

**NTS Charging Methodology Forum (NTSCMF) Minutes**  
**Tuesday 04 September 2018**  
**at Elexon, 4<sup>th</sup> Floor, 350 Euston Road, London, NW1 3AW**

**Attendees**

Rebecca Hailes (Chair)	(RH)	Joint Office
Helen Cuin (Secretary)	(HCu)	Joint Office
Adam Bates	(AB)	South Hook Gas
Bill Reed	(BR)	RWE Supply & Trading
Charlotte Friel	(CF)	Ofgem
Christiane Sykes*	(CS)	Shell
Colin Williams	(CW)	National Grid NTS
Debra Hawkin*	(DH)	TPA Solutions
Duncan Sinclair	(DS)	Baringa (item 1.2 only)
Graham Jack	(GJ)	Centrica
Henk Kreuze	(HK)	Vermilion
James Gudge	(JG)	National Grid
Jeff Chandler	(JCh)	SSE
John Costa	(JC)	EDF Energy
Julie Cox*	(JCx)	Energy UK
Kamla Rhodes	(KR)	ConocoPhillips
Kirsty Ingham	(KI)	ESB
Melanie Felixsanni*	(MF)	npower
Paul Youngman	(PY)	Drax Power
Paul Toole*	(PT)	Northern Gas Networks
Penny Jackson	(PJ)	npower
Richard Fairholme*	(RF)	Uniper
Roddy Monroe	(RM)	Waters Wye Associates
Sinead Obeng	(SO)	Gazprom Marketing & Trading
Will Webster	(WW)	Oil and Gas UK

\* *via teleconference*

Copies of all papers are available at: <https://www.gasgovernance.co.uk/NTSCMF/040918>

**1. Introduction and Status Review****1.1. Approval of Minutes (01 August 2018)**

RH advised of an amendment made to the original minutes on page 3. No further comments were received. The minutes from the previous meeting were approved.

**1.2. Modifications with Ofgem**

RH invited Ofgem to provide an update on the suite of 0621 Modifications - Amendments to Gas Transmission Charging Regime.

CF welcomed DS to the meeting from Baringa, explaining that Baringa are providing analytical support to Ofgem. She explained that Ofgem are working on the impact and compliance assessment which is due to be completed at the end of October. It was

anticipated that the “next step decision” will be made soon after.

HK asked for clarification on the decision following the impact assessment and if this will be on a possible send back. CF confirmed that Ofgem expect to make a decision on the next steps in quarter four on whether to send back, proceed to consultation or reject the modifications.

DS confirmed that Baringa had been appointed by Ofgem three weeks ago to provide analytical support. He provided a presentation on the factors being analysed and the outputs that will feed into Ofgem’s impact assessment.

He confirmed Baringa are looking at the key levers that factor into the modifications, the reference methodology and will be looking at the components to test the modification effects individually. He highlighted that some of the terms and the variances on forecasting capacity will need to be defined. Baringa will be looking at a range of discount factors, any transitional arrangements and the impact of historical capacity bookings.

JCx enquired about the FCC functions and the simplified assumption of perfect foresight, which does not represent any of the proposals. She asked for clarification on what this actually means. DS explained that there is an assumption that National Grid can perfectly forecast capacity and that this will be heavily caveated. It was recognised that this was far from perfect but as the modifications were not clear on the methodology, in the time available some assumptions needed to be made.

JCh suggested an alternative booking scenario as an optional default. CW explained the differences between Distribution Networks (DNs) and non-DNs, their capacity obligations and the intuitive nature of this. He explained that, there is a starting point and an intuitive nature to get from the starting point to the end point. He highlighted that Tariffs can drive certain behaviours which may drive FCC, and the equilibrium of the FCC.

JCx expressed concern about the method and its oversimplification of the reality in the modification solutions, stressing that perfect recovery is not realistic.

GJ enquired about the transmission revenue charge and how this will play out, especially with the effect on behaviours.

JC expressed concern about the analysis not appearing to reflect the modifications and each variant. He stressed that this needs to include transition and enduring rather than serve merely as a hypothetical analysis.

CF assured parties that Ofgem are trying to first understand the range of the proposals before looking at each model. Further qualitative analysis will be taken and revenue recovery will be considered as part of the impact assessment. JCx expressed concern that the impact assessment didn’t appear to be modelling the modifications and that it appeared that Ofgem are assessing a range as if there is a potential hybrid solution being drawn up .

GJ highlighted that in relation to “short-haul”, most of the modifications do not have a solution beyond 2021. He asked how Ofgem may address this. CF explained that Ofgem do not want to hypothesise on what “short-haul” may look like.

DS provided a diagram to illustrate the elasticities of supply of different sources and different categories of demands to work out the likely behaviours of each market participant. He confirmed Baringa will also look at analysis to review and how this may affect new entrants.

