

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

Attendees		
Kate Elleman (Chair)	(KE)	Joint Office
Karen Visgarda (Secretary)	(KV)	Joint Office
Adam Bates	(AB)	South Hook
Alsarif Satti	(AS)	Ofgem
Alex Neild	(AN)	Storengy
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	(DHl)	National Grid
Daniel Wilkinson	(DW)	EDF Energy
Dave A Bayliss	(DAB)	National Grid
Davide Rubini	(DR)	Vitol
Debra Hawkin	(DHa)	TPA Solutions
Hannah Reddy	(HR)	Correla
Henk Kreuze	(HK)	Vermilion Energy
Jeff Chandler	(JCh)	SSE
John Costa	(JCo)	EDF Energy
Joseph Glews	(JG)	Ofgem
Julie Cox	(JCx)	Energy UK
Kamla Rhodes	(KR)	Conoco Phillips
Kieran McGoldrick	(KM)	National Grid
Laura Johnson	(LJo)	National Grid
Marion Joste	(MJ)	ENI
Nick Wye	(NW)	Waters Wye Associates
Nigel Sisman	(NS)	Sisman Energy Consulting
Oliver Weston	(OW)	Ofgem
Paul Youngman	(PY)	Drax
Pavanjit Dhesi	(PD)	Interconnector
Phil Lucas	(PL)	National Grid
Richard Fairholme	(RF)	Uniper
Ritchard Hewitt	(RHe)	Hewitt Home & Energy Solutions
Sam Street	(SS)	Frontier
Samuel Dunn	(SD)	Interconnector
Samuele Repetto	(SR)	Gazprom Marketing & Trading
Terry Burke	(TB)	Equinor
Thomas Bourke	(TBo)	Ofgem

Yasmin Valji	(YV)	Frontier
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Copies of all papers are available at: <https://www.gasgovernance.co.uk/ntscmf/021121>

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

Kate Elleman (KE) welcomed everyone to the meeting.

1.1. Approval of Minutes (05 October 2021)

KE explained there had been some minor amendments made by Ofgem which she showed on screen.

The minutes were subsequently approved.

1.2. Approval of Late Papers

KE noted there had been no late papers.

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 (CW) advised that the information would be provided prior to the December meeting and that it was linked to Action 0501 in relation to the misalignments and that this issue had been added to the NTSCMF Issue Tracker. The action was carried forward. **Carried Forward**

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

Update: CW advised that this topic had now been added to the NTSCMF Action Tracker under CMF 003 and so this action could now be closed. **Closed.**

0901: National Grid (CW) to update the slide from the last presentation on this subject: Revenue Mapping.

Update: CW advised that resource efforts have been put into the pre-Modification; an update will be provided at the December 2021 meeting. **Carried Forward,**

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

Update: CW advised that resource efforts have been put into the pre-Modification; an update will be provided at the December 2021 meeting to include the timings and how these will manifest. **Carried forward.**

1.4. Modifications with Ofgem¹

KE 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:

[0687 - Creation of new charge to recover Last Resort Supply Payments](#)

Ofgem decision expected end of 2021

[0751 – Capping price increases for Long-Term Entry Capacity](#)

Rejected on 29 October 2021

Ofgem decision was published on 29 October 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>

[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.

[0696V – Addressing inequities between Capacity booking under the UNC and arrangements set out in relevant NExAs](#)

Ofgem is considering this Modification. A decision will be made in 2022.

[0746 - Application of Clarificatory change to the AQ amendment process within TPD G2.3 from 1st April 2020](#)

Ofgem is considering this Modification. A decision will be made in 2022.

1.5. Pre-Modification discussions

1.5.1. Introduction of a Transmission Service Entry Flow Charge

CWi provided a verbal update on 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.

CWi explained that Sam Street (SS) and Yasmin Valji (YJ) from Frontier would be providing an update on their economic assessment analysis they had undertaken in relation to the Modification solution.

