

Gas Charging Review – Sub Group
National Grid House, Warwick
19 October 2016

Attendees:**Apologies:**

Colin Williams	National Grid NTS		Graham Jack	Centrica
Laura Johnson	National Grid NTS		Jeff Chandler	SSE
Sarah Chleboun	National Grid NTS		John Costa	EDF
Julie Cox	Energy UK		Kieron Carroll	PSE Kinsale
Richard Fairholme	Uniper		Rob Wiggington	Wales and West
Liam Drummond-Clark	Ofgem		Colin Hamilton	National Grid NTS
Caroline Rossi	Oil and Gas UK			
Lucy Manning	Gazprom			
Nick Wye	Waters Wye			
Anna Shrigley*	Eni			

*via teleconference

Introduction to the group

National Grid NTS went through the agenda and that the agenda was to be used as a guide for the first sub group meeting to help with a structure for the meeting. The agenda and slides used are available as a separate document, along with this document.

Terms of reference (ToR)

The draft terms of reference issued to the group on 18 October were discussed with some changes made. The key updates were:

- Stressing the focus of the group is on the principles and methods not on the end prices of any charge;
- Clarification on the sorts of work to discuss;
- To amend the objectives to state there will be recommendations coming out of the group, with appropriate weighting of arguments where appropriate to give a view of how many stakeholders supported the recommendation;
- Ensuring appropriate EU compliance is covered (not just EU Tariffs Code objectives);

The terms of reference are to be kept under review and if there are any further comments these should be fed into the group. A change marked and clean version of the updated Terms of Reference is available in separate documents, circulated along with this document.

GB Charging Framework

National Grid NTS went through the slides to cover at a high level the structure of the current GB Gas Transportation charging framework. Largely this is repeating information shared at NTSCMF and to be used as a reminder going into these workshops about being able to refer to the current charging structure and how the charges are calculated, identifying the key inputs, how charges interact and stepping through the differences between Entry and Exit.

Over the duration of the meeting in the context of reviewing issues or positives with the current framework the group were asked if possible at this stage to identify areas where they thought the current framework met objectives or did not. This is something to develop and add to as the workshops and options and analysis progress.

Some identified items for the current framework (including the LRMC model approach) from some of those present: (this will not be an exhaustive list and represents individual views on a mix of the outputs of the transportation model and on the overall framework). This table will be added to during the workshops and is intended as useful guide to help discussions and to capture thoughts as the workshops progress.

Area	Objective	Meets this objective	Does not meet this objective	Comments / Questions
Relevant Objectives (as per Licence)	Cost Reflectivity		-LRMC not reflective of costs incurred -Wide range of prices -Costs not known so cannot judge if cost reflective -Shorthaul (OCC) not cost reflective	
	Promote Efficiency			-What do we mean by this?
	Best promotes competition between gas suppliers and gas shippers		-Volatility in charges does not help competition	
	Takes account of development in the transportation business	-Have to assume existing methodology is compliant with all the relevant objectives (has received Ofgem approvals) -Where circumstances change the existing model can be tweaked to take this into account (like merit order discussions)	-Charges vary year on year even though network is stable	
	Compliance with Regulation and decisions from the EC and ACER		-Not compliant with future Tariff Network Code rules	-This is the main "regulatory" objective driving change not the other relevant objectives.
Stakeholder developed Objectives (as shared at NTSCMF)	Minimise Volatility		-Too sensitive to small changes to inputs	-Less important than predictability
	Predictability		-Too sensitive to small changes to inputs -Can't predict very far out, only in short term -Can't even predict direction of charges (up or down)	
	Stability of Prices		-Too sensitive to small changes to inputs -Misalignment of charging & formula years, flip-flopping effect (including how allowed revenue plays into capacity charges)	-Less important than predictability
	Fairness	-It complies with the relevant objectives, including avoiding undue preference in supplies, promote competition, cost reflective, etc which makes it fair	-Complex charging interactions, do all charges meet their objectives?	
	Security	-New gas supplies brought to market -Does facilitate competition and trading		
	Network Efficiency	-Free within day capacity -Shorthaul (OCC)	-Do locational signals work? -Does it signal redundancy as well as investment	

Objectives

On objectives the group went through the current Relevant Objectives, the drafted Stakeholder Objectives shared at NTSCMF and the list of EU Tariff Code Objectives. The group agreed that there are similarities across the three with varying degrees of detail / clarity. With regards to the objectives it was suggested that it would be cumbersome to always refer to all of them, and measure against them all. One suggestion on how this could be simplified is thinking about a higher level objective linking to Ofgem's statutory duties regarding protecting the Consumer, promoting security of supply, sustainability and value for money. This would likely cover a large number of the objectives that have been identified to help in prioritizing potential change or helping to rank select options for potential change. This can be accommodated into the development of a template when assessing options against objectives.

