NTS Charging Methodology Forum (NTSCMF) Minutes

Tuesday 05 October 2021

via Microsoft Teams

Attendees		
Eric Fowler (Chair)	(EF)	Joint Office
Helen Bennett (Secretary)	(HB)	Joint Office
Adam Bates	(AB)	South Hook
Alex Neild	(AN)	Storengy
Amber Talbott	(AT)	Storengy UK
Andrew Pearce	(AP)	BP
Anna Shrigley	(ASh)	ENI
Anna Stankiewicz	(ASt)	National Grid
Carlos Aguirre	(CA)	Pavilion Energy
Chris Wright	(CR)	Exxonmobil
Christiana Sykes	(CS)	Shell Energy
Colin Williams	(CWi)	National Grid
Daniel Hisgett	(DHi)	National Grid
Dave A Bayliss	(DAB)	National Grid
Davidi Rubini	(DR)	Vitol
Debra Hawkin	(DHa)	TPA Solutions
Henk Kreuze	(HK)	Vermilion Energy
Jeff Chandler	(JCh)	SSE
John Costa	(JCo)	EDF Energy
Julie Cox	(JCx)	Energy UK
Kieran McGoldrick	(KM)	National Grid
Laura Johnson	LJo	National Grid
Lauren Jauss	(LJ)	RWE
Marion Joste	(MJ)	ENI
Mark Field	(MF)	Sembcorp UK
Nick Wye	(NW)	Waters Wye Associates
Nigel Sisman	(NS)	Sisman Energy Consulting
Pavanjit Dhesi	(PD)	Interconnector
Phil Lucas	(PL)	National Grid
Ricky Hill	(RHi)	Centrica
Richard Fairholme	(RF)	Uniper
Ritchard Hewitt	(RHe)	Hewitt Home & Energy Solutions
Rudi Streuper	(RS)	BBL Company
Samuel Dunn	(SD)	Interconnector
Samuele Repetto	(SR)	Gazprom Marketing & Trading
Terry Burke	(TB)	Equinor
Thomas Bourke	(TBo)	Ofgem
Thomas Paul	(TP)	E.ON
Sinead Obeng	(SO)	Gazprom Marketing & Trading

Copies of all papers are available at: https://www.gasgovernance.co.uk/ntscmf/051021

Please note that NTSCMF meetings will be quorate where there are at least six participants attending, of which at least two shall be Shipper Users and one Transporter is in attendance.

1. Introduction and Status Review

Eric Fowler (EF) welcomed everyone to the meeting.

1.1. Approval of Minutes (02 September 2021)

The minutes of the 02 September 2021 meeting were approved.

1.2. Approval of Late Papers

EF noted that whilst some papers were provided after the 'normal' submission deadline, all had been published ahead of the meeting.

1.3. Review of Outstanding Actions

0107: National Grid (CW) to provide documented explanation and diagrams detailing the relationship between the SO /TO and TS/non-TS revenue services.
Update: Colin Williams (CWi) advised that resource efforts have been put into the pre-Modification; an update will be provided at the November 2022 meeting. **Carried Forward**

0501: National Grid (CW) to provide detailed explanation of misalignment between Code and Licence including GAP analysis.
Update: CWi advised that resource efforts have been put into the pre-Modification; an update will be provided at the November 2022 meeting. **Carried Forward**

0901: National Grid (CWi) to update the slide from the last presentation on this subject: Revenue Mapping.
Update: CWi advised that resource efforts have been put into the pre-Modification; an update will be provided at the November 2022 meeting. **Carried Forward**

1.4. Modifications with Ofgem[1]

EF provided a brief update on the anticipated decision dates associated with the UNC Charging related Modifications that are currently with Ofgem awaiting a decision, as follows:

Short Haul discount will be implemented now start of new Gas Year. TBo said Ofgem hope savvy buyers and a competitive shipper market will result in benefits being passed onto the end consumer.

Deleted: g

Deleted: y

Deleted: – looking forward to those

0737 - Transfer of NTS Entry Capacity from a Capacity Abandoned ASEP

Rejected on 30 September 2021

Ofgem decision was published on 30 September 2021.

