Total Charge Amount (£)	Charge Quantity (kWh)
17-18	675,682	755,854,623
18-19	561,792	709,922,425
19-20 (up until 13th Oct)	109,509	406,715,778

Lea Slokar (LS) said that from an Ofgem perspective they believed overruns were necessary to prevent under booking. A lengthy and protracted general discussion took place in relation to the capacity exit and entry charges and the rationale for charging additional amounts, especially if there was sufficient capacity in the network and shippers overrunning did not cost National Grid from a financial aspect. JR explained that National Grid needed to know what the capacity was, and the process was to incentivise the Shippers to make capacity bookings.

Bill Reed (BR) disagreed and stated that the Shippers were being penalised. Nick Wye (NW) said that as Ofgem stated there should be a charge then that should incentivise the Shippers to book the correct capacity to match the flows and Paul Youngman (PY) agreed, and he added that he did not see the need for an adjustment in the capacity. NW said overruns should be accepted as a penalty and exist to encourage pre-booking of shipper specific capacity requirements. LS said that for any change to take place, that detailed evidence would be required for Ofgem to investigate this further.

Julie Cox (JCx) said that National Grid had the information needed from the nomination process regarding the flows and there were no incremental costs. JR said it was more in relation as to whether certain compressors had to be activated due to under-run. JCx said that in any event the 8x multiplier was no longer appropriate given that the base capacity was going to increase.

A further general discussion took place, and the consensus was the present multiplier x8 was too high and perhaps a multiplier x2 would be more appropriate. JCx also added that more information was required regarding the actual bookings and that this should in turn make the forecasted contracted capacity (FCC) more accurate, as it would highlight how close the capacity booked was against the actual flows. Dave Adlam (DA) explained that it was not possible for the GDNs to book capacity close to the flows. Anna Shrigley (AS) said she agreed with the comments already made and reiterated that the bookings needed to be as close as possible to the actual usage and added that the cost of the capacity breach would increase significantly and she was interested to know how this could be justified. NW repeated that clearly Ofgem felt this was needed, but that he felt the multiplier x2 would be a more reasonable figure. ASt agreed to investigate this area further.

New Action 0101: National Grid to investigate instances where zero or no overrun charges apply to overruns at ASEPs where no bookings were made and how this will change following implementation of Modification 678A.

PY also added that it would be helpful to see the data analysis in relation to the Postage Stamp charges for the overruns with no capacity bookings. LS reiterated that more detailed information was required in the respect of the numbers and revenue from the overrun charges in order to gain more clarity.

New Action 0102: National Grid (ASt) to investigate the revenue overrun charges at a more granular level; to ascertain if there was a constraint on the days the overruns were charged, and if so, provide the necessary evidence.

ASt then overviewed the various options detailed in the presentation, (Slides 11 & 12) and it was broadly agreed the preferred and most workable option was option 1, as detailed below:

- **Option 1:** Reduce the multiplier from x 8 to the closest multiplier which will enable collection of similar transporters allowed revenue, (further analysis would be required to arrive to accurate figures)

AS stated that the deadline of 01 October 2020 was a relatively short time frame, and that if the multiplier x8 stayed as it was, there would be an increased financial exposure issue and this would impact on Shippers. She expressed a view that a multiplier x2 should be more than sufficient to ensure the Shippers would book the capacity in the correct way and maintain accurate information in relation to the FCC. She said that if was not resolved in an expedient manner, then it could lead to a revenue recovery issues. LS asked if this issue was not resolved by 01 October 2020, what would be the impacts on Shippers that did not book capacity and how this would impact the wider industry. ASt said would investigate this area in more depth.

New Action 0103: National Grid (ASt) to investigate where the revenue is collected and how and where the credits are redistributed methodology in relation to cost neutrality.

AR said that in light of the Workgroup discussions, National Grid now needed to carry out various data modelling scenarios and to investigate the overruns specifically following the Ofgem decision regarding Modification 0678/A/B/C/D/E/F/G/H/I/J (Urgent) - Amendments to Gas Transmission Charging Regime, in readiness for the February meeting.

There then followed a discussion on the subject over overruns resulting from mistakes. The workgroup discussed how overruns resulting from mistakes could be disentangled from all overruns and whether or not specific types of mistake could be characterised and defined as “manifest errors”. Given that the Workgroup would like to see overrun charging addressed as a priority, it was noted by AR that at the present time there seemed to be little or no appetite to further explore the subject of Manifest Error.

4.0 Review of Outstanding Actions

Action 1201: National Grid (JR) to reword the ambition statement with regards to the need for a new system with flexibility dynamic approach to ensure fit for purpose in the future.

Update: JR confirmed this action could now be closed as the ambition statement had now been amended. **Closed**

Action 1202: National Grid (JR) to amend the ambition statement in relation to the ‘minimal disruption’ wording.

Update: JR confirmed this action could now be closed as the minimal disruption wording had been addressed. **Closed**

Action 1203: National Grid (JR) to add in [square brackets] in relation to the Ofgem ‘minded to’ decision where referred to in the presentation.

Update: JR confirmed the [square brackets] had been added into the document and so the action could now be closed. **Closed**

5.0 Next Steps

AR confirmed that the next steps were as detailed below:

Areas for consideration during February and later:

- Review of Overrun Charges
- Entry Trading and Ofgem related issues
- DN Capacity booking process
- Modification 0667 – Inclusion and Amendment of Entry Incremental Capacity Release NPV test in UNC

- Wales & West Modification
- Review of Workgroup Plan
- Review of Amended Request

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	Venue	Workgroup Programme
10.00 Thursday 06 February 2020	Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA	Detail planned agenda items. February and later: <ul style="list-style-type: none"> • Review of Overrun Charges • Entry Trading and Ofgem related issues • DN Capacity booking process • Modification 0667 – Inclusion and Amendment of Entry Incremental Capacity Release NPV test in UNC • Wales & West Modification • Review of Workgroup Plan • Review of Amended Request

Action Table (as at 09 January 2020)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
1201	05/12/19	2.0	National Grid (JR) to re-word the ambition statement with regards to the need for a new system with flexibility dynamic approach to ensure fit for purpose in the future.	National Grid (JR)	Closed
1202	05/12/19	2.0	National Grid (JR) to amend the ambition statement in relation to the 'minimal disruption' wording.	National Grid (JR)	Closed
1203	05/12/19	2.0	National Grid (JR) to add in [square brackets] in relation to the Ofgem 'minded to' decision where referred to in the presentation.	National Grid (JR)	Closed
0101	09/01/20	3.0	National Grid to investigate instances where zero or no overrun charges apply to overruns at ASEPs where no bookings were made and how this will change following implementation	National Grid (ASt)	Pending

Action Table (as at 09 January 2020)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
			of Modification 678A.		
0102	09/01/20	3.0	National Grid (ASt) to investigate the revenue overrun charges at a more granular level; to ascertain if there was a constraint on the days the overruns were charged, and if so, provide the necessary evidence.	National Grid (ASt)	Pending
0103	09/01/20	3.0	National Grid (ASt) to investigate where the revenue is collected and how and where the credits are distributed in relation to cost neutrality.	National Grid (ASt)	Pending