

NTS Charging Methodology Forum (NTSCMF) Minutes
Tuesday 06 July 2021
via Microsoft Teams

Attendees

Eric Fowler (Chair)	(EF)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Adaeze Okafur	(AO)	Equinor
Adam Bates	(AB)	South Hook Gas
Alex Neild	(AN)	Storengy
Alsarif Satti	(AS)	Ofgem
Anna Stankiewicz	(ASt)	National Grid
Carlos Aguirre	(CA)	Pavilion Energy
Chris Logue	(CL)	National Grid
Chris Wright	(CW _r)	ExxonMobil
Christiane Sykes	(CS)	Shell
Colin Williams	(CW)	National Grid
Daniel Wilkinson	(DW)	EDF Energy
Dave Bayliss	(DB)	National Grid
Debra Hawkin	(DH)	TPA Solutions
Henk Kreuze	(HK)	Vermilion Energy
Jag Basi	(JB)	ESB
Jeff Chandler	(JCh)	SSE
Jen Randall	(JR)	National Grid
John Costa	(JCo)	EDF Energy
Joseph Glews	(JG)	Ofgem
Julie Cox	(JC _x)	Energy UK
Kamla Rhodes	(KR)	ConocoPhillips
Kieran McGoldrick	(KM)	National Grid
Lauren Jauss	(LJ)	RWE
Nick Wye	(NW)	Waters Wye Associates
Nigel Sisman	(NS)	Sisman Energy Consulting
Oliver Weston	(OW)	Ofgem
Pavanjit Dhesi	(PD)	Interconnector UK
Rebecca Hailes	(RH)	Joint Office
Richard Fairholme	(RF)	Uniper
Richard Hewitt	(RHe)	Hewitt Home & Energy Solutions
Terry Burke	(TBu)	Equinor
Thomas Bourke	(TBo)	Ofgem
Sam Hughes	(SH)	Citizens Advice
Sinead Obeng	(SO)	Gazprom Marketing & Trading

Copies of all papers are available at: <https://www.gasgovernance.co.uk/ntscmf/060721>

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 (04 May 2021 & 01 June 2021)

The minutes of the 04 May 2021 and 01 June 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: C Williams (CW) provided an overview of the 'Action updates' presentation covering outstanding actions 0701, 0401, 0402 and 0501.

In providing an overview of the '0107 – The relationship between the SO/TO and TS/Non TS revenue services' slide 4, CW made reference to the accompanying 'Understanding Revenue mapping and relationship between the UNC and the Licence for the purposes of Gas Transportation Charges' document, during which attention (and discussion) focused mainly on page 3 of the document, with the following key points being noted:

- National Grid consider this to be a 'live' document which is subject to possible further development / refinement;
- N Sisman suggested that in his opinion the concepts underlying the document could be made clearer; he suggested pages 1 and 2 relate to Allowed Revenue calculation, whilst page 3 is related to revenue recovery – CW agreed to amend accordingly;
- As far as the orange boxed items (Non-Obligated Entry Capacity and Entry overruns) are concerned, these adopt a net position of zero in terms of revenue recovery;
 - When asked how this could be possible in light of entry and exit points being treated the same, CW responded by pointing out that 'neutrality' was not part of the TAR considerations (historically it has been interlinked with cost constraint elements), although initially exit neutrality was considered, it was not then developed further than the initial consideration level;
 - National Grid remains of the opinion that the topic is broader in range than simply any charging related discussion;
 - When asked to provide a potential Ofgem view on TAR Compliance aspects, A Satti (AS) responded by reminding those present that UNC Modification 0748 had previously highlighted concerns in this area, although Ofgem are of the opinion that there would be potential benefit in undertaking further consideration of the matter. At this point in time Ofgem were unable to provide a view in the abstract, AS noted that the matter will be discussed later in the meeting;
 - In noting that the issues relating to TAR Compliance are more of an Ofgem consideration, concerns were voiced around whether the existing (post 0748) regime remains a viable one, especially as it appears that there are differing entry and exit overrun approaches which could potentially lead to cross subsidy related issues. In summary, some parties questioned whether the current rules 'are fit for purpose';
 - When asked whether National Grid proposed to raise a new UNC Modification to look to address the potential cross subsidy related concerns, CW responded by explaining that the Transmission Charges have a more prescriptive definition than the Non-Transmission charges and that National Grid would be more than happy to keep this 'topic' open for further discussion (alongside other important topic areas) going forward;
- CW advised that he would look to expand the exit capacity overruns aspects of the diagram in order to provide more clarity;

