

UNC Workgroup 0761 Minutes
Arrangements for Interconnectors with additional Storage capability
10:00 Thursday 03 June 2021
via Microsoft Teams

Attendees		
Alan Raper (Chair)	(AR)	Joint Office
Helen Bennett (Secretary)	(HB)	Joint Office
Adaeze Okafor	(AO)	Equinor
Alex Nield	(AN)	Storengy
Andrew Blair	(AB)	Interconnector UK
Andrew Pearce	(AP)	BP
Anna Stankiewicz	(ASt)	National Grid
Ashley Adams	(AA)	National Grid
Bethan Winter	(BW)	WWU
Carlos Aguirre	(CA)	Pavilion
Daniel Hisgett	(DHi)	National Grid
Emma Buckton	(EB)	Northern Gas Networks
Eric Fowler	(EF)	Joint Office
Hannah Reddy	(HR)	Correla on behalf of Xoserve
Henk Kreuze	(HK)	Vermilion
Jeff Chandler	(JCh)	SSE
Jennifer Randall	(JR)	National Grid
Julie Cox	(JCx)	Energy UK
Kamila Nugumanova	(KM)	ESB
Kamla Rhodes	(KR)	ConocoPhillips
Lucy Manning	(LM)	Grain LNG
Max Lambert	(ML)	Ofgem
Phil Hobbins	(PH)	National Grid
Phil Lucas	(PL)	National Grid
Richard Fairholme	(RF)	Uniper
Ritchard Hewitt	(RHe)	Hewitt Home and Energy Solutions (on behalf of BBL)
Rudi Streuper	(RS)	BBL Company
Samuel Dunn	(SD)	Interconnector UK
Sarah Cooper	(SC)	Interconnector UK
Sinead Obeng	(SO)	Gazprom
Steven Britton	(SB)	Cornwall Insight

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0761/030621>

The Workgroup Report is due to be presented at the UNC Modification Panel by 16 September 2021.

1.0 Introduction and Status Review

Alan Raper (AR) welcomed all to the meeting.

1.1. Approval of minutes (06 May 2021)

Phil Lucas (PL) provided some suggested amendments to the minutes from the previous meeting. These were reviewed and approved for republication at:

<https://www.gasgovernance.co.uk/0761/060521>

1.2. Approval of Late Papers

AR confirmed the material received for the meeting was all received within the standard.

1.3. Review of outstanding actions

0501: National Grid (PL) to evaluate the compliance with Gas Act Section 6A and consider the exceptions.

Update: PL provided the following update to resolve this action, this is also published on the meeting page: www.gasgovernance.co.uk/0761/030621:

The following activities require a licence under the Gas Act (s.5(1)):

- gas transportation;
- gas interconnector operator;
- shipping of gas;
- supply of gas;
- provision of smart meters.

To undertake any of the listed activities without a licence is an offence. S.6A of the Gas Act allows the Secretary of State to grant or revoke exemptions for the requirement for persons to hold the licences required by S.5(1) (that is, a transporter licence, interconnector licence, supply licence, shipper licence or licence for the provision of smart meters). As storage is not an activity requiring a licence under S.5(1), the exemption regime set out in S.6A does not apply in the current situation.

S.7ZA(1) states that the Secretary of State may grant licences authorising the participation in the operation of an interconnector. Under S.7ZA(2) it prohibits the grant of an interconnector licence to a person that holds a transportation licence granted under S.7 of the Act or a gas supply or shipping licence, granted under S.7A of the Act.

Summary

The Gas Act has prohibitions on what operators of gas interconnectors may do – for example, they may not be licensed as a transporter or a shipper or supplier.

The Gas Act does not prohibit the holder of an interconnector licence from participating in the operation of a storage facility.

No questions were raised by the Workgroup. **Action Closed.**

0502: National Grid (PL) to confirm why the scope of the Modification is limited to bi-directional physical flows.

Update: PL provided the following update to resolve this action, this is also published on the meeting page: www.gasgovernance.co.uk/0761/030621:

The definition of Storage Facility in the UNC (TPDR 1.2.1(a)(iii)) describes a facility where “...gas is *offtaken from the Total System...*” and “...*stored gas...*” is subsequently “...*delivered to the Total System*”. National Grid’s interpretation is that gas ‘offtaken’ and ‘delivered’ refers to physical delivery as described in TPD Section J and I.