0751 – Capping price increases for Long-Term Entry Capacity

Ofgem is considering this Modification. A decision will be made in due course. and the anticipated decision date is now circa 29/10/2021.

Workgroup noted that the June 2021 UNC Panel did not recommend implementation of this Modification.

0753 – Removal of Pricing Disincentives for Secondary Trading of Fixed Price NTS System Entry Capacity

Ofgem is considering this Modification. A decision will be made in due course. and the anticipated decision date is now circa 29/10/2021.

[1] *A copy of the Ofgem Decision timing document can be found at: https://www.ofgem.gov.uk/publications-and-updates/code-ModificationModification-proposals-ofgem-decision-expected-publication-dates-timetable*

Workgroup noted that the June 2021 UNC Panel did not recommend implementation of this Modification.

1.5. Pre-Modification discussions

1.5.1. Introduction of a Transmission Service Entry Flow Charge

CWi was invited to introduce the pre-Modification which would aim to:

Revise the method of the determination of National Grid Entry Transmission Services Capacity Reference Prices and introduce a new flow-based Transmission Services Entry charge (payable by all Users). The purpose of these changes is to achieve a greater degree of year-on-year stability in the pricing of Transmission Services Entry Capacity and reduce the overall price differential between Existing Contracts and Non-Existing Contracts.

Ritchard Hewitt (RHe) advised that he attended the Charging Reform Workshop was held on 29 September 2021 and highlighted that the presentation was very helpful in providing a high-level view and understanding the context of the Modification. He suggested that CWi might want to perform a quick recap of the main slides before completing a review of the draft Modification.

CWi agreed to go through the presentation titled **Charging Reforms: Additional Entry Charge**:

Next Steps with Additional Charge / Revenues (Slide 2)

CWi explained that the drafting of the solution in the Modification has included building on previous conversations in the workshops as well as these workgroups as the proposal, the high-level proposal is to introduce a Flow-based Entry Transmission Services Charge which will be determined after calculating an updated reference / reserve price compared to current method calculates a price without the influence of Existing Contracts and will be applied to all entry flows except interconnector and storage flows.

An illustration of how it would be calculated, and an indicative rate followed:

Additional Charge Current Entry FCC Methodology (Slide 3)

This slide shows the Entry FCC Methodology is currently calculated.

Additional Charge Entry FCC Methodology Revised for Excluding EC's (Slide 4)

This slide shows the revised methodology which now excludes Existing Contracts and affects the Future Bookings / PARCA > Capacity Forecast by Entry Point part of the methodology.

When Henk Kreuze (HK) asked for clarification of the two columns of figures and how to ratify the £1.7m difference, DAB the Future Bookings / PARCA > Capacity Forecast by Entry Point part of the methodology takes the highest values, they are not added together, the model takes the maximum value for each individual month.

Additional Charge Entry Reference Price Calculation Excluding EC's (Slide 5)

David A Bayliss (DAB) explained the calculation for the Entry Reference Price excluding Existing Contracts:

Tx Charge Model	Existing Tx Charge Model used to calculate Entry Capacity Reference Price: but updated to reflect the following:
Revised FCC	*Use of the Entry FCC Revised to Exclude EC*
Existing Contracts	*Existing Contract Capacity and Revenues Removed from the model*
"Shorthaul"	*Forecast of "Shorthaul" capacity and revenues revised to account for no EC.*

GY Target Revenues *Target Revenues revised to account for the different "FRY" profile of revenue collection across the Gas Year if no EC.*

Using this methodology calculates an Entry Capacity Reference Price (if there were no Existing Contracts) of 0.0444 p/kWh/d

Additional Charge Entry Revenue to process via Additional Charge (Slide 6)

DAB explained, the information provided on this slide shows the Original Target Revenue value of £235m needing to be collected between October and March, using the new methodology, (to exclude Existing Contracts), this gives a revised Target Revenue of £426m to be recovered between October and March.

This then calculates the Entry Revenue to process the Additional Charge to meet Formula Year targe is £146m.