- When asked, CW confirmed that TO Recovered Revenue goes against TO & SO Allowed Revenue. Additional clarification will be provided in a future iteration of the document,
- Responding to a point raised in relation to the expectation that the arrows (on the centre stack) should flow both ways in order to better highlight the potential financial values involved, CW accepted the point whilst also explaining that the directional arrows currently highlight / reflect licence mapping aspects as well, and
- NS noted that there was an outstanding problem with capacity neutrality that has persisted for 19 years. Specifically, he noted that the treatment of non-obligated entry capacity revenues via neutrality could generate a suggestion that users might be “paying twice” for capacity. CW agreed that an explanation of the cashflows associated with all elements in the page 3 diagram would be explained in the next version of the “live” document.

In recognition of the above, it was agreed to carry forward the action. **Carried Forward**

0401: National Grid (CW) to consider the definition of TS-Related NTS System Operation Revenue within UNC TPD Section Y paragraph 1.5.1 (d) and whether it could be better defined.

Update: When asked whether National Grid is considering raising a new UNC (House Keeping) Modification to address the definition related issue, CW responded by suggesting their preference would be to ensure that the matter is added to an industry issues list in order that the forum participants can continue to consider the matter going forward, perhaps with the two categories: ‘need to have now ’ and a ‘need soon’ approach, although this would / should not preclude the raising of a UNC Modification at some point in the future.

In recognition of the above, it was agreed to carry forward the action. **Carried Forward**

When asked, EF agreed to ensure that a new industry issues tracking table is created in support of a new agenda sub item under current heading 3 covering issues.

New Action 0701: *Reference Industry Issue Tracking* – Joint Office (EF) to look to create and populate a new industry issue tracking list in support of a new agenda sub item under current heading 3 covering issues.

0402: National Grid (CW) to provide an explanation of what the gas System Operator does and what it receives revenue for.

Update: In considering the ‘*Entry Overruns*’ and ‘*Non-Obligated Entry Capacity*’ table details within the presentation pack, J Cox (JCx) observed that whilst recognising that this matter had been discussed earlier in the meeting, the information provided does highlight price control relationships, especially the potential entry / exit differences that remain a concern to the industry.

When asked if the action could now be closed, JCx suggested, and parties present agreed, that the action could now be closed subject to the creation of the industry issues tracker going forward (*please refer to action 0701 going forward*). **Closed**

0403: Ofgem (TB) to provide an update on SO incentive performance.

Update: T Bourke (TBo) provided a brief overview of the ‘*Ofgem written responses to Action 0403 and Eni presentation*’ document at which point JCx enquired whether Ofgem would be able to provide a view on the matter of the forward looking time changes (i.e. the forward looking amendments to the capacity constraints). Responding, TBo suggested, and parties present agreed, that this matter could also be added to the new issues tracker listing going forward.

In recognition of the above, it was agreed to close the action. **Closed**

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

Update: In referring to the information provided within the presentation, JCx suggested that the information appears to be provided from a 'Networks' perspective and that perhaps it would be more beneficial if 'other' industry parties perspectives were also added, in order to provide a more balanced view. CW agreed to consider and provide an update at the 03 August meeting.

In recognition of the above, it was agreed to carry forward the action. **Carried Forward**

Transferred For Information Only Action 0761 0606: Point Definition: Joint Office to include this issue on the next NTSCMF agenda: Consider: The impact on the Forecasted Contracted Capacity (FCC) Methodology in the event that Proposal 0761 is directed for implementation. Any additional Storage discounts applied as a consequence of this change would impact the process to determine capacity Reserve Prices and may necessitate revision of the FCC Methodology – refer to material presented to Workgroup 0761 on 03 June 2021.

Update: When EF provided a brief overview behind the rationale for the action (which was closed at the 01 July 2021 Workgroup 0761 meeting), forum participants present duly noted the requirement.

In recognition of the above, it was agreed to close the action. **Closed**

1.4. Modifications with Ofgem

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:

[0729 - Applying a discount to the Revenue Recovery Charge at Storage Points](#)

Ofgem is considering this Modification, and the anticipated decision date is now circa 02/08/2021.

[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](#)

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.

Several Workgroup participants highlighted that a lack of a decision on some of these Modifications is causing uncertainty within the market.¹

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>

1.5. Pre-Modification discussions

None to consider.

