

NTS Charging Methodology Forum (NTSCMF) Minutes
Tuesday 05 April 2022
via Microsoft Teams

| Attendees | | |
|---------------------------|-------|--------------------------|
| Eric Fowler (Chair) | (EF) | Joint Office |
| Helen Bennett (Secretary) | (HB) | Joint Office |
| Adam Bates | (AB) | South Hook |
| Alex Nield | (AN) | Storengy |
| Alsarif Satti | (ASa) | Ofgem |
| Andrew Pearce | (AP) | BP |
| Anna Shrigley | (ASh) | ENI |
| Chris Wright | (CWr) | Exxon Mobil |
| Colin Williams | (CWi) | National Grid |
| Daniel Hisgett | (DHl) | National Grid |
| Daniel Wilkinson | (DW) | EDF Energy |
| Dave A Bayliss | (DAB) | National Grid |
| Henk Kreuze | (HK) | Vermillion |
| Joseph Glews | (JG) | Ofgem |
| Julie Cox | (JCx) | Energy UK |
| Kieran McGoldrick | (KM) | National Grid |
| Laura Johnson | (LJo) | National Grid |
| Lauren Jauss | (LJa) | RWE |
| Nick Wye | (NW) | Waters Wye Associates |
| Nigel Sisman | (NS) | Sisman Energy Consulting |
| Phil Lucas | (PL) | National Grid |
| Richard Fairholme | (RF) | Uniper |
| Ritchard Hewitt | (RH) | BBL |
| Terry Burke | (TB) | Equinor |

Copies of all papers are available at: <https://www.gasgovernance.co.uk/ntscmf/050422>

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. St Fergus Compression

CWi was invited to provide Workgroup with an overview of the presentation provided for the meeting. The presentation covered the topic of Scope of Charging and covered the following main topics, where there was specific interaction regarding particular slides with Workgroup, this has been captured within the minutes for each section of the presentation, and full details can be found on the published presentation here: <https://www.gasgovernance.co.uk/ntscmf/050422>.

CWi explained his intention was to build on the discussions held last month, how the allowance framework works, and how things could potentially work whether that be via targeted or socialised charges.

Scope of Charging

Compressor Emissions Price Control Deliverable (CEPt) - Slide 2 – Information

CWi explained the main table on this slide is taken from the Licence and represents works that are being assessed that have licence conditions set around them, the assessment will be reported via

the Final Options Selection Report which is submitted to Ofgem. This table shows that St Fergus is due for review by the end of 2022.

CWi advised there will be an additional consultation in the summer which will clarify which option National Grid favours and confirmed there is no sight of a UNC Modification being raised at this point, he added that National Grid are not looking to pre-judge anything.

Allowances

How Allowances translate into Prices - Slide 4 – Information

Allowances and Reserve Prices Slide 5 - Information

Allowances and Reserve Prices - Slide 6 – Information

Daniel Hisgett (DHi) explained how the charges will be recovered via transmission services revenue.

Allowances and Reserve Prices Slide 7– Discussion

DHi explained the current approach where funding is granted under the reopener and will feed into Transmission Operator Allowances via CEPRE. The Funding will be phased across years according to the reopener decision. All Allowed revenues will be collected within year. Reopener costs will be reflected in Transmission Services Entry & Exit Reserve Prices.

How could the reopener be charged? - Slide 8 - Discussion

DHi invited Workgroup to share their thoughts on how the reopener could be charged if something other than what is stipulated in the Licence is preferable, which is that Transmission Services Recovered Transmission Operator Revenue are charged against Capacity bookings. i.e. Entry/Exit Capacity, RRCs.

Julie Cox (JCx)

JCx asked if this is a duplication of a question that was asked in the last consultation on this topic where National Grid would have had feedback provided. DHi confirmed this but explained the same question is now being put to a wider audience.

DHi clarified that, currently, the reopener would have to be charged via socialised costs and that National Grid would need robust justification to do something different.

JCx noted that this was a very old legacy agreement which never contemplated that the assets would ever have to be changed or upgraded and suggested it is more a policy issue than a charging one.

CWi advised the broader regulatory side of things was consulted on last year, the consultation that will be held later in the year will cover the broader investment options.

JCx noted that part of the challenge back to National Grid is to explore if there are other things now, or in the future, if a targeting route was chosen, to see if that might set a precedent for other things in the future.

Nick Wye (NW)

NW noted, going forward, as the industry transitions to other energy sources, (hydrogen), those who are buying capacity now are buying on the basis of anticipated flow rate which means a portion of the market are excluded to the costs.

CWi advised he will consider the points made.

