

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

Attendees		
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 Global Energy Markets SPA
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
Henk Kreuze	(HK)	Vermilion Energy
Jeff Chandler	(JCh)	SSE
Jennifer Randall	(JR)	National Grid
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
Lauren Snoxell	(LS)	Citizens Advice
Mark Simons	(MS)	Total Gas & Power Ltd
Nick Wye	(NW)	Waters Wye Associates Ltd
Nigel Sisman	(NS)	Sisman Energy Consulting
Nitin Prajapati	(NP)	Cadent
Paul Brennan	(PB)	Waters Wye
Paul Youngman	(PY)	Drax
Pavanjit Dhesi	(PD)	Interconnector UK
Penny Garner	(PG)	Joint Office
Richard Fairholme	(RF)	Uniper
Ritchard Hewitt	(RHe)	Hewitt Home & Energy Solutions Ltd
Ricky Hill	(RH)	Centrica
Rosannah East	(RE)	National Grid

Samuel Dunn	(SD)	Interconnector UK
Scott Keen	(SK)	Triton Power
Sinead Obeng	(SO)	Gazprom
Terry Burke	(TBu)	Equinor
Thomas Paul	(TP)	E.ON

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0751/020321>

The Workgroup Report is due to be presented at the UNC Modification Panel by 15 April 2021.

1.0 Introduction and Status Overview

1.1. Approval of Minutes (02 February 2021)

The minutes from the previous meeting were approved.

1.2. Approval of Late Papers

There were no late papers for approval.

1.3. Review of Outstanding Actions

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

Paul Brennan (PB) presented the WWA Opinion – Modification 0751 – Compliance with TAR and Retained EU Law document which can be viewed via the link:

<https://www.gasgovernance.co.uk/0751/020321>

PB moved through the document drawing attention to specific areas of interest and then provided an overview of the conclusions as detailed below:

Conclusion

Modification Proposal Modification 0751 is not compliant with TAR insofar as it relates to Interconnection Points. In all other respects it is compliant with TAR. Different conditions apply to year ahead and long-term capacity bookings. In the case of the GB system, where, broadly speaking, capacity is under-subscribed, CPI indexation is a proportionate and permissible method of increasing the price payable for long-term capacity. The stated aim of Regulation 715/2009, the superior legislation from which TAR derives its authority, include “setting non-discriminatory rules for access conditions to natural gas transmission systems taking into account the special characteristics of national and regional markets with a view to ensuring the proper functioning of the internal market in gas” (Article 1(a)). By improving incentives to investment in new sources of supply for the GB market and taking into account the special characteristics of the GB market and its need to maintain diversity of sources of supply and storage as the delivery capacity of existing facilities decline, it better realises the objectives of Regulation 715/2009, and hence TAR, than the status quo.

A protracted general discussion took place in relation to the legal compliance and Nigel Sisman (NS) said he had concerns that the Proposal might be non-compliant with TAR NC. He suggested that the reference price definition in EU TAR sets the payable price for all annual Entry and Exit products, other than those where specific and explicit adjustments are permitted. He also cited the framework guideline definition which he felt was clearer and indicates the policy decision included in TAR NC and which was unamended through the TAR NC development process.

The view expressed by NS was that according to TAR NC, prices should be fully floating. His understanding was that the framework guideline should apply to the definition in TAR NC itself. NS then highlighted to Workgroup the two definitions as detailed below:

Reference price definition (ACER Framework Guideline 29 November 2013)

The value of the annual capacity product for each entry and exit point calculated after the application of the cost allocation methodology. Where auctions are used, the reference price is used as the reserve price for the annual capacity product and the basis for setting the reserve prices for capacity products of shorter duration and for interruptible capacity. Where auctions are not used to allocate capacity the reference price is used as the regulated price for the annual capacity product.

Reference price definition (Commission Regulation (EU) 2017/460)

The price for a capacity product for firm capacity with a duration of one year, which is applicable at entry and exit points and which is used to set capacity-based transmission tariffs.

In relation to the conclusion in P Brennan legal compliance document that the treatment of interconnection points in the proposal as it stood (v1.0 11 January 2021), the Proposer said that the Modification would be amended so that it no longer applies to Interconnection Points to ensure compliance with TAR NC, as aid out in P Brennan's legal compliance view.

