

NTS Charging Methodology Forum (NTSCMF) Minutes

Monday 06 March 2017

Consort House, 6 Homer Road, Solihull B91 3QQ

Attendees

Chris Shanley (Chair)	(CS)	Joint Office
Helen Cuin (Secretary)	(HC)	Joint Office
Amrik Bal	(AB)	Shell
Anna Shrigley	(AS)	Eni UK
Benoit Enault	(BE)	Storengy UK Ltd
Charles Ruffell	(CR)	RWE
Colin Hamilton	(CH)	National Grid NTS
Colin Williams	(CW)	National Grid NTS
Craig Neilson*	(CN)	National Grid Gas Distribution
Danishtah Parker*	(DP)	National Grid Gas Distribution
David Cox*	(DC)	London Energy Consulting
David Reilly	(DR)	Ofgem
Gerry Hoggan	(GH)	ScottishPower
Graham Jack	(GJ)	Centrica
Henk Kreuze*	(HK)	Vermilion Energy
Irina Oshchepkova	(IO)	ENTSO
Jeff Chandler*	(JCh)	SSE
Jenny Phillips	(JPh)	National Grid NTS
Joanne Parker	(JPa)	Scotia Gas Networks
John Costa*	(JCo)	EDF Energy
Kieron Carroll	(KC)	PSE Kinsale Energy
Lee Bowerbank*	(LB)	Exxon Mobil
Lucy Manning	(LM)	Gazprom
Nahed Cherfa*	(NC)	Statoil
Nick Wye	(NW)	Waters Wye Associates
Nigel Sisman	(NS)	Sisman Energy Consulting
Osama Rashed*	(OR)	Conoco Phillips
Pavanjit Dhesi*	(PD)	Interconnector UK
Rebecca Hailes	(RH)	Joint Office
Richard Fairholme*	(RF)	Uniper
Robert Wigginton	(RW)	Wales & West Utilities
Roddy Monroe	(RM)	Centrica Storage
Sinead Obeng	(SO)	South Hook Gas
Vladislav Zuevskiy	(VZ)	Northern Gas Networks

* via teleconference

Copies of all meeting papers are available at: <http://www.gasgovernance.co.uk/ntscmf/060317>

The NTS CMF Document Library has been set up on the Joint Office website and can be accessed at: <http://www.gasgovernance.co.uk/ntscmf/doclib>.

1. Introduction and Status Review

CS welcomed all to the meeting.

1.1 Approval of Minutes (01 February 2017)

The minutes of the previous meeting were approved.

1.2 Pre-Modification discussions

1.2.1 Draft proposal - Provision of NTS Cost Information (E.ON)

CW advised that this is still under discussion with the Proposer. It was agreed to remove the item from the agenda until the proposer is in a position to present a draft modification.

1.3 Open letter on Gas Transmission Charges Review (GTCR) - Ofgem

DR provided a presentation confirming an updated policy letter had been published to incorporate the Tariff Network Code (covering entry and exit charges). As part of the Ofgem GTCR it has been requested that National Grid NTS and the industry to look at the development of the charging methodology. It is anticipated that the NTCSMF will produce multiple modifications and there will be some licence changes in advance of the December 2018 target date for implementation. It is expected that implementation will be ahead of the TAR Network Code compliance deadline (May 2019).

DR explained there have been significant changes to the GB gas market, with TO capacity charges decreasing and commodity charges increasing. Within the Ofgem GTCR they recommended a move away from commodity charges as it was deemed not to be a fair and equitable way of recovering revenue. Ofgem believed the commodity charge is not cost reflective. The TAR cost drivers are believed to be capacity and distance.

DR summarised the recommendations from the open letter. The GTCR policy position promoted:

- The Introduction of floating capacity charges for all entry points
- Discontinuing commodity charges for under or over recovery of entry revenues
- Reducing the reserve price discounts for short term entry capacity products
- Maintaining the principle of avoiding double charging at storage facilities

DR explained they did not commit to any immediate changes as part of GTCR to floating charges because of the uncertainty around TAR NC and the scope for potential implementation at Interconnection Points (IPs) only.