Allowances and Reserve Prices - Slide 9 - Discussion

DHi explained the current approach.

Refresher of costs based on scenarios - Slide 10 - Information

Table 1: Costs recovered 2024-2050 (p/kwh)

| Scenario | Entry Rate | Exit Rate | Charging Base | Entry | Exit |
|----------|------------|-----------|---------------------------------------|------------------|------------------|
| A | 0.0016 | | Costs split across all Entry Points | Socialised Costs | N/A |
| B | 0.0621 | | Costs split across all Entry Points | Targeted to NSMP | N/A |
| C | | 0.0016 | Costs split across all Exit Points | N/A | Socialised Costs |
| D | 0.0008 | 0.0008 | Costs split across Entry & Exit 50:50 | Socialised Costs | Socialised Costs |
| E | 0.0306 | 0.0008 | Costs split across Entry & Exit 50:50 | Targeted to NSMP | Socialised Costs |

Table 2: Costs recovered 2024-2040 (p/kwh)

| Scenario | Entry Rate | Exit Rate | Charging Base | Entry | Exit |
|----------|------------|-----------|---------------------------------------|------------------|------------------|
| A | 0.0021 | | Costs split across all Entry Points | Socialised Costs | N/A |
| B | 0.0822 | | Costs split across all Entry Points | Targeted to NSMP | N/A |
| C | | 0.0021 | Costs split across all Exit Points | N/A | Socialised Costs |
| D | 0.0010 | 0.0011 | Costs split across Entry & Exit 50:50 | Socialised Costs | Socialised Costs |
| E | 0.0406 | 0.0011 | Costs split across Entry & Exit 50:50 | Targeted to NSMP | Socialised Costs |

*** Based on indicative values provided in 2018, phased using a flat profile**

DHi explained that the tables shown on this slide are based on spreading the costs across 26 or 16 years and asked the question to Workgroup if they consider costs should be recovered as the Licence instructs or do something different.

When asked, DHi clarified that the figures shown in Table 1 and 2 were originally submitted as part of National Grid RIIO T2 proposals.

Alsarif Satti (ASa) emphasised that the discussions should be conscious of the dependency on the reopener. Specifically, the current discussion regarding St. Fergus is how to recover costs, which would only materialise if a reopener were to be raised and approved.

Nick Wye (NW)

NW asked for further understanding of where the quoted figures have derived from and said it is important to understand the underlying analysis that sits behind the tables. DHi advised there are lots of caveats that sit behind the prices quoted in the tables, the figures are estimated over 26 years and there is no certainty behind any of the figures quoted. DHi also clarified that there will be a far more in-depth analysis if a Modification were raised.

DHi further clarified the data from Table 1 and 2 are from the 2018 RIIO T2 submission and the figures were created last year as part of the consultation.

Julie Cox (JCx)

JCx noted the market impacts and the unique arrangement of this compression service provided by National Grid.

Allowances and Reserve Prices - Slide 11 – Information

Chris Wright (CWr)

CWr said that if costs end up being targeted out to 2050, the energy landscape will look very different by then and asked how under or over recovery will be managed. CWi confirmed this will be part of discussions at next month's meeting in May 2022.

JCx noted that trying to provide a view that will go into the options assessment report and trying to understand all of the impacts makes it very difficult commenting on the discussion points.

When JCx highlighted that she is nervous for anything to be seen that industry prefers any option, CWi assured her that he is not looking to quote these discussions in any of the reports.

CWi confirmed the timeline for the consultation will be either August or September.

ASa acknowledged it will be difficult for industry to comment meaningfully in workgroup discussions and industry consultation on a mod at this time because of the uncertainty around any future funding decisions.

End of discussions

2. Introduction and Status Review

Eric Fowler (EF) welcomed everyone to the meeting.

2.1. Approval of Minutes (01 March 2022)

EF highlighted the minor changes made to the minutes which marked v2.0 of the minutes being published in change-marked and clean view.

The minutes from the previous meeting were approved.

2.2. Approval of Late Papers

EF noted there are no late papers for approval.

2.3. Review of Outstanding Actions

Action 0202: (re-worded March 2022) National Grid (CWi) to provide an update on anticipated charges for non-transmission services for October 2022.

Update: CWi advised this action is work in progress and suggested the reporting month to satisfy this outstanding action, to coincide better with what he may be able to say around non-transmission funding would be June 2022.

Richard Fairholme (RF) raised the concern that an update in June 2022 will be made very close to when the non-transmission prices will be published.