Whilst recognising that concurrent operation of both conventional ‘interconnector transportation’ and ‘interconnector storage’ functions may enable the operator of such functions to limit physical flows to a ‘net’ volume in the relevant flow direction, the operator nevertheless has capability to physically flow (and measure the volumes of such) in both directions. This enables the correct volumes of gas to be flowed and metered even if there are zero transportation flow volumes on a particular day.

In principle, this aspect is no different to a conventional Storage Facility which is only required to flow a net volume in the relevant direction where on a day (for example) one User wishes to withdraw 10 units of gas from storage whilst a different User wishes to inject 20 units of gas into storage. In this case the storage operator is only required to physically inject 10 units of gas into its facility.

Extension of the applicability of the proposed arrangements to Interconnectors who can only offer 'virtual' reverse flow does not align with the definition of Storage Facility in respect of physical flows. Further, such a facility would be unable to physically respond to the commercial needs of its customers if there are zero transportation volumes on a given day and the net storage flows are required in the 'virtual' (non-physical) direction. Hence, National Grid propose limiting the arrangements to Interconnectors with capability to physically flow in both directions.

No questions were raised by the Workgroup. **Action Closed**

0503: National Grid (PL) to consider if restricting the service to physical gas flows would be discriminatory.

Update: See update for Action 0502. **Action Closed**

0504: Additional justification is required for capping SCQ_d (discounted storage capacity quantity) at the storage allocation as this is different treatment of capacity at 'stand-alone' storage points.

Update: PL provided the following update to resolve this action, this is also published on the meeting page: www.gasgovernance.co.uk/0761/030621

In the presentation material for Workgroup 0761 on 06 May 2021, National Grid set out the rationale for limitation of the discountable capacity quantity to the quantity of capacity utilised for storage purpose. This was principally due to the risk identified that there is a commercial incentive for Users to procure additional 'surplus' IO storage capacity if the aggregate cost of this, and the discounted National Grid IP capacity, is less than the cost of any residual *un-discounted* IP capacity.

Whilst National Grid recognise this approach is different to the arrangements at other points on the Total System, such points are 'single purpose' whereas the proposed arrangements need to operate as intended in respect of this first 'dual purpose' point/s on the Total System. Given this, we believe that the difference in approach is appropriate considering the specific commercial risk identified, which is unique to the proposed dual-purpose point. It is noted that any such residual capacity would be available for transportation (non-storage) purposes and is therefore justifiably priced at the non-discounted capacity charge. This is also consistent with the principle that Transportation remains the primary purpose of an Interconnector offering a supplementary storage service.

Given the short-term nature of the additional Storage Service proposed by IOs, it is unlikely that system users would book capacity at the IP that was ultimately not utilised. The decision to book and utilise the additional Storage would likely be synonymous therefore the actual risk of a system user being charged the un-discounted charges for IP capacity that was intended for Storage is believed to be very low.

As National Grid have set out in their Proposal, at a Storage (only) Facilities there is no potential alternative use of that capacity (i.e. non-storage) and therefore there is no risk that unused capacity will be used for a 'non-discountable' purpose. This is not the case with Interconnectors with additional storage capability where the risk is present. National Grid believe this flexibility warrants the variation in treatment to ensure no utilisation of unused discounted storage capacity for transportation and to prevent unused capacity at the Interconnection Point attracting the storage related NTS charges.

National Grid believe this risk is similar in principle to the risk identified by Ofgem in its Impact Assessment (and reflected in its final decision) in respect of *Modification Proposal 0728C - Introduction of a Capacity Discount to Avoid Inefficient Bypass of the NTS*, where the risk of the application of a discount to a transportation route, other than one which qualifies for such a discount, was discriminatory. In this case National Grid consider that in absence of a cap equal

to the quantity of gas allocated to storage there is a risk capacity other than that intended for storage use will obtain a discount. **Closed**

2.0 Solution: Capacity (II)

PL reminded Workgroup that the High-Level Approach and Discountable Capacity Quantity determination were discussed at the last Workgroup meeting held on 06 May 2021 and Utilisation and Overruns remain to be discussed at this Workgroup meeting.

