

**UNC Workgroup 0751 Minutes**  
**Capping price increases for Long-Term Entry Capacity**  
**Tuesday 02 February 2021**  
**via Microsoft Teams**

<b>Attendees</b>		
Rebecca Hailes (Chair)	(RHa)	Joint Office
Karen Visgarda (Secretary)	(KV)	Joint Office
Adam Bates	(AB)	South Hook Gas
Alex Nield	(AN)	Storengy
Andrew Pearce	(AP)	BP
Anna Shrigley	(AS)	Eni Trading & Shipping
Anna Stankiewicz	(ASt)	National Grid
Bill Reed	(BR)	RWE
Chris Wright	(CW)	ExxonMobil
Christiane Sykes	(CS)	Shell
Colin Williams	(CW)	National Grid
Daniel Hisgett	(DHi)	National Grid
Daniel Wilkinson	(DW)	EDF Energy
Dave Bayliss	(DB)	National Grid
Debra Hawkin	(DH)	TPA Solutions
Drew Sambridge	(DS)	Cadent
Henk Kreuze	(HK)	Vermilion Energy
Iwan Hughes	(IH)	VPI
Jeff Chandler	(JCh)	SSE
Julia Haughey	(JH)	EDF Energy
Julie Cox	(JCx)	Energy UK
John Costa	(JCo)	EDF Energy
Kamla Rhodes	(KR)	ConocoPhillips
Kirsty Ingham	(KI)	ESB
Kieran McGoldrick	(KG)	National Grid
Laura Johnson	(LJ)	National Grid
Lauren Jauss	(LJ)	RWE
Nick Wye	(NW)	Waters Wye Associates Ltd
Nigel Sisman	(NS)	Sisman Energy Consulting
Nitin Prajapati	(NP)	Cadent
Pavanjit Dhesi	(PD)	Interconnector UK
Paul Whitton	(PW)	SGN
Phil Lucas	(PL)	National Grid
Richard Fairholme	(RF)	Uniper
Ritchard Hewitt	(RHe)	Hewitt Home & Energy Solutions Ltd
Ricky Hill	(RH)	Centrica
Rosannah East	(RE)	National Grid
Shiv Singh	(SS)	Cadent

Sinead Obeng	(SO)	Gazprom
Smitha Coughlan	(SM)	Wales & West Utilities
Stephen Cross	(SC)	SGN
Terry Burke	(TBu)	Equinor
Thomas Paul	(TP)	E.ON
Yvonne Reid-Healy	(YRH)	Cadent

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0751>

The Workgroup Report is due to be presented at the UNC Modification Panel by 20 May 2021.

## 1.0 Outline of Modification

Nick Wye (NW) explained the aim of the Modification was to introduce a cap on the maximum price payable for Long-Term Entry Capacity to ensure equitability in the charging treatment of Long-Term Capacity products and facilitate investment in gas supply facilities. He then provided a brief solution overview as detailed below:

*To cap the payable prices of LT capacity (Annual and Quarterly System Entry Capacity (QSEC) at the price at in the Gas Year of assignment inflated by Consumer Price Index (CPI).*

- *CPI Inflation = (Month cap prices published CPI/Month cap allocation CPI).*
- *Price cap = CPI Inflation \* Cap price allocation at allocation.*
- *Floor (minimum) price is the capacity price at the time of assignment.*

NW explained that the following analysis had been undertaken detailing the impacts of pre 01 October 2020 bookings as below:

*Price capping will be applied to all long term allocations made after 05 April 2017.*

- *A number of QSEC bookings were made between 05 April 2017 and 01 October 2020.*
- *These bookings were made under the previous charging regime, employing the Long Run Marginal Cost (LRMC) methodology.*
- *Capping the prices of these products will have a greater impact on NGG TO collected revenues than products acquired after 01 October 2020.*

NW noted the analysis was performed by Waters Wye Associates and Storengy, which subsequently identified these bookings and used the assumptions around the prevailing prices and the CPI calculated the individual price caps and revenue ramifications.