Debra Hawkin (DH) said she had a concern that this would lead to discrimination between domestic and Interconnection points. PB agreed that changing the Modification to exclude Interconnection Points did give different treatment for long term capacity at IPs and domestic points within the system. He added the reason for this was due to national and regional differences which needed to be taken into account and were allowed under TAR NC.

Anna Shrigley (AS) asked for clarification that at Interconnectors, capacity was bought at fixed prices, permitted at the IPs under TAR NC, as long as there exists a 'risk premium', which for Interconnector UK was currently set at zero (as a Merchant Operator). She requested that the group considered this situation and suggested that Interconnection Points should be included in the Modification. PB voiced his concern that inclusion of IPs would not be compliant with TAR NC.

This action was then closed. **Closed.**

2.0 Review of:

2.1. Any further analysis

Dan Hisgett (DHi) provided an overview of the analysis produced by National Grid, and he added that these numbers calculated were very similar in nature to those Nick Wye (NW) had presented previously, the analysis is as detailed below:

Assessed the QSEC Capacity purchased at auctions held during the period 06/04/2017 – 30/09/2020

- *Not protected by Existing Contract status*
- *Purchased prior to implementation of UNC0678A*
- *Auction achieved price used to calculate revenue*

CPI Assumptions:

- *3-year average of CPI taken from the most current data available (Jan-2018 to Jan-2021)*
- *Average of 1.53% per year used to forecast CPI values for future periods.*
- *Auctions are held in March each year (PARCAs are the exception to this)*
- *At the point of Price Setting for a Gas Year, the latest published CPI is likely to be March of Y-1.*

CPI uplift calculated based on:

- *Published CPI value for March of the auction year*
- *forecasted value for March of Y-1*

- *CPI uplift applied and Capped prices calculated and Capped Price Revenue generated.*
- *Postage Stamp Revenue calculated (based on 0.0717p/kWh with an 80% for storage sites as per UNC0727)*

Impact on Revenue Collection

Year	Base Price Revenue	Capped Price Revenue	PS Revenue	Difference
2021/22	£5,836,969	£6,062,183	£36,437,405	£30,375,222
2022/23	£5,368,686	£5,637,848	£36,177,042	£30,539,195
2023/24	£5,401,995	£5,735,320	£35,032,799	£29,297,478
2024/25	£5,554,653	£5,988,527	£32,318,403	£26,329,876
2025/26	£4,829,844	£5,262,650	£30,734,622	£25,471,972
2026/27	£4,537,599	£4,998,792	£28,481,511	£23,482,718
2027/28	£4,271,504	£4,759,105	£24,938,512	£20,179,407
2028/29	£4,162,475	£4,697,544	£24,119,641	£19,422,097
2029/30	£635,619	£722,979	£12,381,300	£11,658,321
2030/31	£192,612	£214,759	£8,965,859	£8,751,099
2031/32	£55,551	£55,551	£7,943,862	£7,888,310
2032/33	£147,995	£147,995	£21,163,324	£21,015,329
2033/34	£218,839	£218,839	£31,293,946	£31,075,107

Impact on Rates

Assumptions and process

- *Indicative prices for the current and four future years were published in April 2020.*
- *Using the same models used to calculate those figures we have adjusted for implementation of Modification 0727 and recalculated Entry Prices.*
- *Volumes associated with the Capped Price Capacity were removed from volume recovery base and a Revenue calculated based on the Updated Entry price was removed from the Allowed Revenue.*
- *Prices were recalculated and impacts on rates due to the Capped contracts are detailed in the Modification 0751 Impacts column.*

Year	Published Indicatives	UNC0727 Updates		UNC0751 Impacts		Entry Rate Increase
		Entry	Entry Storage	Entry	Entry Storage	
2021/22	0.0521	0.0527	0.0105	0.0558	0.0112	5.9%
2022/23	0.0571	0.0594	0.0119	0.0628	0.0126	5.7%
2023/24	0.0521	0.0561	0.0112	0.0589	0.0118	5.0%
2024/25	0.0483	0.0519	0.0104	0.0538	0.0108	3.7%
2025/26		0.0475	0.0095	0.0491	0.0098	3.3%
2026/27		0.0447	0.0089	0.0459	0.0092	2.7%
2027/28		0.0422	0.0084	0.0430	0.0086	2.0%
2028/29		0.0394	0.0079	0.0400	0.0080	1.7%
2029/30		0.0355	0.0071	0.0359	0.0072	1.1%
2030/31		0.0349	0.0070	0.0352	0.0070	0.8%

Future Impact Example:

Assumptions and process

The figures below detail the approximate historic capacity bookings at each Auction by Point Type used in the pricing model.