Sharing Models and outputs

The group discussed the optimal way in which the outputs from analysis could be shared between this group and NTSCMF. Given that it is sometimes difficult to show the outcome of analysis for potential capacity or commodity changes this is key to ensure that outputs are meaningful and of value for the development of the Gas Charging Review.

One suggestion was to use a traffic light style system to summarise the output for model analysis and this was agreed to be a positive way forward. If additional supporting material needs to be available or would be beneficial in sharing this will be made available alongside the summaries. This can be tested following the first round of analysis to be produced and discussed at November's meeting.

Issues , options and actions

The group discussed how to raise and log the various outputs from the workgroup and how we could track the measurement of options to allow a form of ranking. An issues log for the group would be developed so that as and when issues are identified through the analysis and options work they can be added and have actions discussed, assigned with resolutions as they are completed. It was discussed to what extent we could use this now but the options are not suitably developed to be able to give a comparison against the objectives and the current framework. However it does not prevent the development of a template that could be used once the options are more matured in what they cover.

Action GCR-SG001: National Grid NTS to develop an issues log (Question to members of group: do we need a separate log and if so, should it be to a different level of detail to the one developed by Joint Office as part of NTSCMF?)

Action GCR-SG002: Caroline Rossi to share with the group a suggestion of a matrix that could be used for comments.

Action GCR-SG003: Group to review the matrix following receipt

LRMC Model

We reviewed an example of the LRMC Capacity model, the Transportation Model. National Grid went through the model to show the key inputs, how they are used and identifying the input values that could typically drive the larger swings or changes to prices for Entry and Exit Capacity. Relating to the slides referred to earlier, the group were shown how the model deals with the specific aspects of the calculations, for example, how to build in the 50/50 split for Entry and Exit, how to build in the minimum price and showing the revenue adjustment for Exit Capacity.

Capacity Weighted Distance (CWD) Model

The group was shown the Capacity Weighted Distance Model that has been developed by National Grid so far that has been used to calculate some of the analysis seen recently at NTSCMF. The group was talked through the structure of the model and how to amend certain input adjustments and how elements like multipliers could be accommodated. This in an initial model and there will be functionality it is lacking that it will need to have over time to make a fully developed model for the overall charging framework.

As agreed this model will be shared with this group and input from the group is key to help develop it further, to consider how to address any limitations, use to identify issues and therefore develop options on how to address.

Action GCR-SG004: National Grid NTS to share the draft CWD model to the sub group members
Action GCR-SG005: Group members to review and feedback to National Grid comments, suggestions, issues, etc to help to develop further.

Next Steps

Through a discussion around scenarios that might be beneficial to model, a number of options were agreed as ones to develop. Some of which have been seen at NTSCMF and there were concerns that some of these would essentially be retreading old ground and that this would not be making much progress given that some of has been presented before. It was acknowledged not necessarily for the strict purpose of model comparisons but mostly to help identify issues or certain items. Also to make the approach more structured it may be necessary to show these again only potentially in a new context, with more breakdown of the detail and also over multiple years where previously it may have been to a lower level of detail and over a single year.

The input changes for reviewing the impacts on the models that were suggested to model the effects for LRMC:

- Updating capacity: updated to be based on Bookings
- Revenue: Ensuring alignment across LRMC and CWD so that the sensitivities of changing the revenue and impact of revenue can be seen
- Revenue: The inclusion of revenue adjustments into Entry Capacity (LRMC only)
- Network: Leave as is
- Demand: Review the impact of changing demand, test the sensitivity, needs to be mindful of links to the merit order (for LRMC only)
- Merit Order: original and equitable scaling for all supply sources (LRMC only)
- Revenue adjustment for Entry Capacity (for LRMC)

Action GCR-SG006: National Grid NTS to develop these suggested models for discussion

Next Meeting

The next meeting of this group will be on Wednesday 23 November 2016 at National Grid's office in Warwick from 1300 - 1600.

Summary of actions for Gas Charging Review – Sub Group:

Action Ref	Summary of Action	Status
GCR-SG001	National Grid NTS to develop an issues log (Question to members of group: do we need a separate log and if so, should it be to a different level of detail to the one developed by Joint Office as part of NTSCMF?)	Open
GCR-SG002	Caroline Rossi to share with the group a suggestion of a matrix that could be used for comments.	Open
GCR-SG003	Group to review GCR-SG002 following receipt	Open
GCR-SG004	Action: National Grid to share the draft CWD model to the sub group members	Open
GCR-SG005	Action: Group members to review and feedback to National Grid NTS comments, suggestions, issues, etc to help to develop further models.	Open
GCR-SG006	Action: National Grid to develop these suggested models for discussion	Open