NW said the following assumptions had been used:

- *New charging regime was implemented on 01 October 2020 with QSEC bookings made out to 2034.*
- *Future prevailing entry capacity prices are assumed to be at the level set for Gas Year (GY) 20/21 – 0.0717 p/kwh/d.*
- *For storage entry points the GY 21/22 price is discounted by 80% (following implementation of UNC 0727 – 0.0226 p/kwh/d.*
- *CPI across the entire period of the bookings is assumed to be 2.4% p.a which is consistent with historical levels. This is split to 0.6% across each quarter.*

NW added that he believed the future prevailing prices were likely to be lower than assumed, as National Grid Gas allowed revenues were reduced and Existing Contracts expire (as indicated by National Grid Gas's price forecasts). He added that bookings held from Q4 2021 onwards were considered and the price cap did not apply to RRCs, so the overall capacity price payable by entry points may well be impacted.

NW provided an overview of the analysis tables as detailed below:

Total Revenue impacts Q4 2021 – Q3 2034

ALL AUCTIONS		% increase from Base Price
Total Revenue Base Price	£41,324,084.42	
Total Revenue PS Price	£343,489,578.23	731.21%
Total Revenue Capped Price	£48,644,495.32	17.71%

Annual Revenue impacts Q4 2021 – Q3 2034 (Revenues stated in £)

Gas Year	Base Price Revenue	Capped Price Revenue	PS Revenue	Difference (PS - Capped)
2021	5,836,786	6,325,667	36,444,341	30,118,674
2022	5,368,504	5,957,620	36,192,980	30,235,360
2023	5,401,812	6,136,074	35,051,342	28,915,267
2024	5,554,471	6,457,442	32,332,266	25,874,824
2025	4,829,844	5,745,755	30,761,086	25,015,330
2026	4,537,599	5,526,787	28,507,974	22,981,187
2027	4,271,504	5,327,157	24,960,733	19,633,576
2028	4,146,886	5,296,669	24,021,570	18,724,901
2029	635,619	835,520	12,403,418	11,567,899
2030	228,147	304,925	9,261,942	8,957,017
2031	55,551	76,198	7,966,082	7,889,885
2032	233,572	333,805	33,494,226	33,160,421
2033	223,791	320,877	32,091,618	31,770,740

Debra Hawkin (DH) sought clarification in relation to the analysis and asked whether the data was just in relation to Storengy or whether it encompassed all sites. NW confirmed that it covered all the capacity acquired, but not storage.

Ritchard Hewitt (RHe) asked if the proposal was to deal with 2017 – 2020 or looking forward beyond QSEC capping. NW said it was longer term not only for the historical element, but to cover future bookings as well.

DH questioned whether this proposal was EU Tariff Code (TAR NC) compliant as she felt what was being proposed was not a floating price regime. NW said that the TAR NC had been examined in this regard and he and Storengy confirmed that it was compliant with the TAR NC as it was based on live and incremental capacity. DH still disputed this and still felt that it was not TAR NC compliant. Alex Neild (AN) said that from a compliance perspective, the proposal was compliant as they had worked on a similar model from Germany (though the German model has a hand back option which is not being proposed here), instead the proposal is to deal with it in monetary terms instead. Nigel Sisman (NS) concurred with the comments made by DH and said he too had concerns about the compliance issue with the TAR NC, as it was all in relation to the floating price. He said it would be helpful if NW and AN could point out the paragraphs in TAR NC that justified the approach for the solution. NW and AN both reiterated

the point that the 'hand-back' approach was not acceptable as they had examined the TAR NC. Both DH and NS said they wanted more information to be supplied regarding this area. NW agreed to investigate this area once again in relation to floating prices.

**New Action 0201:** Storengy (NW/AN) to investigate floating price compliance within the TAR NC to justify the compliance of the solution.

