

UNC Workgroup 0738 Minutes Incremental NTS Entry Capacity Surrender

Thursday 05 November 2020

via Microsoft Teams

Attendees

Lorraine O'Shaughnessy (Chair)	(LOS)	Joint Office
Kully Jones (Secretary)	(KJ)	Joint Office
Adam Bates	(AB)	South Hook Gas
Alex Nield	(AN)	Storengy Ltd
Anna Shrigley	(AS)	Eni Trading & Shipping
Anna Stankiewicz	(ASt)	National Grid
Bethan Winter	(BW)	Wales & West Utilities
Bill Reed	(BR)	RWE
Chris Wright	(CW)	Exxon Mobil
Christiane Sykes	(CS)	Shell Energy
Daniel Hisgett	(DHi)	National Grid
David Adlam	(DA)	Cadent
Debra Hawkin	(DH)	TPA Solutions Ltd
Jeff Chandler	(JCh)	SSE
Julie Cox	(JCx)	Energy UK
Kamila Nugumanova	(KN)	ESB
Malcolm Montgomery	(MM)	National Grid
Nick Wye	(NW)	Waters Wye Associates
Pavanjit Dhesi	(PD)	Interconnector UK
Phil Hobbins	(PH)	National Grid
Phil Lucas	(PL)	National Grid
Richard Fairholme	(RF)	Uniper
Shiv Singh	(SS)	Cadent
Steven Britton	(SB)	Cornwall Insight
Terry Burke	(TB)	Equinor
Tim Davis	(TD)	Barrow Shipping

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0738/051120>

The Workgroup Report is due to be presented at the UNC Modification Panel by 17 December 2020.

1.0 Outline of Modification

Lorraine O'Shaughnessy (LOS) welcomed all industry parties to the meeting and advised that the main focus of the meeting would be to consider the Modification and the questions raised at the Panel meeting relating to Governance criteria. She then invited Tim Davis (TD) to introduce the Modification.

TD provided a brief outline of the Modification stating that the proposal is to allow Users who have been allocated incremental NTS entry capacity following quarterly system entry capacity auctions held in the period between 1 April 2017 and 30 September 2020 to make a single application to National Grid NTS for entry capacity to be surrendered within one month of this Modification being implemented.

TD indicated that the grounds for National Grid to accept or reject applications is not specified in the Modification as the intention was to leave it to National Grid's discretion to take into account specific circumstances. However, feedback from National Grid indicates that they would prefer not to have an element of discretion in the process. TD suggested that the Modification is, therefore, likely to be amended to include a rule and to send in an updated Modification.

In relation to the Governance, he added that the Modification Panel had disagreed with the proposed governance of the Modification suggesting that the value of incremental capacity is likely to be material and the Panel has asked Workgroup to consider this further.

In terms of Legal Text, TD suggested that only the Transition document requires amendment not the main UNC document.

The following comments were made during Workgroup discussion:

- a. Nick Wye (NW) asked why the scope of the Modification only treats incremental capacity differently and does not cover broader capacity. TD stated that the Modification is about delivering User commitment.
- b. Malcolm Montgomery (MM) revisited the National Grid element of discretion specified in the solution with regard to accepting/rejecting applications. He suggested that having a discretion element could create the risk of disputes against the National Grid decision. He, therefore, strongly advocated the use of criteria. He pointed out that currently National Grid do not have discretion to accept capacity hand-back. TD challenged this suggesting that National Grid do have the capacity to sell and that a condition could be added to the Modification. He also stated that the amount to be collected from the relevant User would be no less than the anticipated amount.
- c. MM also suggested limiting the scope to QSEC 2017, 2018 and 2019 as there was a methodology change for QSEC 2020 which removed the Net Present Value (NPV) test from QSEC. TD sought clarification of the logic for removing September 2020. MM pointed out that this was because there was no NPV test and that justification and User Commitment is associated with the NPV test. TD disagreed with this suggesting that they are different concepts as the NPV test provides confidence of cases where Ofgem would not veto. LOS suggested capturing this concern in the Workgroup Report and any proposed counter measures.
- d. Alex Nield (AN) suggested that there could be an impact on future prices. TD agreed that the possible new system could have a detrimental effect on investors.
- e. AN stated that Storengy has provided an initial representation which shares some of the concerns raised by Barrow Shipping in relation to the substantial increases in costs for incremental entry capacity booked in the QSEC auctions from April 2017 to September 2020. Capacity prices have increased to hundreds of times the original bid price in the auctions, with the highest more than five hundred times the original bid price. He added that this issue has also been raised on a number of occasions including in Storengy's initial representation to Modification 0678 - *Amendments to Gas Transmission Charging Regime*. In addition, Storengy believe that in order to maintain a fair and competitive environment, affected parties should be allowed an opportunity

to surrender capacity (and its financial obligations) acquired in auctions, where that capacity increases in cost by more than X times the level of inflation.