Additional Charge - Calculation of Additional Charge (Slide 7)

This slide shows the Additional Charge rate in p/kWh as being 0.0176 using the new Additional Charge calculation.

Additional Charge Indicative Impact of Additional Charge 1of2 (Slide 8)

This slide shows the new capacity product – Indicative Combined "New Capacity" Price under Additional Charge, 0.0620, which includes:

- Indicative Entry Capacity Reference Price 0.0444, plus
- Indicative Entry Capacity Additional Charge 0.0176

Additional Charge Indicative Impact of Additional Charge 2of2 (Slide 9)

The final slide that DAB explained shows the indicative impact of applying the additional charge against Storage Sites; Interconnection Point; Beach Terminal; Onshore Field; Biomethane Plan and LNG Importation Terminal.

When Mark Fields (MF) asked for an explanation as to why Storage Sites and Interconnection Points exempt, CWi advised the exemption of Interconnection Points is necessary for compliance to EU Tariff Code. Exemption of Storage Sites is really a materiality question, the impact of the additional charge could be on the level of storage at a Site, the Site could end up paying multiple times.

Nickl Wye (NW) added that Storage Sites are looking at the right flow of gas, the gas coming through other entry points is attracting a charge, the impact would be disproportionate in terms of the revenue, it would be unfair to include.

Thomas Bourke (TBo) advised Ofgem are not going to comment on the proposal in the Modification, however, if Storage Sites are to be exempt, there should be a strong justification included in the Modification, for example with reference to Modification 0727.

Deleted: needs to

Deleted: was made

Richard Fairholme (RF) asked what the approach on Shorthaul is expected to be. He noted Shorthaul is not on list of exemptions which causes him concern as the proposal could undermine new Shorthaul arrangements a year on from them being implemented. CWi clarified that Shorthaul will function as it does now, from 01 October 2021, the discount would be against the prevailing capacity price, any flows this new charge would apply. RF requested analysis to support Shorthaul being included in this new arrangement as he feels the preference would be to see Shorthaul excluded too.

EF confirmed that robust justification is required in order for Shorthaul to have the different treatment.

HK pointed out that interconnector flows would face a lower change than domestic gas. This appears to be inconsistent with attempts to reduce CO2 emissions because it favours long-haul gas over short-haul gas. Shorter transportation should be favoured.

Nigel Sisman (NS) noted that if the new capacity holders are paying a fair price, then should the new change being proposed apply only to EC holders who used to pay a higher commodity charge.

CWi responded by advising that the new Modification is not looking to replicate historical prices.

NS highlighted that a clearer statement of the rationale is needed in the Modification, otherwise it feels like new capacity holders being disadvantaged.

NW commented that the point NS made is an interesting one, he said the focus should direct the cost to Existing Contracts, there will be new capacity holders, and Existing Contracts holders will be paying a hefty fee for flowing their gas, this would reflect the regime that existed prior to the changes implemented on 01 October 2021.

MF asked for an understanding of the differential between Existing Contracts and New Contracts and a view on the benefits of Existing Contracts in terms of the long-term stability they might provide.

CWi advised that the Existing Contracts, although holding larger quantities at lower unit rates tended to have a lower utilisation of that capacity. This factor can distort the picture of how charges might apply. The intention of this proposal is not to eliminate the price disparity, but it does help to reduce it.

TBo urged that care should be exercised in making a comparison of this proposal to Modification 0767 and in drawing out any justifications. EC holders did pay a large commodity charge and might be liable in the future. This is not inconsistent with the protections granted.

Debra Hawkin (DHa) commented that it might be worth putting a strong statement in the Modification about what the precise aim of the Modification is.

There then followed, as EF suggested, a very detailed walkthrough of the draft Modification.

CWi urged Workgroup participants to provide useful feedback in order to help National Grid put forward the Modification in the best format as possible, taking into consideration all aspects of feedback.

CWi confirmed is a material change and will therefore be presented to Ofgem for decision as to whether to implement or not.