Julie Cox (JCx) said she was very disappointed that CWi was giving a verbal update only and that no material or documentation had been provided before the meeting or during the meeting. CWi apologised and said that changes were still been undertaken and that National Grid were including some of the analysis provided by Frontier.

CWi said that National Grid would be running a workshop week commencing 15 November 2021 which would be a dedicated session to further discuss the solution.

KE said that considering the analysis, it would be helpful to know what National Grid's expectations were in relation to the timetable. CWi noted that it was still the intention to request urgency status on 04 November 2021 and he added that the original dates would only move by a day or so either side. KE said that was acceptable as that still allowed for a sufficient consultation timeframe. Nick Wye (NW) said in that case he presumed an alternative Modification would have to be raised prior to the 12 November 2021 and CWi confirmed that this was correct.

CWi reiterated that the Modification proposal was to introduce a Flow-based Entry Transmission Services Charge which would be determined after calculating an updated reference / reserve price compared to current method. It would calculate a price without the influence of Existing Contracts and the revenue difference between applying the updated capacity reserve prices and the target revenue would be collected by a new Entry Commodity charge. It would be applied to all entry flows except interconnectors. Storage would receive a discount to the new charge in line with the storage discount and in relation to the short-haul on entry, eligible quantities would be discounted in line with the short-haul discount applicable to a Shippers nomination.

Nick Wye (NW) said he welcomed the change to include short-haul discounts but was very confused at the huge 'U' turn from National Grid in relation to the storage exemption and that the arguments presented previously by National Grid to exclude storage volumes seem to have been dismissed. NW added that this process was proposing to impose a commodity charge on storage flows underpinned by Existing Contracts. Given in the previous regime storage flows were exempt from commodity charges it does not seem consistent with Article

35 of the EU TAR that additional charges could be applied. He was not at all convinced at the rationale of this. Julie Cox (JCx), Alex Neild (AN), Richard Fairholme (RF), Jeff Chandler (JC) and Henk Kreuze (HK) all concurred with NW's comments on this matter. NW added that looking at the flows of 1 million a year and looking at the materiality it could be flipped by looking at this in two ways; in terms of impacting imposing charges on storage which could be degrading the storage cycles and impose charges at a very low level on other users, he reiterated this was a huge 'U' turn.

Dan Hisgett (DHi) then provided an overview of the National Grid schematic that detailed the changes.

For a detailed update, please refer to the published slides on the meeting page.

<https://www.gasgovernance.co.uk/ntscmf/021121>

Alsarif Satti (AS) told the industry that Ofgem welcomes the short-haul discount proposed by National Grid Gas (NGG) because this should result in the total discount rate envisioned by UNC Modification 0728B remaining the same.

AS said that NGG should consider potential compliance issues raised by Nick Wye in regard to a storage discount carefully.

AS said that from a policy principle, exemptions or discounts to the new charge should be made by exception with robust justification. NGG are proposing to exempt IPs on compliance grounds. Whether storage is exempt or receives a discount should also be justified by policy or compliance grounds. For example, in Ofgem's UNC Modification 0727 and UNC Modification 0729 decisions, they said that storage should have an 80% capacity discount after taking into account the two policy principles of avoiding double charging, and that storage should make a fair contribution to cost recovery.

AS said that the General Non-Transmission charge is for operation costs and storage is exempt as the UNC Modification 0678 workgroup considered that storage did not impose additional operation costs on the NTS. However, the purpose of this new charge is to recover transmission services revenue. So, whilst it is different in form from a capacity charge, it is still recovering costs for Transmission services.

NW said that there was a compliance aspect as to whether this proposal was consistent with Article 35 and the other policy issues. NW referred to the decision of Modification 0727 - (Urgent) - Increasing the Storage Transmission Capacity Charge Discount to 80%, which was specifically around the level of capacity charges paid by storage users, it had nothing to do with commodity charges.