~~JCh enquired about how the analysis is going to capture the electricity Capacity Market<sup>4</sup>. He referred to price elasticities, considering the outcomes, looking at bookings to drive charges and the possibility that storage and UK resources could become out-priced in the market. He stressed the need to look at the outputs that may be generated to understand the supply stack impacts.~~

~~JCh enquired about how the analysis is going to impact the electricity market. Behavioural~~

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<sup>4</sup> ~~Electricity Capacity Market: <https://www.nationalgrid.com/uk/electricity/capacity-emr-and-cmn>~~

bookings could impact the electricity Capacity Market<sup>2</sup>. Or the energy market. Both need to be modelled. He also asked about price elasticities assumptions for supply stating that historical supply elasticities were unsuitable for modelling the new regime given the material change in prices and behaviour. Much better to model the prices for different assumptions and then use these for the elasticities and impact on customers given the possibility that storage and UK resources could become out-priced in the market. This may require an iterative approach.

WW understood that Baringa would not be modelling upstream assets and there will be some assumptions as part of the modelling. GJ suggested that export and import assumptions, and competition for example from the Dutch Market, should be considered. DS explained that they will not be modelling the whole of the Continental European market but will be looking at the historical supply and demand stack.

JC asked if Baringa had a fully integrated model. DS explained an electricity model would be used as a basis along with historical analysis and the analysis will feed into the Ofgem assessment mid-October.

JC asked about distribution and if the model would include Interruptible discounts. DS explained that the sensitivity of this is currently being considered.

DS clarified in terms of Future Energy Scenarios<sup>3</sup>, that the steady progression' and 'Two-degrees' scenarios would be tested.

BR asked if the analysis would be a straight forward exercise and if the outputs could be used for further analysis and/or for further iterations. DS confirmed it will be possible to build further on the analysis.

CF explained that Ofgem are working closely with National Grid to ensure they understand the dynamics of each of the modifications.

KI asked if Ofgem are considering neighbouring markets such as Ireland and Northern Ireland. CF confirmed that Ofgem are engaged with neighbouring markets to understand the impacts and close communications are being undertaken. Ofgem are keenly waiting for the ACER conclusions and any lessons learned from other countries.

DH asked about the ACER and the interim consultations. CF confirmed that all the responses have been received. CW confirmed that the response summary is expected to be finalised in the next week or two and will be made available to ACER. National Grid will also be considering the visibility of the responses/summary. DH enquired if ACER's response to the summary will be publicly available. CF explained the consultation process and that there is no obligation for ACER to provide a formal response at this stage, though one is expected after the final consultation.

In conclusion of discussions, CF re-iterated that following the impact assessment, Ofgem will consider the next steps which will include a decision on whether to reject all modifications, send back, or continue to consultation. She confirmed that Ofgem are considering what the next steps / options would need to be and the routes/variants, if the decision is to reject all modifications.

### **1.3. Pre-Modification discussions**

#### **1.3.1. Review of the changing methodology to avoid the inefficient bypass of the NTS**

CW and JG provided a draft Request Modification. The purpose of the Request, is to conduct a review and assessment of the charging methodology that is a feature of the overall Gas

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<sup>2</sup> Electricity Capacity Market: <https://www.nationalgrid.com/uk/electricity/capacity-emr-and-cmn>

<sup>3</sup> Future Energy Scenarios (FES) <https://www.nationalgrid.com/uk/publications/future-energy-scenarios-fes>

Transportation Charging framework to avoid inefficient bypass of the NTS.

JG explained that the NTS Optional Commodity Charge was introduced in 1998 to avoid inefficient bypass of the NTS. The charge was an alternative to infrastructure investment. As a result of changing behaviours, the NTS Optional Commodity Charge ("Short-haul"), has seen a significant increase in its use which has impacted on other charges in a way that was not originally envisaged. National Grid therefore believes there would be merit in considering the charging aspect as an integral part of an overall methodology.

RF, given the timing and ongoing uncertainty, had two reservations; the proposal is assuming National Grid short-haul ends in October 2021 when it may not (depending on which 0621 variant is implemented); and with short-haul he preferred to avoid wasted time considering/discussing incompatible solutions. He voiced a preference for waiting for Ofgem's minded to decision or actual decision and avoiding time being spent considering future charging arrangements that cannot proceed.

However, GJ was keen to continue discussions, considering the industry could end up with a capacity based solution and noting 8 or 9 of the 11 variants of the 0621 modifications did not have an enduring solution. He was keen to keep discussions going, to maintain industry focus, recognising this was not an easy topic, especially if a capacity solution as opposed to a commodity based solution was sought.

CW hoped any review would be able to strike a balance from a fundamental principles point of view and reserve the level of detail until there was better certainty. CW anticipated that the Request Proposal and 0621 assessment/decision process could work in tandem, enabling the Request Workgroup to consider the next steps, for example which modifications may come out of the review.

