

UNC Workgroup 0869
Revision to the Calculation Methodology of the Security Amount for
Planning and Advanced Reservation of Capacity Agreement
(PARCA)

Tuesday 02 April 2024

via Microsoft Teams

Attendees		
Eric Fowler (Chair)	(EF)	Joint Office
Nikita Bagga (Secretary)	(NB)	Joint Office
Adam Bates	(AB)	SEFE Marketing & Trading
Alistair Craig	(AC)	Ofgem
Andrew Pearce	(AP)	BP Gas Marketing
Anna Shrigley	(AS)	ENI
Ash Adams	(AA)	National Gas Transmission
Colin Williams	(CW <i>i</i>)	National Gas Transmission
Carlos Aguirre	(CA)	Pavilion Energy
David Bayliss	(DB)	National Gas Transmission
Davide Rubini	(DR)	Vitol
Donald Lam	(DL)	Ofgem
Emma Robinson	(ER)	EON Energy
Jeff Chandler	(JC)	SSE
Joseph Glews	(JG)	Ofgem
Joseph Leggott	(JL)	Interconnector
Julie Cox	(JC <i>x</i>)	Energy UK
Kieran McGoldrick	(KMc)	National Gas Transmission
Lauren Jauss	(LJ)	National Gas Transmission
Mariachiara Zennaro	(MZ)	Centrica
Marion Joste	(MJ)	ENI
Nick Wye	(NW)	Water Wye Association
Nigel Sisman	(NS)	Sisman Energy Consultancy Limited
Richard Fairholme	(RM)	Uniper
Ritchard Hewitt	(RH)	Hewitt Home and Energy Solutions
Tim Gwinnell	(TG)	SouthHook Gas

The Workgroup Report is due to be presented at the UNC Modification Panel by 20 June 2024.

This Workgroup meeting will be considered quorate provided at least two Transporter and two Shipper User representatives are present.

Please note these minutes do not replicate/include detailed content provided within the presentation slides, therefore it is recommended that the published presentation material is reviewed in conjunction with these minutes. Copies of all papers are available at: <https://www.gasgovernance.co.uk/0869/020424>

1. Outline of the Modification

Kieran McGoldrick (KMc) provided an overview of this Modification, advising that once stage 2 is reached in the PARCA process, a PARCA security deposit is required. Historically, this has been done on the Weighted Average Price for the capacity and issues have been identified that

arise since the adoption of the Postage Stamp charging regime was introduced in October 2020. This is particularly relevant in respect of the differences in charges for storage and non-storage sites. This was illustrated on page 4 of the presentation.

The intention with this Modification is to bring the process in line with the current charging regime to ensure that calculations of the security amounts are more consistent. NGT did consider whether storage sites should be subject to a lower PARCA security charge but there did not appear to be a material justification for this. The discount in the capacity charge for storage sites is based on making them commercially viable in their operation whilst the costs associated with planning process of the connection to the NTS would be similar regardless.

The Modification Panel has asked the Workgroup to provide a view on whether this Modification should proceed under self-governance procedures.

KMc provided a verbal update on the termination fees (in relation to the outstanding action 0303) in which it was discussed that NGT's costs are deducted from any amount returned. If there is a shortfall, this will be taken from the allowed revenues and it was confirmed that this would relate to Transmission Services. It was agreed that a sufficient update had been provided and Julie Cox (JCx) advised she was happy to close this action.

In relation to the security deposit, Nigel Sisman (NS) asked whether this was considered inadequate as part of the 2020 pricing change. KMc advised that this is a separate issue and he would need to discuss further with the PARCA team. NS advised that prior to the 2020 regime, his understanding was that the security deposit was considered in relation to the weighted charge however this figure actually derives from the commodity charge. Today, NGT would need to consider a much larger weighted charge and as a result, NS queried whether there was any justification for doing so. If the security deposit was considered sufficient prior to October 2020, NS queried why this would change now. KMc highlighted that the PARCA Modification is over 10 years old and was set up due to geographical disparity in prices. The Modification states that the average capacity price was considered fair at the time PARCA was set up.

On page 6 of the presentation KMc illustrated the proposed change to the rates. Colin Williams (CWi) emphasised that the changes are relatively small. KMc highlighted that the intended step change is unlikely to have an effect on anyone. In relation to this point, JCx added that there will not be an effect on existing contracts due to them being locked in at the point of reservation at the start of stage 2 however there will be an effect on future projects. This position was confirmed by KMc.

JCx recalled that at the time PARCA was created, it was a capacity-related mechanism and it was developed in a way to ensure that NGT's costs were covered. JCx noted that very few projects require new build and that where substitution or no build is required then customers may be locking up more money than is appropriate. JCx asked NGT to consider whether the PARCA remained appropriate and asked this to be added to the CMF Issues Tracker.

In relation to the points on Page 8 JCx highlighted that the incurred cost may vary every day and that it will be helpful to have some analysis. KMc agreed that analysis of responses to the points posed by Panel will be shared with the Workgroup at the next NTSCMF meeting. EF advised that these responses will form part of the Workgroup Report and the views of the Workgroup will be captured.

The Workgroup then discussed the situations where NGT's costs had exceeded the security deposit over the past 10 years, an analysis which is to be conducted by the PARCA team.

In relation to the third question on the agenda (Consider the cash-flow / loan impacts to applicants in respect of the security deposit.) JCx advised that a response to this might be difficult to quantify, NGT also appeared to be unsure of how to formulate a response to this question. There appear to be some general questions that can be considered in terms of the costs associated with holding a credit rating, a letter of credit or posting a security. In response to this, JCx asked if a company has a credit rating, does this mean they will not need to provide a letter of credit as an assurance. CWi confirmed this position was correct, adding further that it

is likely that the smaller companies will need to provide a letter of credit. This point was acknowledged and it was discussed that the way in which the security deposit is required may cause some parties to incur a cost and others may not. This is an area for the Workgroup to discuss further.

Please refer to the presentation slides published for further details.

2. Initial Discussions

2.1 Issues and Questions from Panel

Please see notes above to the following Panel Questions

Question 1: Pricing Methodology and pricing structure to be clarified.

Question 2: What has been the cost to NGT over the past 10 years relative to if the proposed methodology had been adopted?

Question 3: Consider the cash-flow/loan impacts to applications in respect of the security deposit.

2.1 Initial Representations

None received

2.2 Terms of Reference

Please see discussion at point 1.

As matters have been referred from Panel a specific Terms of Reference will be published alongside the Modification at www.gasgovernance.co.uk/0869

3. Next Steps

None.

4. Any Other Business

None.

5. Diary Planning

Workgroup 0869 meetings are listed at: <https://www.gasgovernance.co.uk/0869>

All other Joint Office events are available via: www.gasgovernance.co.uk/events-calendar/month

Time / Date	Paper Publication Deadline	Venue	Workgroup Programme
10:00 Tuesday 07 May 2024	5pm Friday 26 April 2024	Microsoft Teams	Development of Workgroup Report
10:00 Tuesday 04 June 2024	5pm Friday 24 May 2024	Microsoft Teams	Conclusion of Workgroup Report