- f. LOS suggested that the Proposer captures the feedback from the meeting in the amended Modification and includes a condition/criteria for the assessment of the applications.
- g. Workgroup discussed the materiality with MM suggesting that National Grid could share information in relation to the financial value and indicated that the Modification Panel assessment is likely to be correct as the figure could be approximately tens of millions. TD was surprised that this was considered to be material suggesting that at the time of TRANSCO the materiality threshold was approximately £100m.
- h. NW suggested that the relevant Self-Governance criteria is the one relating to competition in, or commercial activities related to, the shipping, transportation or supply of gas and particularly bullet three below:
 - Reduces competition, or choice, in the marketplace.
 - Significantly increases complexity of processes (where this potentially leads to confusion for consumers).
 - Entails parties incurring an additional cost (e.g. significant cost for few or additional costs for many).
 - Introduces different treatment according to class of parties, whether you believe it is justified or not – see also the note below the table).

Anna Stankiewicz (ASt) agreed that changing the way capacity can be treated could be fairly significant and hence a material change.

Phil Hobbins (PH) suggested that it is more than financial materiality but a fundamental change to User Commitment that is being proposed which enables a Shipper to hand back capacity after a decision has been made to buy capacity.

- i. MM reiterated early comments stating that there is a justification for limiting the surrender to incremental capacity based on financial commitment required to release incremental capacity. In relation to QSEC 2020 as there is no NPV test within QSEC there is no clear or obvious justification to include QSEC 2020 in the scope of this Modification.
- j. NW asked if irrespective of the NPV test, in QSEC 2020 auctions is there any kind of substitution available? Where there is any User Commitment required by National Grid to ensure the release of capacity then that should equally qualify for this process. MM agreed with this view as substitution of capacity still required a minimum 4 quarter signal.

New Action 1101: National Grid (MM) to provide analysis of incremental allocations between April 2017 and September 2020 to allow a comparison of the initial commitment compared to on-going commitments post October 2020. This will provide information on the materiality of potential costs.

- k. NW pointed out that projects have to make decisions and in order to proceed they need to acquire capacity. He suggested that it would be unreasonable to expose projects to multiple costs.

- I. AN suggested that this could also be an on-going issue impacting future QSEC auctions because at the time of auctions industry parties do not know the price for future QSEC auctions so making it difficult to assess the final/future cost implications.

2.0 Initial Discussion

2.1. Issues and Questions from Panel

2.1.1. Workgroup to consider if the Modification satisfies the Self-Governance criteria

This was covered under agenda item 1.0.

2.2. Storengy Initial Representations

LOS advised that one initial representation had been received from Storengy which was discussed under agenda item 1.0.

2.3. Terms of Reference

As matters have been referred from Panel a specific Terms of Reference has been published alongside the Modification at <http://www.gasgovernance.co.uk/0738>.

3.0 Next Steps

LOS confirmed that the solution needs to be finalised in order for the Legal Text to be drafted. She asked the Proposer if the timescales for reporting to the December Modification Panel are realistic. It was agreed that it was however this would be discussed further in the December meeting.

The next meeting would focus on discussion of the amended Modification, National Grid analysis and development of the Workgroup Report.

4.0 Any Other Business

None.

5.0 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	Programme
10:00 Thursday 03 December 2020	5pm 24 November 2020	Teleconference	Detail planned agenda items. <ul style="list-style-type: none"> • Amended Modification • Consideration of Business Rules • Review of Impacts and Costs • Review of Relevant Objectives • Consideration of Wider Industry Impacts • Consideration of Legal Text • Development of Workgroup Report.

Action Table (as at 05 November 2020)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
1101	05/11/20	1.0	National Grid (MM) to provide analysis of incremental allocations between April 2017 and September 2020 to allow a comparison of the initial commitment compared to on-going commitments post October 2020. This will provide information on the materiality of potential costs.	National Grid (MM)	Pending