DH was concerned that 0621 was critical and she did not want to see resources taken away from 0621 in favour of considering short-haul, especially when numerous considerations have already been heard in this forum. HK was also mindful of the focus required on 0621.

CS suggested the industry start looking at the principles and objectives, as it seemed sensible to start at the earliest opportunity.

JCh asked about conflicting priorities, if National Grid is working on short-haul and not on the Forecasted Contracted Capacity (FCC) Methodology. CW believed that these elements could be done together.

BR asked about the wider avoidable costs rather than focusing solely on avoidance of building dedicated pipelines. CW explained the review can be as big or as small as the industry wanted it to be including avoidable costs outside the NTS such as avoiding compression costs. BR noted that there is inefficient by-pass, inefficient building of systems and avoidance of dedicated infrastructure which could be considered. CW believed the review could include both.

BR highlighted that there are two different revenue streams and recognised there are different investment drivers to avoid significant capacity costs. He wanted to consider System Operator SO and Transmission Operator TO costs and include the wider consideration of cost avoidance.

CW wished to consider all the points made and will amend the request based on discussions today. RH highlighted that for the Request to be considered at the September panel the Request needed to be formally submitted by Friday 7<sup>th</sup> September.

SO asked about the potential impacts on security of supply. CW explained that without knowing what the options are, the impacts at this stage will be unknown.

GJ questioned if it was necessary to have two Transporters as part of the review if the DNs didn't need/want involvement. It was suggested that not having two DNs shouldn't hold up progression of a Request Workgroup if there was no criticality for DNs being involved. RH encouraged DNs to participate as this was considered good practise, however this would be

put to the UNC Panel for a view.

## 2. **Ofgem Update: 0621 Impact Assessment Approach**

See item 1.2 above.

## 3. **Standard NTSCMF topics**

### 3.1. **Update on Long Term Revenue Forecasts**

CW confirmed an update will be provided in November.

## 4. **Workgroups**

None at present.

## 5. **Issues**

RH highlighted that Issue ISS066 – Implications of decommissioned Exit/Entry points is being considered by the Transmission Workgroup.

## 6. **Review of Outstanding Action(s)**

**NTSCMF 0801:** National Grid (CW) to provide an update at the November meeting on Long Term Revenue Forecast.

**Update:** Deferred to November. **Carried Forward**

## 7. **Any Other Business**

### 7.1. **Calculation of PARCA Security – Process and Timelines (Julie Cox, Energy UK)**

JCx highlighted a potential issue in relation to PARCA security calculations for entry and exit capacity charges and as a part of the capacity changes if this was likely to be affected.

JCx confirmed she had looked at the process and how it works, however she noted there was not much of a framework. She understood that when the PARCA was put into the UNC an initial value was also put into UNC until it was updated. She explained that there did not appear to be a particular time-frame to consider the PARCA security amount.

She wanted to better understand what the process was and what it should be going forward.

CW explained that as part of the final price updates (October) these values get published along-side the commodity notice within the change notice provided in July/August. The charging statement is then updated for 01 October. CW confirmed that the current calculation will still work, the capacity products are still the same and will derive a value, dependent on the prices and level of capacity at both entry and exit.

JCx asked about the publication of prices. CW believed that the prices for applications before 01 October will be based on the previous year's price as it takes the live price. If an application is made after the 01 October it will be the live price from 01 October. CW agreed to clarify this and clarify when prices are published and when they are live.

**Action 0901: National Grid (CW) to confirm if PARCA applications are made before 01 October which charge will apply (i.e the live charge before 01 October) and to clarify when the charges are published and go live.**

## 8. **Diary Planning**

Further details of planned meetings are available at:

<https://www.gasgovernance.co.uk/events-calendar/month>

Workgroup meetings will take place as follows:

Time / Date	Venue	Workgroup Programme
10:00 Tuesday 02 October 2018	Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA	Standard Workgroup Agenda
10:00 Tuesday 06 November 2018	Elexon, 350 Euston Road, London NW1 3AW	Standard Workgroup Agenda
10:00 Tuesday 04 December 2018	Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA	Standard Workgroup Agenda
10:00 Thursday 10 January 2019	TBC	Standard Workgroup Agenda
10:00 Tuesday 05 February 2019	TBC	Standard Workgroup Agenda
10:00 Tuesday 05 March 2019	TBC	Standard Workgroup Agenda
10:00 Tuesday 02 April 2019	TBC	Standard Workgroup Agenda

**Action Table as at 04 September 2018**

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
NTSCMF 0801	01/08/18	2.1	National Grid (CW) to provide an update at the November meeting on Long Term Revenue Forecast.	National Grid NTS (CW)	<b>Carried Forward</b>
NTSCMF 0901	04/09/18	7.1	National Grid (CW) to confirm if PARCA applications are made before 01 October which charge will apply (i.e the live charge before 01 October) and to clarify when the charges are published and go live.	National Grid NTS (CW)	<b>Pending</b>