As the intention is for this Modification to proceed with Urgent status, CWi confirmed a suggested timescale is included in the Timetable that Ofgem might want to accept.

Timetable

CWi advised that finalisation of the Modification will be at the next session on 02 November which will provide an opportunity to refine the proposal as needed and he highlighted the importance of getting participant views and feedback.

It is intended that the Modification will be submitted to Ofgem around 03 November.

CWi confirmed how participants can provide feedback to National Grid, these can be via Joint Office or directly to National Grid:

General Regulatory Change	box.gsoconsulations@nationalgrid.com
Colin Williams	Colin.williams@nationalgrid.com

CWi advised that National Grid are looking to have an independent economic assessment that will look at both qualitative and quantitative, this will be available before the Modification is issued to Consultation.

When Ricky Hill (RH) asked what the difference is with a Modification with Urgency status to that of a Modification that goes through a normal process, CWi confirmed an Urgent Modification goes straight out to consultation once Ofgem provide their acceptance of the Urgent status request.

Debra Hawkins (DH) asked if stability of the reference price is the aim of this Modification, CWi advised there is an element of reducing the differential, the benefit also means the sensitivity reference price calculation is reduced.

In terms of terminology and definitions in UNC, CWi agreed to make it clearer what is being referenced throughout the Modification.

TBo confirmed that, when reviewing the Modification for its urgency status, Ofgem will follow their usual methodology and provided a link to the published Ofgem guidance on Code Modification Urgency Criteria: www.ofgem.gov.uk/publications/ofgem-guidance-code-Modification-urgency-criteria

Chris Wright (CWr) asked if National Grid have anything to show under the old regime the maximum difference the Shipper might have faced if they had entered an expensive auction and paid a premium possibly in that auction versus a newer Shipper who may have got capacity for a zero price, there would have been a significant differential there compared to what we might see now at an individual Shipper level.

It was then mentioned that there are several issues on the published NTSCMF Issues Tracker and how National Grid might prioritise.

CWi advised that it may be that some of the issues that are on the Issues Tracker are discussed automatically and other items on it may need a slightly longer-term conversation.

TBo clarified the view from Ofgem that a robust justification or clear explanation is important for this Modification and highlighted three main areas for National Grid to consider:

1. Quantity's attracting the charge itself
2. Storage exemption
3. The aim of the Modification itself

TBo also pointed out that 'volatility' and 'price stability' are not defined in the UNC so some clarity would be needed to if these terms are to be used in progressing the modification.

MF suggested, on the last table on the slide pack (slide 9), there was the clarification as to the percentage, in terms of trying to get a better understanding, would it be possible to introduce another column or columns on to that table which set those contributions against the capacity forecast or otherwise, so you could get a better view, to understand the benefits? MF clarified that the values that are currently in that table against either the current and all forecast capacities that those Entry points are likely to take.

DAB thanked MF for the suggestion.

Why Change

Page 6

DHa asked for an explanation why there cannot be any more capacity applied to Existing Contracts. CWi clarified this Modification is focussing on what is being proposed and not what is not being proposed but he will add further detail to that point.

Page 7

EU Tariff Code and From of Charge

CWi explained that National Grid are of the view that this flow-based charge falls within the remit of Article 4(3)(b) of the EU Tariff Code. This article permits, by exception, an additional 'commodity-based' transmission charge. It sets out a number of criteria which such a charge should comply with as follows:

i. *levied for the purpose of managing revenue under- and over-recovery;*

   the proposed charge would but used solely for the purpose of managing the under-recovery arising from the 'fixed' pricing afforded to Existing Contracts *ii.* *calculated on the basis of forecasted or historical capacity allocations and flows, or both;*

the proposed charge would be calculated on the basis of forecast flows such that application of the flow-based charge would recover the intended quantity of revenue

iii. *applied at points other than interconnection points; and*

the proposed charge would not be applicable at Interconnection Points. The rationale for non-application of the charge at Storage is detailed below.

Lauren Jauss (LJa) sought clarification that it is intended that discount will be applied on the Commodity charge for Shorthaul. CWi advised that National Grid see this as an additional charge across the board. He added there will be no discount for Shorthaul as discount is applied to Capacity not Commodity. CWi confirmed that National Grid do not think that a discount should be applied for Shorthaul.

