

NTS Charging Methodology Forum (NTSCMF) Minutes
Tuesday 07 March 2023
via Microsoft Teams

Attendees		
Eric Fowler (Chair)	(EF)	Joint Office
Helen Bennet (Secretary)	(HB)	Joint Office
Alex Nield	(AN)	Storengy
Ashley Adams	(AA)	National Gas Transmission
Anna Shrigley	(ASh)	ENI
Anna Stankiewicz	(ASt)	National Gas Transmission
Brian McGlinchey	(BM)	Vermilion Energy
Carlos Aguirre	(CA)	Pavilion Energy
Christiane Sykes	(CS)	Shell International Trading and Shipping Company Limited
Chris Wright	(CW _r)	Exxon Mobil
Claire Proctor	(CP)	Petronas
Colin Williams	(CW _i)	National Gas Transmission
Dan Hisgett	(DH _i)	National Gas Transmission
David A Bayliss	(DAB)	National Gas Transmission
Jeff Chandler	(JCh)	SSE
Joseph Glews	(JG)	Ofgem
Julie Cox	(JC _x)	Energy UK
Kirsty Appleby	(KA)	National Gas Transmission
Lauren Jauss	(LJ)	RWE
Marion Joste	(MJ)	ENI
Mariachiara Zennaro	(MZ)	Centrica
Nick Wye	(NW)	Waters Wye Associates
Nigel Sisman	(NS)	Sisman Energy Consultancy
Oliver Weston	(OW)	Ofgem
Oreoluwa Ogundipe	(OO)	Interconnector
Richard Fairholme	(RF)	Uniper
Ritchard Hewitt	(RHe)	Hewitt Home and Energy
Terry Burke	(TB)	Equinor

Copies of all papers are available at: www.gasgovernance.co.uk/NTSCMF/070323

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.

Please note these minutes do not replicate/include detailed content provided within the presentation slides, therefore it is recommended that the published presentation material is reviewed in conjunction with these minutes. Copies of all papers are available at: www.gasgovernance.co.uk/NTSCMF/070323

1. Introduction and Status Review

Eric Fowler (EF) welcomed everyone to the meeting.

1.1. Approval of Minutes (07 February 2023)

The minutes from the previous meeting were then approved.

1.2. Approval of Late Papers

EF noted the monthly agreed late paper from National Gas Transmission for Capacity and Revenue Monitoring was published on 06 March 2023.

CWi apologised for the late submission of the action update.

1.3. Review of Outstanding Actions

Action 1001: National Gas Transmission (CWi) to provide an explanation on the treatment of non-obligated capacity and overruns for January 2023.

Update: Colin Williams (CWi) provided a presentation which covered:

- Revenue treatment and charge setting – Non-Obligated Capacity
- Requirements for treatment / charge setting – Non-Obligated Capacity & Overruns
- Materiality – Non-Obligated Capacity
- Materiality – Overruns
- Revenue collection, Licence, charging & Reconciling
- Charge Setting & Reconciliations across years
- Reflections for discussion

CWi explained that his intention is to provide an understanding of the difference of how Entry and Exit is treated and summarised:

- Non-Obligated Exit Capacity revenues contribute towards the System Operator (SO) Revenue Recovery.
- Exit has no neutrality process; the revenues remain contributing to revenue collection.
- Entry is part of Capacity Neutrality – returned in the same month.
- Non-Obligated Entry and Exit Capacity also forms one element of the Constraint Management Incentive that adjusts the allowed revenues. Forecast for this is included into the Price Control Financial Model (PCFM) and therefore charges. Any reconciliation against actuals, adjusts the next year.
- Any recovery different to forecast for Non-Obligated Exit Capacity adjusts the SO Revenues accordingly in next year. Therefore, the position (diff to actual for t-1) adjusts the Non-Transmission Charges, notably the General Non-Transmission Charges for the next year.

The presentation provides a link to the Revenue Mapping document which readers may find helpful:

<https://www.gasgovernance.co.uk/sites/default/files/ggf/2021-12/Determination%20of%20Target%20Revenues%20and%20Recovery%20v0.2.pdf>

Requirements for treatment / charge setting – Non-Obligated Capacity & Overruns (Slide 4)

CWi explained that Non-Obligated Capacity is defined as a SO activity which is why it contributes towards the SO revenue recovery.