Thomas Bourke (TBo) explained that in this context there were multiple principles to do the storage including the double charging principles and the user pays principle, and that this needed further discussion and thought. AS asked NW to explain his concerns for storage being charged a discounted commodity rate. NW said it was concerning the non-commodity charge not applied to storage and the double charging in relation to the fixed capacity being used multiple times. He noted this should not be measured and was inconsistent with Article 35, as the commodity charge was not applied to storage and further due to cycling a unit of gas was using the same capacity many times over and therefore making a disproportionate contribution to National Grid's Allowed TO revenue.

Nigel Sisman (NS) said he was struggling with these arguments as the capacity was flowed every day. NW said it was in relation to National Grid proposing an additional charge for gas because it was being used repeatedly, as the capacity would be used more than once, and this was why decades ago all commodity charges on storage were removed. He stated that cycling should be viewed as a unit of gas going back and forth into and out of storage. Where a commodity charge is applied it will pay multiple times for using a unit of capacity resulting in storage capacity holders paying a disproportionate cost for owning and using capacity.

AS said these discussions had provided further food for thought for National Grid to take into consideration when exploring the commodity charge. He added the new charge is proposed

to recover transmission-service costs, He reiterated that National Grid needed to think about the charges and what they were to recover.

Jeff Chandler (JCh) thanked Ofgem for their input and stated that there will be an issue with existing contracts as Article 35 states that there cannot be a commodity charge applied to them. If we are to comply with the Statutory Instrument that transposed EU law into English law, how can it now be compliant to have a commodity charge applied to existing contracts? CWi stated that the TAR did not preclude a commodity charge from a non-interconnection flow aspect and there was the ability to have a commodity rate in GB.

JCh said that in relation to Article 35, when Modification 0678 - /A/B/C/D/E/F/G/H/I/J (Urgent) - Amendments to Gas Transmission Charging Regime, was in development a commodity charge was attempted to be introduced and Ofgem had rejected this, as it was not compliant. (In response to Jeff Chandler (JCh) Alsarif Satti (AS) said that the SSE alternative (UNC Modification 0678C) proposed an additional capacity revenue charge. As Existing Contracts did not foresee a change in the capacity tariff, this was found to be non-compliant under Article 35 TAR NC. We also noted that no alternatives to UNC Modification 0678 had a commodity charge, so Ofgem did not assess this possibility.

He noted this letter set out Ofgem's views to National Grid Gas Transmission on Transmission Services Revenue Recovery Charges. (Please view the letter via the link below)

<https://www.ofgem.gov.uk/publications/open-letter-national-grid-gas-transmission-transmission-services-revenue-recovery-charges>

CWi said he would reinvestigate the text, take on board all the comments made and would reflect on these prior to submitting the Modification.

Anna Shrigley (ASh) questioned why Ofgem had not extended the assessment concerning the predecessor to Modification 0678, as they could have decided on the commodity charge then. AS said that the UNC Modification 0621 assessment was made in a different context and that Modification 0621 was not consistent in Article 4. Anna Stankiewicz (ASt) shared with the workgroup within the teams that the Ofgem decision wording for Modification 0621, as below:

0621 decision letter: We expect that the use of obligated capacity as a proxy for FCC would result in an under recovery of transmission services revenue by NGGT. For the majority of the UNC621 modifications, to recoup this under-recovery NGGT would rely on a commodity-based CRRC for the duration of the transition period.²⁵ Analysis indicates that the use of obligated capacity during the transition period would lead to, on average, more than 50% of transmission services revenue being recovered by this charge. We consider that this use of a commodity-based charge to recover most of the transmission services revenue is inconsistent with the intention of Article 4(3) TAR NC, which provides "as an exception" that a "part" of the revenue may be recovered via a commodity-based charge.