Capacity – Exclusions, Payable Price

Existing Contracts

PL explained that existing contracts (pre 06 April 2017) at Entry Points are not able to be utilised for Storage at Interconnection Points (IPs). This is on the basis that the intention of Article 35 of Tariff Regulation (Existing Contracts) is to 'freeze' the terms applicable to such capacity. PL advised it is National Grid's view that this includes the intended use of such capacity i.e. this will have been procured for transportation purposes. It was further clarified that all other capacity can be utilised for storage.

When questioned, PL agreed provide further information relating to the amount of Existing Contracts Capacity at the Bacton ASEP.

New Action 0601: It was agreed that PL will quantify the amount of Existing Contracts Capacity at the Bacton ASEP.

Traded Capacity – Capacity Assignment (TPD B6)

PL explained that Traded Capacity, under the Capacity Assignment process (TPD B6), can be utilised for storage purposes and will obtain a storage discount if classified as Storage Capacity Quantity (SCQ_d).

Traded Capacity – Capacity Transfer (TPD B5)

PL clarified that the Transferor User (the seller) retains the liability for the capacity charges for the capacity it sold under the Traded Capacity - Capacity Transfer process (TPD B5), this capacity can be utilised for storage, but a storage discount would not be applied.

Payable Price

PL explained that the payable price for capacity classified as being for storage use requires determination of whether the capacity is Firm or Interruptible as the Reserve Price for Interruptible is itself, a discounted form of the Firm price .

Therefore, PL advised that to determine the appropriate payable price for SCQ_d, it is necessary to understand if the associated capacity is Firm or Interruptible therefore it is proposed that capacity will be attributed to each component in a 'merit order' as follows:

1. Capacity attribution order: Interruptible, then Firm
2. Component attribution order: Storage, then Transportation

Payable Price – Merit Order Rationale

PL advised that any transportation capacity subject to the NTS Optional Charge 'Eligible Quantity' applies the relevant discount percentage to the Firm Reserve Price hence the merit order aligns any firm capacity to the transportation component. PL also highlighted that as per *Modification 0728B - (Urgent) - Introduction of Conditional Discount for Avoiding Inefficient Bypass of the NTS with 28km distance cap*, the NTS Optional Charge is not available for Storage. PL concluded that the proposed merit order is consistent with these principles.

Capacity – Overruns

PL confirmed there are no changes proposed to the existing overrun regimes at Entry and Exit Points.

Additional Storage Entry Overrun

To prevent utilisation of existing contracts for storage purposes, it is proposed the introduction of a separate 'Interconnection Point, (IP), Storage Entry Overrun' which would comprise of the following:

- 'ASEP Entry IP Storage Allocation Quantity'; compared to
- Lower of
 - Sum of IO specified storage capacity quantities; and
 - IP Available Capacity (includes Assignments and Transfers) excluding EC

PL highlighted that to prevent 'double charging', only the higher of the Entry Overrun and the IP Storage Entry Overrun would be payable.

JCx expressed concern that the proposed solution was complicated and questioned whether limiting storage allocations to what capacity the User holds could form an alternative approach to suggested additional overrun mechanism.

New Action 0602: National Grid (PL) to consider limiting the storage allocation to the Storage Capacity i.e. the lower of (a) sum of IO specified storage capacity; and (b) IP Available Capacity excluding Existing Contracts in order to avoid need for additional storage overrun.

3.0 Solution – all other elements

3.1. Point Definition

PL noted that the Point Definition proposals were subject to change as discussions were ongoing with the National Grid Legal Team. PL nevertheless informed Workgroup that as it stands, it is proposed that a single physical point can be comprised of both an Interconnection Point and a Storage Connection Point, that 'Storage Facility' (TPD R1.2.1) is revised to remove the requirement for storage of gas to be the *principal* purpose, and that the Storage Discount to Transmission Services Capacity Reserve Price is allocated to Storage Connection Points instead of Storage Site Points, (as stated in the Licence), which is consistent with the application of Storage exemption from General Non-Transmission Service Charge (TPD B2.11.6 / B3.12.7).