He expanded on the scope of changes required and the key implications, for example that commodity based tariffs for allowed revenue under-/over-recovery are not allowed at IPs and only allowed by exception at other entry and exit points. AB asked what the expectation for non-IPs meant. DR clarified an assessment would need to be undertaken surrounding any potential cross subsidy between IPs and non-IPs and cost reflectivity. AB suggested that there should be a quantitative and qualitative assessment with regards to commodity charges and asked if Ofgem were closed to having an exception.

DR reiterated that the expectation is that commodity charges would not be used and a cost reflectively assessment would be required as part of the NRA criteria for accepting a commodity based tariff for under/over recovery. He re-emphasised that Ofgem's view is that the commodity charge is not cost reflective. If Ofgem can be proved otherwise this would be examined. However the current view at the moment is that a commodity based tariff would not be cost reflective and is not likely to be acceptable to ACER. RW highlighted that in Distribution the capacity and commodity charging split had been changed from 50:50 to 95:5.

NW was concerned about other objectives such as competition seemingly being ignored and suggested that these should not be downplayed, as they are equally as important. He suggested that Ofgem should remain open minded and stressed the importance of needing to consider what the impact would be on other objectives.

He stressed that Transporters have other relative objectives that modifications need to be measured against. He clarified that he is not suggesting that the ACER recommendation should be ignored but highlighted that ACER has no powers to direct a solution. NW was concerned about the assumptions and focus from Ofgem, and felt Ofgem have not been as helpful as it could have been. He was concerned that Ofgem could be discounting potential solutions. DR stressed that there are no constraints on parties raising a modification and that any modification received will be duly considered. CS added that he felt it was useful that Ofgem were making their views known at this time and they have provided participants with a flavour of the justification that would be required to be compliant with TAR.

NS suggested there seemed to be a clear definition around cost reflectively, being based on capacity and distance and believed the suggestion to the industry was to consider this as a key driver. He acknowledged there are a series of issues historically relating to revenue under/over recovery and acknowledged that the current commodity charges are just too high. If the targets are to reduce the under/over recovery and to get it smaller, NS suggested a revised commodity regime/methodology should see short-term capacity charges increased/greater than long-term capacity charges.

DR emphasised that Ofgem will be looking for a fairer, more equitable, non-discriminatory, more cost reflective mechanism.

JCh expressed concern about the impacts to storage, pricing forecasts, security of supply and the impact of wholesale market prices, and suggested these need to be considered. He stressed a wider remit needs to be taken into account not just a capacity and distance evaluation. He suggested an Impact Analysis Assessment would need to be considered. GJ felt that security of supply was a major issue as GB was competing for gas from around the world and adverse changes could be seen as a barrier to entry. DR recognised that although there may be winners and losers the wider GB economy would not adversely impacted and felt storage support needs to be considered by Government rather than Ofgem.

AB asked if Ofgem had considered the impacts on the oil and gas industry. DR confirmed letters have been exchanged and meetings have taken place with the OGA. He suggested parties may wish to contact OGA for further details as he was not in a position to share the details. It was discussed that OGA were welcome to attend these meetings.

DC expressed concern that potential solutions/options would be restricted by Ofgem's views and that the policy direction could be flawed. JCh suggested that the industry should not be discouraged from considering all potential options or raising modifications that can be rightly justified and better achieve the industry's relative objectives.

CS thanked both Ofgem and parties for providing their views and concerns and expected that they would need to be considered further as part of the charging review that still had some way to go.

2. Workgroups

No live Modifications to be considered.

3. Gas Charging Review

EU Tariff Code Update

CH and CW provided the Gas Charging Review presentation.

CH provided an overview of the EU Tariff Code Timeline that should result in the code entering into force on 1st April. CH also explained that ENTSOG planned to have an implementation workshop on the 29th March and that a guidance document would be provided a week or so ahead of the workshop.

He highlighted that discussions are being considered for Modification 0611 – Amendments

to the firm capacity payable price at Interconnection Points (<http://www.gasgovernance.co.uk/0611>), at the Transmission Workgroup.