2. Workgroups

2.1. 0765 - New retrospective debit and credit charges to reflect changes to the treatment of Entry Capacity Revenue between October and December 2020

(Report to Panel 21 October 2021)

<https://www.gasgovernance.co.uk/0765>

3. Issues

EF explained that inline with the suggested approach, a new agenda item would be added within this section for 'Industry Issues Tracker Update' and a new tracker listing created.

4. Forecasted Contracted Capacity (FCC)

4.1. FCC Methodology

CW explained that he did not have a specific update to provide at the meeting.

4.2. FCC Monitoring

CW provided an overview of the '*Revenue and Capacity Monitoring*' presentation before handing over to his National Grid colleague D Bayliss (DB) to provide an explanation on the information portrayed on the '*Entry Capacity & Revenue FY22 – May 2021*' and '*Exit Capacity & Revenue FY22 – May 2021*' slides.

Entry Capacity & Revenue FY22 – May 2021

DB explained that this new dashboard seeks to provide the reader with an appreciation of the National Grid Traffic Light monitoring mechanisms.

DB went on to explain that in terms of the '*Rpt Forecast for Oct 21 Change Setting*', the information is based upon the retrospective application of FCC forecasting data.

In terms of the bottom graph, the various column colours reflect differing price forecasts for Rpt purposes.

Exit Capacity & Revenue FY22 – May 2021

In considering the information provided, and specifically the Rpt (recast of FCC), JCx suggested that what is missing from the information provided is the assumptions for the RRC calculations and a view on both how matters are currently progressing and how it is envisaged matters would 'play out' until the end of September 2021. Responding, DB indicated that he would consider the points raised and look to provide an updated presentation at the 03 August 2021 NTSCMF meeting.

5. Long Term Revenue Forecasts

As discussed elsewhere in the meeting should anyone have any questions or queries please contact National Grid (CW) directly to discuss.

6. Any Other Business

6.1. National Grid Charging Open letter and further charging reforms

CW provided an overview of the '*National Grid Charging Open letter and further charging reforms*' presentation, during which he pointed out that whilst it is proposed to review how volatility manifests via the methodology, exit requirements would also be considered.

Focusing on the main areas of debate provides the following summary of the key areas of consideration:

Entry Capacity GY Oct 21 – Sep 22: Average Capacity Prices (p/kWh/d)

The two furthestmost columns on the right of the graph (*Existing Contract Average* and *Indicative Average Capacity Price*) comprise the comparison factors which display stark differences to the *Entry Capacity* column value of 0.0927.

Existing Contract (EC) and their 'influence' on reserve prices

When asked, DB confirmed that 'F_{RY}' in the statement *Revised FRY and Allowed revenue calculations taking into account changes above* refers to the definition contained within TPD Section Y paragraph 1.6.1 and is comprised of a winter / summer split (by month).

EC's and their 'influence' on Reserve Prices

When DB explained that as a consequence of the fact that the previous Impact Assessment predictions for new capacity had indicated a figure of circa 40% but the actual level is circa 29%, with the net result being prices are higher for customers, J Costa (JCo) enquired whether National Grid could provide a view on the revenue collected by month, as this is seen to have an influence on matters (i.e. a possible marginal impact on gas market prices etc.) – DB responded by confirming he would look to provide the information after the meeting.

S Hughes (SH) pointed out that he remains gravely concerned that this known issue continues to potentially impact upon consumers. Additionally, NS in making reference to the 'Baringa Report' highlighted the fact that the problem (i.e. 40 / 60 in new / Existing Contract quantity split in 2021/22) was expected to fall away quite quickly but in fact will persist at high levels for many years. NS indicated that Existing Contract quantities would only fall below 60% in 2025/26 – so the concerns noted in the Baringa report will be much greater and more persistent than had been envisaged. It was noted this remains a major concern to various industry participants. It was also suggested that previous customer concerns relating to the potential utilisation of incorrect underlying assumptions, which have led to this point, went largely unanswered. Responding, CW explained that it is hoped that the adoption of better forecasting mechanisms would allow the industry to better highlight how the existing contract 'take up' has been larger than expected.

EC Capacity and Revenues (Entry) 2021/22 – 2031/32

In providing a brief overview of the graph, DB suggested that this builds on the concerns that NS had previously outlined in respect of the existing contracts impacts being larger than anticipated and projected to persist over a longer time period than had been anticipated.

Charging Changes: Likely Change Areas

CW explained that in terms of the potential options noted within bullet point 1, these could likely flow through to be included within a new UNC Modification to be potentially raised in due course.