Formal 15 minutes break taken

(In response to Anna Shrigley (ASh)) Alsarif Satti (AS) said that the proposals of UNC Modification 0621 were not consistent with Article 4 TAR NC. Article 4 expresses that transmission-services charges should be predominantly capacity based, yet UNC Modification 0621 and alternatives would have led to a regime of low capacity charges and a heavy reliance on commodity charges. This was part of the reason it was deemed non-compliant. Ofgem continued by saying that this Additional Charge Modification proposal must also be consistent with the overarching principle of having predominantly capacity charges, but the context of this Modification is very different to UNC Modification 0621.

Paul Youngman (PY) raised the query of Article 4 as detailed below:

3B (b) a complementary revenue recovery charge, which shall comply with all of the following criteria:

(i) levied for the purpose of managing revenue under- and over-recovery;

(ii) calculated on the basis of forecasted or historical capacity allocations and flows, or both;

(iii) applied at points other than interconnection points;

(iv) applied after the national regulatory authority has made an assessment of its cost-reflectivity and its impact on

cross-subsidisation between interconnection points and points other than interconnection points.

JCx added that a commodity RRC is supposed to be an exception and charges are supposed to be set in advance predominantly on capacity. PY agreed and said that he was referring to the design for adjustment if over recovering was taking place.

KE introduced Sam Street (SS) and Yasmin Valji (YV) from Frontier, who provided an overview of their analysis, regarding assessing the Charging reform.

SS provided a high-level overview of their cost benefit analysis and explained this material would be beneficial from an Impact Assessment perspective. He provided a synopsis of the schematics which covered; existing contracts, issues with the charging regime, volatility, risks, competition, and postage stamp price impacts.

SS said in conclusion, the costs were relatively small, however he could not confirm any exact figures as this would be dependent on the hedging costs of the participants. He noted the Modification would lead to a reduction of these costs. PY asked if this area could be expanded to exit points, SS not that was not possible as it was not relevant at the exit points, and that he was merely focusing on the entry points in the context of the Modification.

For a detailed update, please refer to the published slides on the meeting page.

<https://www.gasgovernance.co.uk/ntscmf/021121>

JCx questioned the cost allocation and values and CWi said he would update the values and JCx said that she thought the CAA had to conduct that exercise. CWi said he would revisit this area and JCx said she was not sure the existing mechanism was sufficient for this purpose.

NW questioned the impact on the NBP and asked if there was there a sweet spot on a commodity that would be applied. SS said he was not able to comment on a sweet spot.

Richard Fairholme (RF) said considering the detailed and numerous discussions that had taken place during the course for the Workgroup, he was unsure if National Grid would still be able to submit the Modification on 04 November 2021, as clearly there was now a significant amount of commentary to be encompassed with the Modification. CWi agreed there were a lot of comments and opinions to be considered and that National Grid would do their utmost to not let the dates slip.

RF added that he would like CWi to liaise with the other National Grid colleagues and be mindful that the forthcoming Modification 0789 Workshops would be consuming a large proportion of the Shippers/industry time and that some Shippers did not have a large resource to accommodate this, as such, the workload may be being undertaking/managed by one individual.

2. Workgroups

No Workgroups to consider.

3. Issues

3.1. Industry Issues Tracker Update

KE 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. She noted that CMF 01,02,03 and 04 status would be updated at the December meeting.

Daniel Wilkinson (DW) enquired if any possible impact that could be seen on the industry from bad debt or shipper exits? Referencing CNG and other exits and impacts on transportation charges. CWi said that if there was bad debt then this would come through via the transportation charges if these were related to the balancing side of the business and agreed to investigate this area.

New Action 1101: National Grid (CWi) to provide an update of the bad debt process from a transportation and balancing costs perspective.

JCx asked CWi what the status was on the other National Grid Modification that has originally been discussed more than 6 months ago. CWi it was still be developed and processed and an update would be provided at the December 2021 meeting. JCx asked if that Modification was being delayed and was confused as that Modification was not as contentious as the one under discussion and questioned the need for urgent status. JCx said she felt this was inappropriate, as it was a charging Modification and that it should not be 'rushed through' the process.