Outputs from Subgroups

CW provided a summary of the outputs of the NTSCMF subgroups, which were established to compliment the NTSCMF, and to enable a wider range of topics to be discussed. A table was provided to list the status of the current topics being considered and a link to the associated documents being published at (<http://www.gasgovernance.co.uk/ntscmf/subg>).

CW provided a quick review of the key topics being covered such as Forecasted Contracted Capacity, Interruptible Capacity, Revenue Recovery Mechanisms, Storage and avoiding inefficient bypass of the NTS.

CW indicated that the Forecasted Contracted Capacity paper had been updated the most, as it was a concept not defined in the TAR and therefore was open to interpretation. The paper had been amended to introduce objectivity criteria and forecast duration options.

NS enquired about the multiplier mechanism for revenue recovery and suggested that the industry should look to close the loop hole so that only inefficient bypass of the NTS be considered suitable for short haul discounts. However, LM expressed the need to assess projects against the principles and inputs in the formula. The paper was now on hold awaiting other CGR aspects to mature.

PD enquired about the overall package review, he wanted to understand the intentions, when the framework will be considered and concluded. CW confirmed that all the arrangements/framework will be targeted for a single delivery date of December 2018. DR suggested the consultation process would start around January 2018. The Workgroup considered the management of alternative solutions and how best to manage late considerations within the process.

BE provided a Storage position paper from Storengy and summarised some of the principles and areas of interest. Due to concerns over business rates, low gas prices, limited storage investment and potential double counting/charging, it was proposed the storage discount as allowed under TAR be 100%.

The Workgroup discussed how best to develop the proposal. NW emphasised that discussions within the sub-group were to inform the modelling defaults and stressed the importance of an open debate for the actual modifications within the NTSCMF. He wanted to ensure all elements are discussed with an appropriate charging regime and not a subgroup. CS highlighted that the position previously was that NTS would propose the 50% minimum discount as supported by TAR and expected that the subgroup would provide views on any other opinions on what the level of discount could be, as well as modelling defaults.

The Workgroup considered whether there ought to be a storage discount charge of 50% or 100%, how to avoid double charging, and should Storage receive any capacity charges for Transmission. The Workgroup suggested it would be useful to explore the historic positions for levying storage discounts. RM suggested that justifying a 100% discount would not be easy to analyse. The pros and cons of reducing the discount and who picks up the costs associated with the discount would also need to be considered. GJ stressed that National Grid NTS are best placed to articulate and demonstrate the benefits of storage. JP suggested that the value of security of supply is a joint piece of work that needs to be undertaken and although National Grid NTS would have an opinion all parties need to feed into it. It was agreed that further analysis should be captured/undertaken.

NW suggested that National Grid NTS and the JO should take an action to establish a specific Storage Workgroup and ensure an appropriate debate is undertaken and issues are captured. It was agreed to capture an issue on the NTS CMF Issue Register as a starter for ten.

Action 0301: National Grid NTS (CW) to update the NTSCMF Issue Register to capture the Storage Discount concerns/options so that a way forward can be devised as part of any GCR UNC Modification proposal.

Model and UNC Modification Development

CW confirmed that National Grid is developing an end-to-end set of models that will calculate Transmission and Non-Transmission charges. CW stressed the inputs and debates used to inform the subgroups papers will assist with the model development and to support the UNC Modification process. CW provided a model development timeline for the sub-group and NTSCMF.

PD enquired when the UNC Modifications will be raised. CW confirmed a timeline has been provided (within page 21 of the presentation) and it was expected that the Modification/s would be raised for the May 2017 UNC Panel meeting.

CW summarised the results on the anonymous behavioural assessment questionnaire. He confirmed 30 responses were received, these will be reviewed with the Gas Midstream Group and discussed at the next Workgroup.

CW provided the draft indicative UNC Modification timeline. CW was keen to engage with all parties and welcomed comments and inputs from interested parties and asked for parties to get in touch via: box.transmissioncapacityandcharging@nationalgrid.com.

3.1 Review of Sub-group Meetings and Report(s)

The next two Sub-group meetings will be held on 15 and 27 March 2017.

3.2 Next Steps

It was proposed to continue the work of the Sub-group and provide any output to the NTS CMF for review and discussion.