RHe commented that Shorthaul is restricted to Capacity products, when Shorthaul was developed and approved, it was specifically restricted to Capacity products.

Exemptions

Interactions and Scope

When DHa asked if Storage would be exempt from the whole Revenue Recovery Charge (RRC) or just 80% of it, CWi agreed to add further clarification for the RRC.

Adam Bates (AB) noted, from his understanding, any incremental capacity under PARCA that requires a premium to pass the Net Present Value (NPV) test will be become more expensive. This is due to the NPV test being calculated on the reserve price (and a premium, if required) to ensure the appropriate threshold is achieved (50% of the estimated project cost). This would make incremental capacity more expensive when it is flowed against versus prevailing capacity (i.e. normal capacity purchased in auctions) as their combined price is decreasing under the proposals.

CWi advised that this cannot be addressed through the UNC as the NPV sits within the methodology statement.

AB agreed but noted there needs to be some certainty/clarity for Industry that changes will be made to the methodology statements as only National Grid and Ofgem are able to initiate a change to them.

CWi clarified he does not think it warrants a change to the methodology statements as this is not a new issue, it has a potential to be an issue even under the current regime.

Impact Analysis

Within the Why Change section of the Modification there is an Impact Analysis, Daniel Hisgett (DHi) provided an overview of this section where a number of tables and graphical information is provided to demonstrate comparison with the current and indicative Transmission Services Entry Capacity Reference Prices against the Transmission Services Entry Capacity Reference Prices calculated based on the proposed method as set out in the Solution.

Table 1 shows the Prevailing Capacity Rate forecast as p/kWh and the Proposed Capacity Rate as p/kWh for the next 5 years.

Fig 1 shows the comparison between the orange line (Prevailing rate) and where National Grid believe the prices would be currently as represented in as the blue box boxes (Proposed rate) going forward under this Modification.

Table 2 and **Fig 2** show the addition of the commodity-based charge.

Fig 3

This figure shows the weighted rate p/kWh/day (dark blue line) which tracks between the Proposed Entry Capacity Rate p/kWh (dark blue box) and Transmission Services Entry Flow

Charge p/kWh (light blue box) shown on **Fig 2** which gives an approximate weighted p/kWh based on how the average User uses their capacity.

Fig 4 shows a similar logic applied to Existing Contract Rates. This shows a graphical representation of the impact of the mean Entry Flow Charge payable when combined with the weighted average Entry Capacity Price paid by holders of Existing Contracts. Note that the Capacity Price Payable by Existing Contract holders, represented by the orange line, remains unchanged as this Proposal does not impact the protected capacity price arrangements already in place for holders of Existing Contracts.

Fig 5

This final graph then looks at those two sets of data compared to each other, the solid lines at the top are the new capacity prices in comparison the drop on the Existing Contract prices. This shows that a User should never pay more for an Existing Contract than they would for New Capacity.

NS pointed out that it appears that National Grid have made some assumptions that Users of Existing Contracts and New Capacity have the same levels of utilisation.

DHi clarified that National Grid did start to look at that, but even within that there are huge variations between Users within each class, therefore, you could do something different but DHi does not think it would be any more reflective than what is there currently.

Laura Johnson noted that a careful approach would be necessary on the sites which have Existing Contracts that may have sold their capacity to another party which may have a mixture of New Contracts and Existing Contracts. Currently we tend to take an estimate of what we think they are using that is Existing and what we think they are using this New, therefore it becomes more convoluted as we are having to make a guess on which capacity, they are using first on different Sites at different times.

NS commented that the data is potentially misleading, the effect of this Modification is not as great as might be inferred because the analysis assumed similar utilisation of new and EC, but utilisation of EC is actually lower

It was agreed that National Grid will provide further analysis to show up to the end of the Existing Contracts term (2025/26).

TBo asked whether analysis would be made available showing the state beyond 25/26. DHi responded that the analysis could be shown but that it would be in a different format.