CWi clarified that there are no projections made for Overruns during the charge setting process.

Materiality – Non-Obligated Capacity (Slide 5)

CWi showed the forecast in October 2022 Charge Setting against Actuals from October 2022 to December 2022.

Materiality – Overruns (Slide 6)

CWi showed a summary of the actual Exit and Entry Overruns values from April 2022 to November 2022, in total this amounted to £26,496,865 but emphasised that just a few instances have made this value disproportionately high.

Again, CWi confirmed that there is no assumption made for either entry or exit overruns.

Charge Setting and Reconciliation across years (Slides 8-11)

This set of slides show a summary of the treatment under charge setting, how revenue recovery is treated and how reconciliations of recovery to target adjust charges and when.

Reflections for Discussion (Slide 12)

To bring the presentation to an end, CWi referenced some reflections to aid Workgroup discussions:

- Given this material, what are Stakeholder views under Action 1003?
- Non-Obligated Capacity – main difference is that Entry is not part of revenue collection whereas Exit is.
- Overruns – main difference is that Entry is neutral for revenue impact and Exit contributes towards revenue collection, if there are any Exit overruns.
- Historically for both Non-Obligated Capacity and Overruns, levels of revenues referred to have been very low. Under the new methodology values are higher by virtue of reserve prices being higher.
- General Non-Transmission Services charging – single rate for Entry and Exit. Reconciliations impact across Entry and Exit irrespective of how driven.
- The current structure has been in place for some time for Non-Obligated Capacity and overruns. One question on the action has been to question degrees of ‘cross-subsidy’. It is worth noting that there has always been a degree of one charge impacting another.

Workgroup Discussion:

Julie Cox (JCx) thanked CWi for the level of detail which she found useful. The presentation confirmed there is different treatment for Exit and Entry and wondered why it was set up in that way in the first place and is it still appropriate?

JCx second point was an issue with the cross over between Transmission Services and SO Revenue, and is that compliant, she noted that Non-obligated capacity is Transmission Services and is re-assigned to SO Revenue in some places.

JCx also questioned why have neutrality at all, on Entry and not Exit?

Nick Wye (NW) advised he can remember why the arrangement was put in place for Entry, this is due to the limited number of Entry Points, and it was thought that that a more timely return of revenues to those contributing to overruns should be made among that small number of parties. The higher number of Exit Points meant the effect is more dilute and there was not such a need to redistribute quickly using a complex neutrality mechanism.

Jeff Chandler (JCh) raised his concern regarding compliance with Code and that if this is not compliant, what needs to be done to make it compliant, which may require a Licence change?

CWi noted he is mindful that the National Gas Licence has a TO and SO activity. The TAR Code requires Transmission Services and Non-Transmission Services, and it is not as simple or literal to say that TO activity shall correlate to Transmissions Services activity.

CWi noted that Modification 0678 (Urgent) - Amendments to Gas Transmission Charging Regime was considered to be compliant. CWi suggested that Ofgem would be the most appropriate party to provide a view.

Joseph Glews (JG) advised that compliance questions are complex and Ofgem are not drawn to provide their position without giving it some significant consideration.

NW commented that overruns for exit are strange because on entry the revenue goes through capacity neutrality whereas for exit it goes back through an adjustment to a commodity charge.

JCx agreed with NW comments that the different treatment with no obvious justification does not seem right. JCx advised that compliance has been on the Issue Tracker for a long time. There was no review of the whole UNC and Licence framework when TAR NC was introduced and is impossible for anyone to fully understand.

Nigel Sisman (NS) commented that it seems that everyone is struggling with this and it is easy to say something is just non-compliant in vague terms, but the complexity is so challenging, it is difficult for anyone to understand.

It was commented that the revenue received from non-obligated Exit Capacity should contribute to National Gas revenue. Currently non-obligated Entry Capacity revenue does not contribute to its allowed revenue. This is strange because it appears that it is included in neutrality and thus what is capacity neutrality really trying to do? The recollection was that neutrality arose in balancing as the agent (and shippers) needed to be protected in cases where actual varied from forecast.