CWi said that many of the issues present in the regime such as high entry reserve prices and susceptibility to changes would not be removed by the other modification in question. The two Modifications seek to do different things in terms of what the changes would be and how realised. CWi appreciated the need to discuss with industry on the proposals and will update at earliest opportunity.

CWi said he was exploring the various timelines and that National Grid were not delaying the other Modification. ASH concurred with JCx's comments and added that she was very disappointed not to have seen sight of the second Modification concerning the regulatory year and gas year as that would have helped to resolve various forecasting issues. ASH added, in her opinion that was the Modification that warranted an urgent status. CWi said he appreciated the tight timelines specific to charging and the time of publication.

Version v2.0 of the Issues Tracker is published and can be viewed here: www.gasgovernance.co.uk/ntscmf.

4. Forecasted Contracted Capacity (FCC)

4.1. FCC Methodology

CWi said that people would be familiar with the updating process as per earlier in 2021 that applied to the charges in 2021, he added that the same process would be followed in 2022. JCx said that she was aware that Ofgem had proposed that the FCC Methodology should be in the UNC from a governance perspective. CWi reiterated that the proposal was to undertake another cycle like last year for this year, then that would give a clearer snapshot and that this procedure was quicker via the FCC.

RF asked what was the trigger for a Revenue Recovery Charge (RRC) from a timing aspect and he wanted to know whether this would take place in April again? CWi that was a good question and that he would investigate this matter and share thoughts back to the group.

(In response to Richard Fairholme (RF)) Alsarif Satti (AS) said that Ofgem still hold the views expressed in their open letter in December 2020 that RRCs should be avoided.

New Action 1102: National Grid (CWi) to confirm when the Revenue Recovery Charge (RRC) was taking place in April 2022.

4.2. FCC Monitoring

One update slide was shown by CWi on behalf of National Grid. This will be made available post meeting on the NTSCMF page for November. This showed the data to date (up to September) that illustrated the capacity predictions embedded in the updated FCC Methodology from October 2021 are much closer than in previous years. More details will be evident when all of Octobers' data is available and CWi will give an update in December.

5. Long Term Revenue Forecasts

CWi explained there was nothing specific to cover and that an update would be provided in the December meeting, in relation to the Shrinkage Action 0110: National Grid (CWl) to provide an update on increased Shrinkage costs and the timing effect on future prices.

6. Next Steps

KE confirmed the next steps to be:

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

7. Any Other Business

There were no AOB items for discussion.

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 07 December 2021	Via Microsoft Teams	Standard Workgroup Agenda

Action Table (as of 02 November 2021)

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
0107	05/01/21	5.0	National Grid (CWl) to provide documented explanation and diagrams detailing the relationship between the SO /TO and TS/non-TS revenue services.	National Grid (CWl)	Carried Forward
0501	04/05/21	1.3	National Grid (CWl) to provide detailed explanation of (mis)alignment between Code and Licence including GAP analysis	National Grid (CWl)	Closed
0901	02/09/21	3.1	<i>CMF002 – TAR NC Compliance</i> National Grid (CWl) to update the slide from the last presentation on this subject: Revenue Mapping	National Grid (CWl)	Carried forward

0110	05/10/21	5.0	<i>Long Term Revenue Forecasts:</i> National Grid (CWi) to provide an update on increased Shrinkage costs and the timing effect on future prices	National Grid (CWi)	Carried forward
1101	02/11/21	3.1	National Grid (CWi) to provide an update of the bad debt process from a transportation and balancing costs perspective.	National Grid (CWi)	Carried forward
1102	02/11/21	4.1	National Grid (CWi) to confirm when the Revenue Recovery Charge (RRC) was taking place in April 2022.	National Grid (CWi)	Carried forward