DH asked whether the analysis would show a decrease in the volatility of prices as this was stated as an aim of the modification. CWi responded that the larger denominator in the calculation would logically make the calculation less susceptible to swings and that this point would be made clearer.

CWi agreed to add some additional wording around the curve line in **Fig 3**.

Solution

DHi provided an overview of the suggested solution.

Impacts and Other Considerations

CWi confirmed he will look to elaborate this area of the Modification.

LJo confirmed that National Grid expect the Rough Order of Magnitude cost before the Modification is submitted to Ofgem requesting urgency status.

Relevant Objectives

CWi confirmed the following Relevant Objectives will apply:

d) Securing of effective competition between relevant shippers;

Charging Relevant Objective

aa) That, in so far as prices in respect of transportation arrangements are established by auction, either:

(i) no reserve price is applied, or

(ii) that reserve price is set at a level -

(I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and

(II) best calculated to promote competition between gas suppliers and between gas shippers;

c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers.

This concluded the detailed run through of the Modification.

EF confirmed, if urgent status is granted, the Modification has a faster track and will go straight out to consultation.

When asked, CWi confirmed the independent analysis will be delivered prior to next Workgroup.

2. Workgroups

No Workgroups to consider.

3. Issues

3.1. Industry Issues Tracker Update

EF showed onscreen the current NTSCMF Issues Tracker v2.0 and asked if there is anything further to add to the listed issues or revise the priority status of the issues.

JCx commented that this is what NTSCMF participants need to come to after this current Modification is put forward and suggested Longer Term Charging Structures is added.

EF updated the tracker. The updated version v2.0 is now published and can be viewed here: www.gasgovernance.co.uk/ntscmf.

4. Forecasted Contracted Capacity (FCC)

4.1. FCC Methodology

This was not discussed.

4.2. FCC Monitoring

This was not discussed.

5. Long Term Revenue Forecasts

JCx raised a concern relating to Shrinkage costs in that the structure has changed in last few years therefore the costs are likely to be a higher than in previous years and asked National Grid to provide a view on the magnitude of those costs and when they are likely to come into force.

CWi clarified:

- The Shrinkage costs go through SO Commodity
- There are restrictions, the target revenue for the prices are set, once set the target revenue is not updateable.

- The value is set for non-Transmission prices for November 2020, this is now not updateable.
- This will come back through the adjustment term, ADJ term, SO Allowed Revenues from April 2022 which impact prices from April 2022.

New Action 0110: National Grid (CWi) to provide an update on increased Shrinkage costs and the timing effect on future prices.

6. Next Steps

EF confirmed the next steps to be:

- National Grid will consider the discussion points from this meeting and make further refinements to the draft Modification.

7. Any Other Business

7.1. Ofgem Winter Outlook Seminar

EF confirmed that the Seminar is now taking place on Monday 11 October 2021 and not as originally planned on 07 October 2021.

Energy UK are holding their conference on 07 October 2021.

8. 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	Venue	Workgroup Programme
10:00 Tuesday 02 November 2020	Via Microsoft Teams	Standard Workgroup Agenda
10:00 Tuesday 07 December 2021	Via Microsoft Teams	Standard Workgroup Agenda

Action Table (as of 02 September 2021)

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
0107	05/01/21	5.0	National Grid (CWi) to provide documented explanation and diagrams detailing the relationship between the SO /TO and TS/non-TS revenue services.	National Grid (CWi)	**Carried Forward**
0501	04/05/21	1.3	National Grid (CWI) to provide detailed explanation of (mis)alignment between Code and Licence including	National Grid (CWi)	**Carried Forward**

			GAP analysis		
0901	02/09/21	3.1	*CMF002 – TAR NC Compliance* National Grid (CWi) to update the slide from the last presentation on this subject: Revenue Mapping	National Grid (CWi)	**Pending**
0110	05/10/21	5.0	*Long Term Revenue Forecasts:* National Grid (CWi) to provide an update on increased Shrinkage costs and the timing effect on future prices	National Grid (CWi)	**Pending**