

NTS Charging Methodology Forum (NTSCMF) Minutes
Tuesday 02 September 2021
via Microsoft Teams

Attendees		
Eric Fowler (Chair)	(EF)	Joint Office
Helen Bennett (Secretary)	(HB)	Joint Office
Adaeze Okafor	(AO)	Equinor
Alex Neild	(AN)	Storengy
Alsarif Satti	(ASa)	Ofgem
Amber Talbott	(AT)	Storengy UK
Andrew Pearce	(AP)	BP
Anna Shrigley	(ASh)	ENI
Anna Stankiewicz	(ASi)	National Grid
Carlos Aguirre	(CA)	Pavilion Energy
Colin Williams	(CWi)	National Grid
Daniel Hisgett	(DH)	National Grid
Daniel Wilkinson	(DW)	EDF Energy
Dave A Bayliss	(DAB)	National Grid
Davide Rabini	(DR)	Vitol
Debra Hawkin	(DH)	TPA Solutions
Henk Kreuze	(HK)	Vermilion Energy
Jeff Chandler	(JCh)	SSE
Julie Cox	(JCx)	Energy UK
Kay Riley	(KR)	SouthHook Gas
Kieran McGoldrick	(KM)	National Grid
Laura Johnson	LJo	National Grid
Lauren Jauss	(LJ)	RWE
Marion Joste	(MJ)	ENI
Nick Wye	(NW)	Waters Wye Associates
Nigel Sisman	(NS)	Sisman Energy Consulting
Oliver Weston	(OW)	Ofgem
Pavanjit Dhesi	(PD)	Interconnector
Phil Lucas	(PL)	National Grid
Rebecca Hailes	(RHa)	Joint Office
Ricky Hill	(RHi)	Centrica
Richard Fairholme	(RF)	Uniper
Richard Hewitt	(RHe)	Hewitt Home & Energy Solutions
Thomas Bourke	(TBo)	Ofgem
Thomas Paul	(TP)	E.ON
Sam Repetto	(SR)	EDF
Sinead Obeng	(SO)	Gazprom Marketing & Trading

Copies of all papers are available at: <https://www.gasgovernance.co.uk/ntscmf/020921>

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 (06 July 2021)

The minutes of the 03 August 2021 meetings 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: An update will be provided at the October 2022 meeting. **Carried Forward**

0501: National Grid (CW) to provide detailed explanation of misalignment between Code and Licence including GAP analysis.

Update: An update will be provided at the October 2022 meeting. **Carried Forward**

1.4. Modifications with Ofgem¹

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:

[0737 - Transfer of NTS Entry Capacity from a Capacity Abandoned ASEP](#)

Ofgem is considering this Modification. A decision will be made in due course and the anticipated decision date is now circa 30/09/2021.

[0739 - Aggregate overrun regime for Original Capacity held at the Bacton ASEPs](#)

Rejected on 18 Sept

Ofgem is considering this Modification. A decision will be made in due course but is now expected to be ahead of the previously anticipated decision date of circa 30/08/2021.

[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.

[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.

1.5. Pre-Modification discussions

Colin Williams (CW_i) was invited to provide an update on the progress of the next two modifications that are expected to be presented as pre-modification discussion at this forum.

Referring to the Workshop that was held by National Grid on 26 August 2021, CW_i proceeded to highlight some of the material presented in order to illustrate some of the elements that are being looked at:

- CW_i advised that the new modifications will be presented to NTSCMF as pre-modification discussions at the October 2021 forum

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>

CWi shared onscreen the Charging Reforms presentation from 26 August 2021².

Slide 13 - Additional Charge

CWi explained the mechanisms that National Grid are looking at in terms of an end-to-end solution would be as follows:

- Determine Allowed Revenues as per normal process to determine overall target Entry revenue (including Existing Contracts (ECs))
- Calculate the entry reference price without ECs and produce an Entry capacity reference price for all capacity as if no Existing Contracts.
- Produce updated expected recovered revenues using the calculated reserve prices plus all other revenues / charges (e.g. ECs, inefficient bypass) to determine anticipated amount to be collected from the additional charge.
- Review anticipated collection against the baseline UNC for recovery (i.e. using the regulatory year as the target). Consider any updates to meet this obligation as revenue recovery profile of capacity and a flow-based charge would be different to prevailing that is only linked to capacity.
- Review the level of the additional charge in light of the obligation under previous step regarding target recovery of regulatory year.