Members of the Workgroup questioned whether the UNC should include the definition a new type of facility (for example 'IP storage facility') as an alternative to refining existing definitions. This may emphasise/justify the unique nature of the Point and the rationale for application of specific capacity arrangements. PL agreed to consider this further.

New Action 0603: National Grid (PL) to consider the definition of a new multi-purpose point (as opposed to refining the existing Storage Facility definition).

JCx suggested a review of TPD Section R to establish any unforeseen consequences e.g definitions of space, deliverability and questioned whether National Grid could be a storage User for Operating Margin purposes.

New Action 0604: Review TPD Section R: Storage to identify if any further changes are required.

New Action 0605: National Grid (PL) to advise if the storage aspect of the Interconnector would be available for use by National Grid to support Operating Margins arrangements. (TPD K)

JCx noted that as part of the charge setting process Forecasted Contracted Capacity (FCC) is determined at each point. Specifically, any discounts applicable in the Tariff period feed through the process to determine the Reserve Prices. JCx questioned how that would work in the context of this Proposal and requested clarity as to whether the FCC Methodology would be revised.

PL acknowledged that implementation of this Proposal would impact the charge setting process, (in terms of the forecast revenue at IPs), hence National Grid would need to consider the information it would require from Interconnector Operators ahead of the Tariff Year to inform the charge setting process (for example, forecast scale of usage of the Storage product).

PL clarified that Modification Proposal 0761 would not, as part the Workgroup process, include any changes necessary to the FCC Methodology and observed that as National Grid and Users have a shared interest in getting the FCC accurate, such a change (if required) would be progressed if Modification 0761 is directed for implementation.

Notwithstanding this, JCx expressed a desire to discuss the potential impact on the FCC Methodology further and asked for it to be added to the agenda of the next NTSCMF.

New Action 0606: Joint Office to include this issue on the next NTSTCMF agenda:

Consider: The impact on the Forecasted Contracted Capacity (FCC) Methodology in the event that Proposal 0761 is directed for implementation. Any additional Storage discounts applied as a consequence of this change would impact the process to determine capacity Reserve Prices and may necessitate revision of the FCC Methodology – refer to material presented to Workgroup 0761 on 03 June 2021.

Sarah Cooper (SC) confirmed that IUK are presenting this as a service to complement their main transportation business. However, a member of the Workgroup suggested that storage volumes may exceed their transportation flows.

When asked about the consequences of this, PL advised that it is for the operator of an interconnector who offers a storage service to be able to justify that its principal purpose remains transportation in accordance with the terms of its licence and the definitions in relevant legislation.

3.2. Nominations

PL advised that it is proposed that separate daily nominations (TPD C / EID C) will be required for a User's intended transportation and storage flows.

PL confirmed there are no changes proposed to the Entry Scheduling Charge arrangements, (i.e. assessed at ASEP level), however, it is proposed that separate Exit Scheduling Charges would be applied; i.e. Transportation Allocation v Transportation Nomination, and Storage Allocation v Storage Nomination.

3.3. Allocations

PL advised that it is proposed that Storage allocation is based on an 'allocate as measured' method, whereby the full measurement will be allocated to Users each day consistent with other Storage Connection Points.

PL advised that Transportation allocation would continue to be based on an 'allocate as nominate' method utilising the daily Operational Balancing Account (OBA). The only exception would be on "Non-OBA days" where the transportation measurement is allocated to nominating transportation Users only. This is consistent with other IPs.

JCx asked if and where the measurement and allocation information will be published. PL agreed to investigate what measurement/allocation information is currently published on MIPI in respect of storage points.

New Action 0607: National Grid (PL) to investigate what measurement/allocation information is currently published on MIPI in respect of storage points.

3.4. Charging

PL noted that the material on the relevant slide in the presentation represented a ‘practical consequence’ of the Proposal which did not necessarily need to be reflected in the UNC. He highlighted that the contractual changes proposed were as set out in the relevant section of the Solution in the Proposal i.e. application of a Storage Discount to the SCQ_d quantity and the exemption from General Non-Transmission Services Charges for Storage flows (allocations).