CWi said he is trying to assess what the implications are over time, what can be done without Modifications being raised and what is within National Grids gift to work with to see if some of the implications can be mitigated. **Carried Forward to June 2022**

Action 0103: National Grid (CWi) to confirm if Shrinkage is included in the Forecasted Contracted Capacity.

Update: David A Bayliss (DAB) confirmed that LDZ Shrinkage **is** included and accounted for and that currently NTS Shrinkage **is not** but may be in the future. **Closed**

2.4. Modifications with Ofgem

Joseph Glews (JG) provided an overview of the up-to-date Ofgem Modifications timetable <https://www.ofgem.gov.uk/publications-and-updates/code-ModificationModification-proposals-ofgem-decision-expected-publication-dates-timetable>, and provided an expected decision date for *Modification 0796 - Revision to the Determination of National Grid NTS Target Revenue for Transportation Charging* of 27 May 2022.

JCx asked National Grid if the charges that are due to be published early June 2022 will reflect the Ofgem decision. CWi advised there may need to be two iterations of the published charges and urged that the earliest sight of the Ofgem decision the better.

JCx asked if Ofgem can bring their expected decision date forward, ASa clarified that 27 May is the backstop date.

ASa highlighted that *Modification 0790 (Urgent) - Introduction of a Transmission Services Entry Flow Charge*, was rejected by Ofgem on 25 March 2022 and summarised that this Modification was rejected for non-compliance with TAR NC, however, Ofgem still believe that the issues arising from existing contracts are worth addressing and expect a new Modification to be raised. ASa noted that there is a specific steer what some of the principles a future Modification should consider in their decision letter.

Referring to page 8 of the Ofgem decision letter, RF noted the next steps:

*We strongly encourage industry to develop a modification which addresses the price differential between new capacity and Existing Contracts, in a compliant manner. **The modification should approximate tariffs in respect of Existing Contracts to the pre-TAR NC charging regime as closely as reasonably practicable**, while recognising that in reality this cannot be done precisely, and therefore avoid a continued windfall for Existing Contract holders. Such an approach would be entirely consistent with the legitimate expectations generated by the Existing Contracts which Article 35 is designed to protect.*

RF asked Ofgem how they envisage that being done in practice, would this be via a capacity or commodity charge?

ASa said that the above excerpt captures the key principle of a compliant modification. There are difficulties in approximating the pre-TAR NC charging regime in respect of Existing Contracts and he recognises that in reality this cannot be done precisely. However, Article 35 does not necessitate providing those with Existing Contracts with a windfall, simply because the earlier very substantial commodity-based tariffs have been removed from the charging regime. It is therefore appropriate for Existing Contracts to pay a charge reflecting the previous commodity-based charges they would have expected to pay when entering into the contracts. A Modification that would try to approximate the pre-TAR NC tariffs as closely as reasonably practicable would be in keeping with this principle and suggested this would have to be a commodity charge applied on existing contracts.

NW suggested the only way to do this, based on the Ofgem decision, is to reintroduce Long Run Marginal Cost (LRMC) and remove the postage stamp part.

ASa repeated that he recognises the difficulties in trying to approximate tariffs for Existing Contracts to the pre-TAR NC regime and said the main issue of compliance in Modification 0790 was the commodity charge being applicable to both new and existing contracts. A solution that only targets existing contracts, as per the Ofgem steer, would be compliant with TAR NC. There could be different ways to approximate the charges, as reasonably as practicable.

Terry Burke (TB), in terms of timeframes, October 2022 implementation seems to be no longer realistic and asked if October 2023 is now a more realistic timeframe? TB also requested, when the next Modification is raised, it would be good if urgency is not requested as industry will have a lot to discuss around this topic.

ASa clarified that it is up to Proposers to consider whether they will raise a modification as urgent. There are criteria for Proposers to consider when raising an urgent Modification and Ofgem has published written guidance on urgency. He agreed that October 2022 implementation is no longer possible as any change to the charging methodology must be approved before National Grid publish their charges in June 2022.

Asked about storage and short-haul, ASa said that it is correct that storage did not pay the TO commodity charges in the pre-UNC678A regime. However, short-haul paid the Optional Commodity Charge (OCC) so he highlighted that careful consideration will be required around this point.

ASa verified that a significant amount of time will be required to consider a future Modification on this topic. For this reason he said that Ofgem expects industry to bring forward a new modification proposal 'as soon as possible', as stated in the Ofgem decision letter.

Ritchard Hewitt (RHe) noted that during previous discussions on the Entry/Exit split Interconnector and BBL put forward a presentation, as neither are parties to the Uniform Network Code, they are unable to raise a Modification.