National Grid would also need to look at, as part of that, introducing an additional charge recognising that the existing baseline would technically exist and would also therefore need to review the adjusted collection profiles to make sure the User isn't pushing under or over recovery.

CWi clarified that calculating the numerator and the additional charge is almost ready and some steps on managing the revenue recovery is being worked on.

Anna Shrigley (ASh) noted that a review of the current process and the current rules is required in order to potentially consider the potential exemption of Bacton. ASH provided some background in order to support her request and advised that, at Bacton when the storage capacity was booked in 2009 there was no separate storage, therefore, now - the capacity is not distinguished from capacity used at UKCS fields.

ASh asked for this to be noted as a potential exemption that needs to be explored within the two new modifications.

When Henk Kreuze (HK) asked if there is only going to be a flow-based charge for Entry Capacity, CWi confirmed that is correct.

Ricky Hill (RHi), in terms of potential exemptions, advised that LNG acts in a similar way to interconnectors so proposes that LNG sites are also viewed as an exemption to this.

Revenues

CWi referred to Slide 16 of the presentation and highlighted the scope of thinking:

Takes the target revenue needed for the remainder of a Regulatory Year then applies the previous FRY% split to determine the % revenue needed of the next years Regulatory Year for the period April to September. These two values then added together to provide the updated target revenue for the Gas Year.

Nick Wye (NW) sought clarification that this topic applies to Exit as well as Entry and asked for some slides around Exit to be provided. CWi confirmed Entry and Exit will be put together.

CWi explained that the expected revenue collection is across the year so that it ties in with the capacity profile for the year.

Slide 17 – Modelling showing Revenue changes

² A copy of the National Grid Charging Reforms presentation can be found at: <https://www.nationalgrid.com/uk/gas-transmission/charging/gas-charging-discussion-qcd-papers>

CWi advised:

- The dark blue line represents the current price if the deferral option was not implemented.
- The green line represents what happens as a consequence of initiating that deferral.

Slide 18 – Current Methodology revenues (£45m deferral)

The revenue with the £45m deferral can be seen on the table depicted on Slide 18 of the presentation.

Dave Bayliss (DB) explained this slide shows what would need to be recovered within the first 6 months Apr-Sept 2021.

The table on Slide 19 shows what would be collected if there was no deferral.

Slide 20 shows the new methodology revenues.

Slide 22 - Next Steps with Revenues

CWi explained that National Grid now need to fully develop this into a workable solution when there are further details to share and expand on. The focus in this workshop has been to highlight the basic method underlying a potential change that could 'flatten' the revenue profile compared to the current approach. This has been shown using Transmission Services Entry Revenues.

Further considerations need to take account of and sharing in these workshops:

- Transmission Services Entry, Exit and Non-Transmission Services assessments
- Revenue recovery and sensitivity to variances across years

CWi is now looking at how to make sure the anticipated position is managed over a reasonable period of time and how to demonstrate that any formula year is fully reconciled.

NW advised that it appears this methodology is relying on a longer-term forecast; in the event that the forecasts are incorrect, this is just moving the problem further down the line. NW advised he would not want to see a large amount of under recovery at the end of the timeline.

CWi advised that the focus is around the transmission services side that the fixed allowance levels are:

- a. Under and over recovery position are managed
- b. Anything that would adjust revenues in the future, better the forecasting then the better the notification of the forecast. Under RIIO 2 there is a focus on being able to forecast going forward.

NW would like to see a scenario if there is an increase in allowed revenue for a particular year, how that would change the recovery of costs.

CWi explained the two modifications that are due to be presented:

Revenue Modification: this is mitigating the risk of substantial revenue through the methodology that should lessen the effects of revenue step changes.

The other modification will be looking at the price disparity, looking to make the overall charging framework more equitable, the additional charge has a natural expiration.

ASh confirmed that she agrees and supports the Revenue Modification and asked if CWi would consider breaking it into forecasts for 6-monthly periods (summer/winter), as that may help revenue under recovery based on the average annual forecast.

DB confirmed the Entry methodology already takes into account the different profiles for summer/winter.

When Debra Hawkin (DH) asked how it will be decided how much to defer from one year to another, either a fixed rule or a variable rule, CWi clarified that the logic of the proposed approach is such that it should not need a deferral.

CWi confirmed the next National Grid led Workshop will be held on 16 September 2021 where National Grid should be able to bring forward some additional thoughts in order to provide a fuller picture and bring Exit into the equation.