CW also observed that nothing on this slide would potentially impact upon the capacity neutrality issues / concerns discussed elsewhere in the meeting.

Charging Changes: Timings

An extensive debate around the proposed charging changes timings was undertaken, with numerous concerns being voiced by parties in attendance, as follows:

- In reference to what some parties believe is an extremely ambitious timetable, it was noted that UNC Modifications 0678 and 0728 were made more difficult due to a lack of clarity;
 - Parties believe that a view from Ofgem on what can and cannot be considered (i.e. RRCs out of scope and TAR Compliance aspects etc.) would be extremely beneficial;

- In responding to the point, A Satti (AS) made reference to Ofgem's open letter and promised to provide a link for inclusion within the minutes;²
- Ofgem recognises changes are needed to ensure stability and predictability within the market and welcomed National Grid's positive approach towards addressing these matters;
- In highlighting the previous 0728 Impact Assessment timescales, AS advised that Ofgem believed that undertaking a prioritisation review now in order to highlight short / medium term priorities would be an invaluable exercise;
- In noting that the current regime was 'inherited' on 01 October 2020 has issues, parties enquired whether the previous Ofgem Tariff Code determinations are essentially 'cast in stone' or would be subject to change?;
 - Responding, AS advised that Ofgem is of the opinion that it is not in a position to directly answer that challenge, as it does not believe that this would be consistent with its role as the 'decision maker'. However, as always, it would continue to support the industry in seeking resolution of the various issues and welcomed timely development of proposals supported by robust analysis and evidence;
 - Parties are asked to consider the options outlined within the Baringa Report;³
- It was acknowledged that as Modification 0728 was raised as an Urgent Modification there were NO Workgroup meetings involved;
- In thanking National Grid and Ofgem for their responses, P Dhesi (PD) suggested that timely reform is of paramount importance (i.e. by end of May 2022) and in order to better facilitate achievement of this target, he believed the following are required as a matter of urgency:
 - A National Grid view on what is, or is not achievable;
 - When asked, CW confirmed that National Grid would be looking to present some potential options for consideration at their forthcoming Webinar session on 21 July 2021 – a copy of the proposed presentation pack would be provided ahead of the meeting where possible;
 - Consideration and understanding of other European Countries' approaches;
 - Build upon the previous UNC Modification's foundations rather than simply throwing them away;
 - Care needed in the approach in order to avoid (wherever possible) the perceived need for the raising of Alternative Modifications;
- Some parties remain concerned that any solution would potentially favour National Grid and not the industry as a whole;
- Parties are also concerned that the complex and potentially messy nature of this area does not 'naturally' lend itself to fit in well with UNC Urgency procedures, especially bearing in mind that the commercial nature of this matter could invoke / result in multiple Alternative Modifications being raised;

² A copy of the Ofgem document can be found at: <https://www.ofgem.gov.uk/publications/response-national-grid-gas-statement-future-gas-transmission-charging>

³ A copy of the Baringa Analytical Report can be found on the Joint Office web site at: <https://www.gasgovernance.co.uk/0621>

- Some parties suggest that there would be benefit in National Grid considering what it could do immediately (from an internal perspective in the first instance) in order to reduce sensitivity impacts in the market;
- JCx suggested that for a subject that was entirely predictable based on previous discussions and decisions, care is needed when trying to rush through any changes and thereby simply adding to the growing list of problems.

Next Steps

CW explained that National Grid would be considering what mechanisms could be utilised to feed information back to the NTSCMF discussions going forward and that the hope is that there would be some Pre-Modification discussion areas to consider at the 03 August 2021 meeting.

JCx observed that as an Ofgem Impact Assessment may well be needed, the proposed timescales would be extremely challenging. Acknowledging the point, AS suggested that the sooner any potential solutions are presented, the clearer the path to addressing the issue would be – it should be noted, that as the ultimate ‘decision maker’, Ofgem is not in a position to dictate what is the correct path to follow.

Recognising AS’s point, JCx indicated that she remains convinced that a wider indication on what is achievable (or not) in terms of any potential solutions from Ofgem would potentially avoid undue delays and blind alleys – this must surely be a benefit to the whole industry.

In questioning what ‘the industry’ are looking to achieve on this matter (in terms of consumer benefits etc.), JCo suggested that a view on the pro’s and con’s of any potential solution would be extremely beneficial, as would a view on any Relevant Objectives.