JCx made reference to and asked if Ofgem are expecting to undertake an Impact Assessment as part of the consideration of this issue. ASa advised that it is quite likely an Impact Assessment would be required if a Modification was raised, but caveated that this will be decided when a modification is sent to Ofgem for consideration.

2.5. Pre-Modification discussions

No pre-Modification discussion.

3. Workgroups

None

4. Issues

4.1. Industry Issues Tracker Update

EF reminded Workgroup where to find the Industry Issues Tracker and requested Workgroup to review the Tracker at their leisure. If there are any changes or updates required to please inform Joint Office and if there are any further discussion points, to request Joint Office to add it to the next agenda.

The NTSCMF Issues Tracker can be found here: <https://www.gasgovernance.co.uk/ntscmf/>.

5. Forecasted Contracted Capacity (FCC)

5.1. FCC Methodology

This item was not discussed.

5.2. FCC Monitoring

Entry Capacity & Revenue FY22 – at December 2021

DAB provided an overview of the Entry and Exit Capacity & Revenue. The information is available on the published slide pack here: <https://www.gasgovernance.co.uk/ntscmf/050422>.

DAB highlighted that due to the date of publication ahead of NTSCMF, an updated version of the slides have been published at very late notice.

NW noted that the baseline revenue for the next gas year sees a reduction in charges but that the expected huge reduction (20%) is likely to be diluted, because of the £40m under recovery. He asked if the prices forecast are on the low side for Entry. DAB clarified it is fair to say the indicatives would not have accounted for the £40m under recovery.

Referring to the reasons for the variances, JCx asked if they will be accommodated in the FCC for the next Gas Year. DAB confirmed he has instigated discussion with the Future Energy Scenarios (FES) team as part of an ongoing assessment in order to ascertain revision of the current forecast for next year.

CWr asked, with regards to the variance of £33m under recovery, could this invoke Revenue Recovery Charge. DAB clarified that there is no actual defined trigger point for an RRC to be started and it is not National Grid's aspiration to bring in an RRC.

When Anna Shrigley (ASh) asked about the overall recovery position, CWi confirmed when the prices are adjusted, this is done separately for Entry and Exit.

6. Long Term Revenue Forecasts

CWi advised this is a standard agenda item and that he is looking to provide a more charging centric revenue forecast going forward. He advised there was nothing new to report at this time.

7. Next Steps

EF confirmed the next steps to be:

- National Grid will consider the discussion points from this meeting and feedback to Workgroup in May 2022.

8. Any Other Business

None

9. Diary Planning

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

| Time / Date | Paper Publication Deadline | Venue | Workgroup Programme |
|------------------------------------|----------------------------|---------------------|--|
| 10:00 Tuesday 03 May 2022 | 5pm 22 April 2022 | Via Microsoft Teams | St Fergus Compression Standard Workgroup Agenda |
| 10:00 Tuesday 07 June 2022 | 5pm 27 May 2022 | Via Microsoft Teams | St Fergus Compression Standard Workgroup Agenda |
| 10:00 Tuesday 05 July 2022 | 5pm 24 June 2022 | Via Microsoft Teams | St Fergus Compression Standard Workgroup Agenda |
| 10:00 Tuesday 02 August 2022 | 5pm 22 July 2022 | Via Microsoft Teams | St Fergus Compression Standard Workgroup Agenda |
| 10:00 Tuesday 06 September 2022 | 5pm 26 August 2022 | Via Microsoft Teams | Standard Workgroup Agenda |
| 10:00 Tuesday 04 October 2022 | 5pm 23 September 2022 | Via Microsoft Teams | Standard Workgroup Agenda |
| 10:00 Tuesday 01 November 2022 | 5pm 21 October 2022 | Via Microsoft Teams | Standard Workgroup Agenda |
| 10:00 Tuesday 06 December 2022 | 5pm 25 November 2022 | Via Microsoft Teams | Standard Workgroup Agenda |

Action Table (as of 05 April 2022)

| Action Ref | Meeting Date(s) | Minute Ref | Action | Reporting Month | Owner | Status Update |
|------------|-----------------|------------|--------|-----------------|-------|---------------|
|------------|-----------------|------------|--------|-----------------|-------|---------------|

| | | | | | | |
|------|----------|-----|--|------------------------------------|--------------------|------------------------|
| 0202 | 01/02/22 | 5.2 | National Grid (CW) to investigate a process to clarify Transmission and Non-Transmission from a revenue and costs perspective. | March 2022 June 2022 | National Grid (CW) | Carried Forward |
| 0103 | 01/03/22 | 5.1 | National Grid (CW) to confirm if Shrinkage is included in the Forecasted Contracted Capacity. | April 2022 | National Grid (CW) | Closed |