Average Daily Revenue impacts Q4 2021 – Q3 2034

1. ALL AUCTIONS	Q4 2021 – Q3 2034	% increase from Base Price
Average Daily Revenue Base Price	£12,227.93	
Average Daily Revenue PS Price	£107,949.81	782.81%
Average Daily Revenue Capped Price	£18,380.05	50.31%

Observations

NW overviewed the following observations in relation to the proposal as detailed below:

- *Revenue increases between Base Prices to Daily Prices show the extraordinary increases in costs for shippers who bought capacity during the period.*
- *Price capping analysis shows an increase in revenue collected from shippers compared to daily prices.*
- *Price capping will result in revenue under-recoveries over the period of around £295m (ranging from £8m/yr to £33m/yr).*
- *Storengy anticipate the under-recovery identified from price capping will be greater than actual, as future entry charges are likely to be lower than current levels.*
- *In certain cases, there is a possibility that capacity acquired will not be maintained, due to shipper voluntary discontinuation. In these cases, price capping will reduce the likelihood of this outcome.*

NW said that more discussion was welcomed at the next Workgroup meeting.

**2.0 Initial Discussion**

**2.1. Issues and Questions from Panel**

**2.1.1. Consider Consequential Impacts**

RHa explained the Panel Members in January had requested the Workgroup explore and consider if there were any consequential impacts.

A brief general discussion took place and Daniel Hisgett (DHi) from National Grid said it was harder to quantify and qualify a future state, but that they would be present themes at the next meeting. Ritchard Hewitt (RHe) said that if everyone who bought Long-Term Capacity that was capped would there be an issue with potentially killing the Short-Term Capacity market. DHi said that could potentially happen but that this was hard to predict, as the analysis and future behaviour was harder to quantify. NW said that he was not expecting any impact on the Short-

Term Capacity and AN said presently if capacity was being bought for Longer-Term, it could cost more to buy for Shorter-Term Capacity in relation to the QSEC auctions.

## 2.2. Initial Representations

None received.

## 2.3. Terms of Reference

RHa drew attention to the Individual Terms of Reference and these were approved by the Workgroup participants.

As matters have been referred from Panel a specific Terms of Reference will be published alongside the Modification at <https://www.gasgovernance.co.uk/0751>

## 3.0 Next Steps

RHa confirmed that her aspirations for the next meeting to be held on 02 March 2021 were:

- Review of the National Grid further analysis forward reserve prices and under recovery charges.
- Review of the written narrative confirming compliance with the TAR NC, for use within the Workgroup Report.
- Amended Modification (if applicable)
- Consideration of Business Rules
- Review of Impacts and Costs
- Review of Relevant Objectives
- Consideration of Wider Industry Impacts
- Consideration of Legal Text \*if applicable)
- Development of Workgroup Report (April / May)

## 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](http://www.gasgovernance.co.uk/events-calendar/month)

Workgroup meetings will take place as follows:

Time / Date	Paper Publication Deadline	Venue	Programme
10:00 Tuesday 02 March 2021	5pm Monday 22 February 2021	Via Microsoft Teams	Detail planned agenda items. <ul style="list-style-type: none"> <li>• Review of the National Grid further analysis forward reserve prices and under recovery charges.</li> <li>• Review of the written narrative confirming compliance with the TAR NC, for use within the Workgroup Report.</li> <li>• Amended Modification (if</li> </ul>

			<p>applicable)</p> <ul style="list-style-type: none"> <li>• Consideration of Business Rules</li> <li>• Review of Impacts and Costs</li> <li>• Review of Relevant Objectives</li> <li>• Consideration of Wider Industry Impacts</li> <li>• Consideration of Legal Text * if applicable</li> <li>• Development of Workgroup Report</li> </ul>
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**Action Table (as at 02 February 2021)**

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
<b>0201</b>	02/02/21	1.0	Storengy (NW/AN) to investigate floating price compliance within the TAR NC to justify the compliance of the solution.	Storengy (NW/AN)	<b>Pending</b>