A Workgroup participant noted that if revenue from interconnector capacity is what is creating this over-recovery of revenue, then if it is returned back to shippers, this does not make sense, rather than feeding revenue into the Transmission Services pot.

When asked, Dave Bayliss (DAB) confirmed that non-obligated capacity is firm capacity and not interruptible and the majority of capacity that is sold at Bacton is firm capacity. He also confirmed that revenue from interruptible capacity feeds into the TO allowance.

NW agreed that it is overly complicated and that invoices can be hard to understand. He asked if there is an easy fix. Workgroup discussed how many parties are comfortable with the treatment on Exit with the excess revenue flowing to the following year, but the overruns and non-obligated capacity on Entry is more complicated and the revenue appears to disappear into a 'black hole'. NW suggested that exit capacity might be criticised as the excess revenue reappears in a different year and in a commodity charge adjustment NW suggested that entry and exit should be treated the same with a capacity based redistribution. JCx agreed there should be more consistency across entry and exit. '

ASh reminded Workgroup of the penalty being 300% of the highest clearing capacity price on Entry and asked National Gas to consider whether the first 100% should be fed into the TO revenue because it is revenue lost to TO which is not forecasted but would be in line with expected flows. The remaining 200% component of the overrun should then be dealt with through neutrality.

Making one final point, NS reminded workgroup that Transco was given an incentive to release extra capacity on entry and the incremental revenue is shared with shippers. NS reminded participants of the discussions that led to the changes made within the UNC. However, the incentive was later put into the Licence and removed from the UNC. Maybe it would be appropriate for the Licence only to define the treatment of cashflows and to remove this completely from the UNC.

It was commented that if a similar approach was taken to non-obligated Entry Capacity as the spurious cash flows in *Modification 0748 (Urgent): Prospective Removal of Entry Capacity Revenue from Capacity Neutrality Arrangements*, what do National Gas think is that a better way?

[0748 \(Urgent\) - Prospective Removal of Entry Capacity Revenue from Capacity Neutrality Arrangements | Joint Office of Gas Transporters \(gasgovernance.co.uk\)](#)

The purpose of the Modification is to remove capacity revenues recovered from daily interruptible and within day Entry Capacity from Capacity Neutrality arrangements prospectively from the implementation date. Following implementation of UNC Modification 0678A on 01 October 2020, inappropriately high cashflows are subject to the Capacity Neutrality Arrangements (c. £0.5m per day). This Proposal seeks to remove Relevant Capacity Revenues from Capacity Neutrality so that these cashflows contribute to recovery of Allowed Revenues rather than being subject to redistribution across Entry Users.

Next steps

Further explore compliance and for Workgroup to identify any compliance issues.

Action 1001 Closed

Action 0201: Result of Closed Action 0104 - National Gas Transmission DAB to update the 3 scenarios, to include the most up to date actual data. (Note: this will not be indicative prices for next year and does not include revised FCC's).

Update: Deferred to April 2023. However, part of this action update is included in the slides being presented against agenda item 4. **Carried Forward**

1.4. Industry Update from Ofgem

EF referred Workgroup to the most recently published Expected publication dates timetable and confirmed the publication date of 10 February 2023. <https://www.ofgem.gov.uk/publications/code-modificationmodification-proposals-ofgem-decision-expected-publication-dates-timetable>.

Oliver Weston (OW) provided an update for *Modification 0814 (Urgent) - Temporary Access to the Enhanced Pressure Service and Increase to the Maximum NTS Exit Point Offtake Rate of the BBL interconnector* and advised the Ofgem decision to approve this Modification has now been published.

1.5. Pre-Modification discussions

No pre-Modification discussions.

2. Workgroups

There are currently no Modification Workgroups associated with NTSCMF.

3. Issues

3.1. Industry Issues Tracker Update

EF referred Workgroup to the published Industry Issues Tracker and invited Workgroup to review the updates made from the last meeting held in February 2023.