4. Issues

4.1 Issues Register - Review

CW confirmed there have been some minor changes to the Issue Register by no fundamental changes. This would be reviewed at the next meeting.

5. Review of Outstanding Actions

1002: EU TAR NC Article 35: Existing contracts - National Grid NTS to provide clarity on how this article applies to contracts at IPs and Non IPs (before and after this Article enters into force).

Update: Work is continuing. **Carried forward**

0102: National Grid NTS (CW) to produce a separate reference table explaining when the new charges would apply to the different capacity products.

Update: CW confirmed that this will be considered within the development of Modification 0611. **Closed.**

0201: *Forecasting Contracted Capacity* - National Grid NTS (JP) to clarify what data was available for forecasting future demands, and explain how the information is used in the options developed to date.

Update: Ongoing activity. **Carried forward**

0202: *Forecasting Contracted Capacity* - National Grid NTS (CW/CH) to investigate the approaches/methodologies for forecasting used by other countries.

Update: CH confirmed that he was in discussions with other ENTSOG members to ascertain information on their approaches. **Carried forward**

0203: *Behavioural Assessment Survey* - National Grid NTS (CW) to provide an electronic copy for publication.

Update: The electronic copy of the survey was published. **Closed**

6. AOB

6.1 Tariff Code Regulatory Workgroup

IO confirmed that work is ongoing and the intention will be to publish the TAR guidance document around 20/23 March 2017, for a meeting on 29 March 2017 and that it would include options for reconciling regulatory accounts.

6.2 Exit Capacity at Rough

RW enquired about the announcements with regards to the capacity at Rough and whether adjustments would be made to the transmission charges as a result. CW confirmed that National Grid NTS would need to follow the current methodology for transparency reasons.

7. Diary Planning and next agenda

Further details of planned meetings are available at: <http://www.gasgovernance.co.uk/Diary>

Time/Date	Venue	Workgroup Programme
10:00, Wednesday 05 April 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	Pre-Modification discussion Gas Charging Review Issues Register
10:00, Monday 24 April 2017	Consort House, 6 Homer Road, Solihull, B91 3QQ	Pre-Modification discussion Gas Charging Review Issues Register
10:00, Monday 08 May 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	<i>To be confirmed</i>
10:00, Monday 05 June 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	<i>To be confirmed</i>
10:00, Friday 07 July 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	<i>To be confirmed</i>
10:00, Wednesday 02 August 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	<i>To be confirmed</i>
10:00, Tuesday 05 September 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	<i>To be confirmed</i>
10:00, Wednesday 04 October 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	<i>To be confirmed</i>
10:00, Monday 06 November 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	<i>To be confirmed</i>
10:00, Wednesday 06 December 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	<i>To be confirmed</i>

Action Table (as at 06 March 2017)

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
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Action Table (as at 06 March 2017)

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
1002	05/10/16	3.5	<i>EU TAR NC Article 35: Existing contracts</i> - National Grid NTS to provide clarity on how this article applies to contracts at IPs and Non IPs (before and after this Article enters into force).	National Grid NTS (CH)	Carried forward
0102	11/01/17	3.2	National Grid NTS (CW) to produce a separate reference table explaining when the new charges would apply to the different capacity products.	National Grid NTS (CW)	Closed
0201	01/02/17	3.1	<i>Forecasting Contracted Capacity</i> - National Grid NTS (JP) to clarify what data was available for forecasting future demands, and explain how the information is used in the options developed to date.	National Grid NTS (JP)	Carried forward
0202	01/02/17	3.1	<i>Forecasting Contracted Capacity</i> - National Grid NTS (CW/CH) to investigate the approaches/methodologies for forecasting used by other countries.	National Grid NTS (CW/CH)	Carried forward
0203	01/02/17	3.2	<i>Behavioural Assessment Survey</i> - National Grid NTS (CW) to provide an electronic copy for publication.	National Grid NTS (CW)	Carried forward
0301	06/03/17	3.0	National Grid NTS (CW) to update the NTSCMF Issue Register to capture the Storage Discount concerns/options so that a way forward can be devised as part of any GCR UNC Modification proposal.	National Grid NTS (CW)	Pending