2. Workgroups

No Workgroups to consider.

3. Issues

3.1. Industry Issues Tracker Update

EF showed onscreen the current NTSCMF Issues Tracker v1.0 and advised that based on previous meeting minutes, he has added 4 Issues, as follows:

CMF001 – Definition of TS-Related NTS System Operation Revenue within UNC TPD Section Y paragraph 1.5.1 (d)

- This has been added to make sure the topic is not lost, CWi confirmed this is not a pressing priority.

CMF002 – TAR NC Compliance

- There was a lengthy discussion as to what the specific issue is with TAR NC and its compliance; Workgroup requested a more specific question with regards to this recorded issue.

JCx suggested that Ofgem must have assessed the compliance of TAR NC as part of *Modification 0678 (Urgent) – Amendments to Gas Transmission Charging Regime* or *Modification 0621 – Amendments to Gas Transmission Charging Regime*.

The forum participants agreed that a review of the Final Modification Report for both 0621 and 0678 would be beneficial in order to aid understanding the analysis undertaken by Ofgem in order to make their decision.

Forum participants agreed to continue tracking this issue and an action would be beneficial:

New Action 0901: National Grid (CWi) to update the slide from the last presentation on this subject: Revenue Mapping

CMF003 – Differences in treatment for entry and exit regimes

- JCx asked about the timeline to address different treatments of entry and exit which must be creating cross-subsidies and that the need for a remedy had been identified during the UNC0748 development. Nigel Sisman (NS) indicated that there were substantive matters within this issue. For example whilst the cross-subsidy arising from entry/exit overrun through SO "k" might be modest, the treatment of non-obligated, given its financial value and interaction with capacity neutrality, warranted a timely remedy to prevent continuation of the known distortion.

CMF004 – SO incentive performance

- ASH thinks this is a low response to the consultation, 4 step solution deployed, the fourth step is what Ofgem intend to do which is to change the National Grid licence. ASH encouraged participants to read the consultation response which can be found here: https://www.ofgem.gov.uk/sites/default/files/2021-06/ccm_riio-1_windfall_adjustment_letter_3.pdf
- NS commented that, in terms of transparency, the Revenue and Capacity bookings report requires updating. DB advised that National Grid are implementing a new finance management system which has impacted the receipt of the reports for the month of August. This will be updated as soon as possible.
- Alsarif Satti (Asi) provided a link to the RIIO 2 consultation which is now live: <https://www.ofgem.gov.uk/publications/statutory-consultation-proposed-changes-part-c-special-condition-55-national-grid-gas-plc-ngg-gas-transporter-licence>

Deleted: <#>Nigel Sisman (NS) commented there are quite a lot of issues that relate to this topic and Forum participants agreed that National Grid tracking the issue of overruns and non-obligated capacity may provide a guide on the materiality of the different elements.¶

The updated NTSCMF Issues Tracker can be found here: <https://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

It was highlighted that the current Long-term revenue forecast is dated 29 June 2020 and can be found published here: <https://www.nationalgrid.com/uk/gas-transmission/charging/transmission-system-charges>. When asked, CWi confirmed that National Grid are looking to provide a new long term revenue forecast in the coming months.

6. Any Other Business

6.1. 0765 Consultation

Rebecca Hailes (RHa) reminded participants that the consultation for Modification 0765 - New retrospective debit and credit charges to reflect changes to the treatment of Entry Capacity Revenue between October and December 2020, closes on 20 September 2021: <https://www.gasgovernance.co.uk/0765/>

Laura Johnson reminded forum participants:

- They are still able to apply for the Inefficient bypass product from 1 October.
- Xoserve are running a Workshop next Tuesday 07 September 2021 for nomination/confirmation forms, the invitation went to all on the UKLink distribution list.
- CWi reminded the forum participants that the consultation around commercial solutions at St Fergus is still open and closes 13 September. <https://www.nationalgrid.com/uk/gas-transmission/document/136381/download>
- A reminder that the changes for Modification 0745S – Mandatory Setting of Auction Bid Parameters, go live from 01 October 2021.

7. 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 05 October 2021	Via Microsoft Teams	Standard Workgroup Agenda
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 GAP analysis	National Grid (CWi)	Carried Forward
0901	02/09/21	3.1	<i>CMF002 – TAR NC Compliance</i> National Grid (CWi) to update the slide from the last presentation on this subject: Revenue Mapping	National Grid (CWi)	Pending