Entry Point Type	Per Category					
	IP Yearly (%) Non-IP QSEC (%)	IP Quarterly (%) Non-IP N/A	IP Monthly (%) Non-IP MSEC (%)	IP Daily (%) Non-IP DADSEC (%)	IP Within Day (%) Non-IP WDDSEC (%)	IP Daily Interruptible (%) Non-IP DISEC (%)
STORAGE SITE	79	0	0	0	7	14
INTERCONNECTION POINT	15	12	2	0	20	50
BEACH TERMINAL	25	0	3	0	43	30
ONSHORE FIELD	90	0	0	0	7	3
LNG IMPORTATION TERMINAL	71	0	0	0	2	27
BIOMETHANE PLANT						

National Grid used these observed booking levels to estimate what proportion of the Forecasted Contracted Capacity would be booked at a QSEC Auction in the year 2022/23. By excluding Existing Contracts and Capacity booked in the period 06/04/2017 – 30/09/2020, a forecast of New QSEC auction bookings was calculated.

National Grid assumed that this new QSEC capacity would be booked at the 2021/22 rate Using the same CPI National Grid applied an uplift to calculate the Capped rate at price setting for 2022/23.

Future Impact Example:

Assumptions and process

- National Grid assumed that this new QSEC capacity would be booked at the 2021/22 rate.
- Using the same CPI National Grid applied an uplift to calculate the Capped rate at price setting for 2022/23.
- New QSEC Booking volumes were removed from the volume base.
- The Capped price Revenues are removed from the Allowed Revenue.
- When the prices were re-calculated this increased the 2022/23 Rate to 0.0631p/kWh.
- This scenario adds approximately 0.0003p/kWh to the impact already observed due to the contracts booked between 06/04/2017 – 30/09/2020.

Figures are illustrative only and not for any purpose beyond this exercise.

Year	Published Indicatives	UNC0727 Updates		UNC0751 Impacts Historic Contracts		UNC0751 Impacts Historic & Future		Overall Entry Rate Increase
		Entry	Entry Storage	Entry	Entry Storage	Entry	Entry Storage	
2022/23	0.0571	0.0594	0.0119	0.0628	0.0126	0.0631	0.0126	6.2%

RHa asked in relation to the amended Modification would this data be re-run and NW confirmed he would re-check it. DHi said that the numbers were likely to be reduced and so he too, would re-check the overall status.

DH said as an amended Modification was being produced, she wondered what was going to be done about the Short-haul aspect in relation to the Interconnector RRC and the removing of IPs. NW confirmed that he was not proposing to change the base methodology. He added that there would still be a single reference price and a single floating price. DH said that this area should still be considered. NW said it was a single price and that the collar would still apply in

the year it was established. DH asked whether a different approach going to be considered at IPs and domestic points, NW said no, that was not going to be looked at as it was in the scope of the Modification.

2.2. Compliance Statements

Please refer to section 1.3 as detailed above in relation to compliance.

3.0 Amended Modification

RHa confirmed that her aspirations for the next meeting to be held on 06 April 2021 were:

- Review the amended Modification
- Review the compliance statement with the TAR NC.
- 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 Development of Workgroup Report

The Workgroup Report was not discussed, as amended Modification was being subsequently produced for the April meeting.

5.0 Next Steps

RHa confirmed the next steps for the meeting on 06 April 2021 were as detailed below:

- Review the amended Modification
- Review the compliance statement with the TAR NC.
- 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

6.0 Any Other Business

None.

7.0 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
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<p>10:00 Tuesday 06 April 2021</p>	<p>5pm Thursday 25 March 22021</p>	<p>Via Microsoft Teams</p>	<p>Detail planned agenda items.</p> <ul style="list-style-type: none"> • Review the amended Modification • Review the compliance statement with the TAR NC. • 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
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Action Table (as at 02 March 2021)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0201	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)	Closed