In terms of the practical consequences, PL informed Workgroup that the Transmission Services Capacity invoices are issued ~ 5th calendar day of M+1. However, as the proposed determination of SCQ_d requires Entry and Exit Storage Allocations (Entry Closeout is M+15 and Exit Closeout is D+5) he advised that the proposed approach for Transmission Services Capacity is as follows:

- M+1 invoice: IP capacity charged at ‘standard’ rate; and
- M+2 invoice: reconciliation to reflect any SCQ_d quantities subject to Storage discount

PL observed that as the General Non-Transmission Services Invoice is issued ~ 27th / 13th day of M+1 for Entry / Exit, respectively, the exemption for storage flows can be reflected in the first (M+1) invoices after the Billing Period.

4.0 Next Steps

AR confirmed that Workgroup will work toward the Workgroup Plan provided by the proposer. This has been captured below within the Diary Planning table. PL expressed an intention to issued a revised version of the Proposal ahead of the next meeting, principally to include the proposed merit order as discussed in ‘Payable Price’ section of the agenda.

5.0 Any Other Business

None.

6.0 Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/events-calendar/month

Time / Date	Venue	Workgroup Programme
10:00 Thursday 01 July 2021	Microsoft Teams	Contingency – consider outstanding solution questions Finalise Solution
10:00 Thursday 05 August 2021	Microsoft Teams	Discuss draft legal text Discuss relevant objectives Consider draft Workgroup Report
10:00 Thursday 02 September 2021	Microsoft Teams	Review Legal Text Finalise Workgroup Report

Action Table (as at 03 June 2021)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0501	06/05/21	3.0	National Grid (PL) to evaluate the compliance with Gas Act Section 6A and consider the exceptions.	National Grid (PL)	Closed
0502	06/05/21	3.0	National Grid (PL) to confirm why the scope of the Modification is limited to bi-directional physical flows.	National Grid (PL)	Closed
0503	06/05/21	3.0	National Grid (PL) to consider if restricting the service to physical gas flows would be discriminatory.	National Grid (PL)	Closed
0504	06/05/21		Additional justification is required for capping SCQ _d (discounted storage capacity quantity) at the storage allocation as this is different treatment of capacity at 'stand-alone' storage points.	National Grid (PL)	Closed
0601	03/06/21	2.0	Existing Contracts: It was agreed that PL will quantify the amount of Existing Contracts Capacity at the Bacton ASEP	National Grid (PL)	Pending
0602	03/06/21	2.0	Additional Storage Entry Overrun: National Grid (PL) to consider limiting the storage allocation to the Storage Capacity i.e. the lower of (a) sum of IO specified storage capacity; and (b) IP Available Capacity excluding Existing Contracts in order to avoid need for additional storage overrun.	National Grid (PL)	Pending
0603	03/06/21	3.0	Point Definition: National Grid (PL) to consider the definition of a new multi-purpose point (as opposed to refining the existing Storage Facility definition).	National Grid (PL)	Pending
0604	03/06/21	3.0	Point Definition: Review TPD Section R: Storage to identify if any further changes are required.	National Grid (PL)	Pending
0605	03/06/21	3.0	Point Definition: National Grid (PL) to advise if the storage aspect of the Interconnector would be available for use by National Grid to support Operating Margins arrangements. (TPD K)	National Grid (PL)	Pending
0606	03/06/21		Point Definition:	Joint Office (HB)	Pending

Action Table (as at 03 June 2021)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
			<p>Joint Office to include this issue on the next NTSTCMF agenda:</p> <p>Consider: The impact on the Forecasted Contracted Capacity (FCC) Methodology in the event that Proposal 0761 is directed for implementation. Any additional Storage discounts applied as a consequence of this change would impact the process to determine capacity Reserve Prices and may necessitate revision of the FCC Methodology – refer to material presented to Workgroup 0761 on 03 June 2021.</p>		
0607	03/06/21	3.3	<p>Allocations:</p> <p>National Grid (PL) to investigate what measurement/allocation information is currently published on MIPI in respect of storage points.</p>	National Grid (PL)	Pending