In respect of the forthcoming National Grid Webinar, some parties believe an element of ‘reverse engineering’ to establish a good starting point might prove beneficial and that avoiding Panel arguments related to respective commercial positions / standpoints would also be beneficial. Additionally, a clear view on potential outcomes should enable the industry to focus on what is realistically achievable.

When L Jauss (LJ) suggested that in referring to a desire to have market predictability, adopting extremely challenging timescales appears counter-productive, R Fairholme (RF) reminded everyone present that this is an extremely complex subject with impact upon wholesale pricing which is why he believes that a pro’s and con’s exercise would be beneficial.

When EF noted that a wider industry perspective would be required, R Hailes (RH) enquired as to how best to engage with, and include the views of, other parties who may not be able to raise a UNC Modification should be approached – this should be considered as a matter of urgency.

Looking to conclude the discussions, C Logue (CL) advised that National Grid recognises and welcomes the feedback being provided. It also appreciates that Ofgem may also need to consider streamlining their decision-making processes (inc. Impact Assessment). To this end, a view from Ofgem would be welcomed and the industry can also help with the process as a whole, in providing clear and concise information.

AS said that the decision-making processes (inc. impact assessments) may be assisted by the provision of evidence and analysis from industry and stakeholders throughout the modification development process, including evidence and analysis on the impacts of the proposals.

CW acknowledged that a timeline for any potential solutions would also be beneficial before advising that the Webinar is scheduled to start at circa 13:00 on 21 July 2021.

6.2. Eni Global Energy Markets SpA – Clarification on how Capacity Constraint Management incentive works

N Wye (NW) on behalf of Eni provided a brief overview of the ‘*Eni Global Markets SpA – Clarification on how Capacity Constraint Management incentives works*’ presentation, during

which he acknowledged that the ongoing statutory consultation in relation to the adjustment of the last year of RIIO-T1's CCM Incentive outcome addressed some of the questions posed by Eni.

Moving on, NW provided a brief explanation behind the rationale for the rest of Eni's questions although he is not proposing a line-by-line review of the presentation.

At this point, TBo provided a brief resume of the Ofgem responses during which NW requested a broader Ofgem view on how they envisage it flowing through, especially in terms of what monies are involved, where they potentially go and what any potential impacts might result. TBo went on to advise that he would look to discuss the matter with his RIIO-2 Ofgem colleagues and provide a response at the 03 August 2021 meeting.

Concluding discussions, NW pointed out that he recognises that this matter might need to wait until the wider charging regime changes are considered in more detail.

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 03 August 2021	Via Microsoft Teams	Standard Workgroup Agenda
10:00 Tuesday 07 September 2021	Via Microsoft Teams	Standard Workgroup Agenda
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 06 July 2021)

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
0107	05/01/21	5.0	National Grid (CW <i>i</i>) to provide documented explanation and diagrams detailing the relationship between the SO /TO and TS/nonTS revenue services.	National Grid (CW <i>i</i>)	Carried Forward
0401	12/04/2021	1.3	National Grid (CW <i>i</i>) to consider the definition of TS-Related NTS System Operation Revenue within UNC TPD Section Y paragraph 1.5.1 (d) whether it could be better defined.	National Grid (CW <i>i</i>)	Carried Forward
0402	12/04/2021	1.3	National Grid (CW <i>i</i>) to provide an explanation of what the gas SO does and what it receives revenue for.	National Grid (CW <i>i</i>)	Update provided. Closed
0403	12/04/2021	1.3	Ofgem (TB) to provide an update on SO incentive performance.	Ofgem (TBo)	Update provided. Closed
0501	04/05/2021	1.3	National Grid (CW <i>i</i>) to provide detailed explanation of (mis)alignment between Code and Licence including GAP analysis	National Grid (CW <i>i</i>)	Carried Forward
Transferred For Information Only 0761 0606	03/06/2021	3.1	Point Definition: Joint Office to include this issue on the next NTSCMF agenda: Consider: The impact on the Forecasted Contracted Capacity (FCC) Methodology in the event that Proposal 0761 is directed for implementation. Any additional Storage discounts applied as a consequence of this change would impact the process to determine capacity Reserve Prices and may necessitate revision of the FCC Methodology – refer to material presented to Workgroup 0761 on 03 June 2021.	Workgroup	Update provided. Closed
0701	06/07/2021	1.3	<i>Reference Industry Issue Tracking</i> – Joint Office (EF) to look to create and populate a new industry issue	Joint Office (EF)	Pending

			tracking list in support of a new agenda sub item under current heading 3 covering issues		
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