The NTSCMF Issues Tracker can be found here: <https://www.gasgovernance.co.uk/ntscmf>.

4. Forecasted Contracted Capacity (FCC)

4.1. FCC Methodology

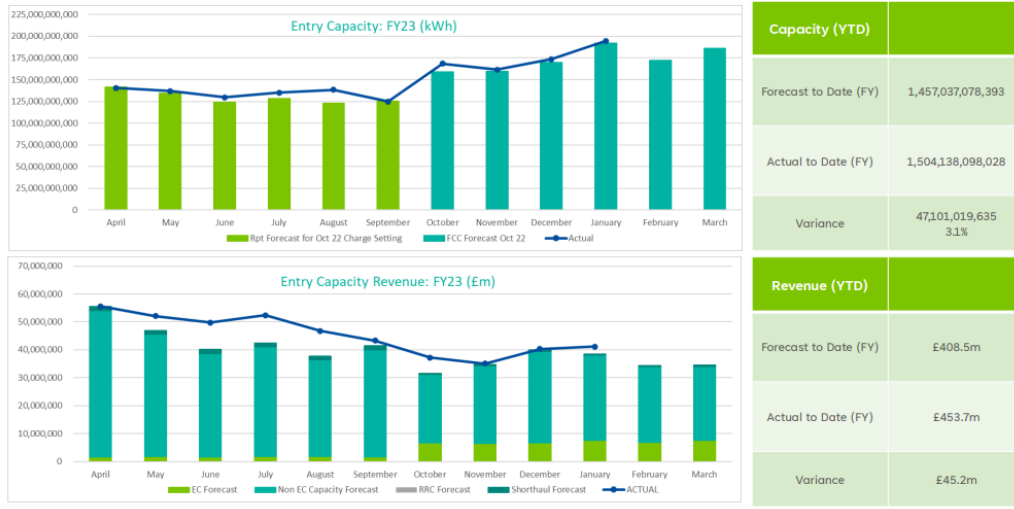
Not covered.

4.2. FCC Monitoring

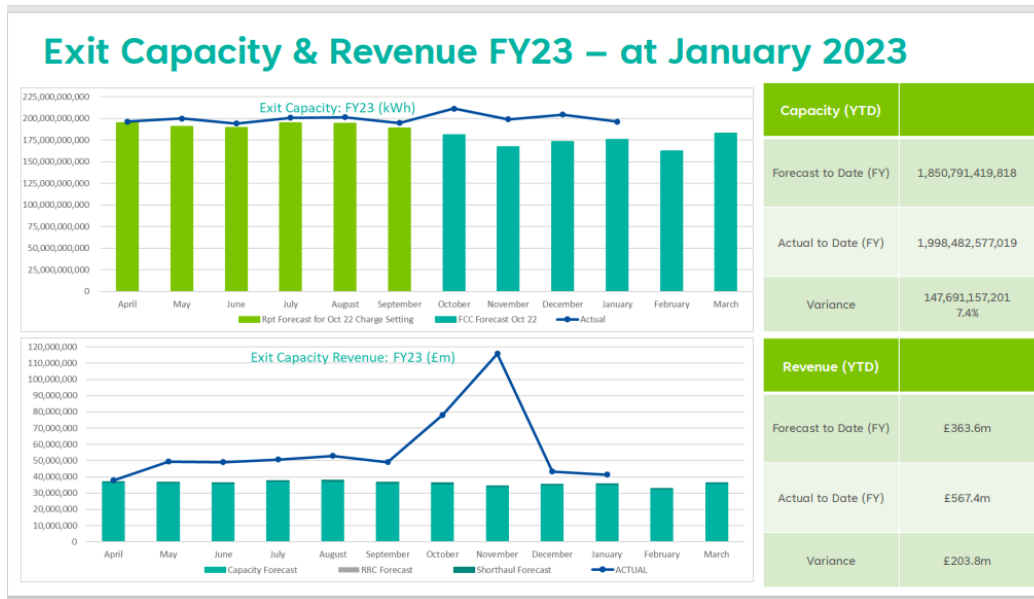
David Baylis (DB) provided an overview summary of the Capacity and Revenue FY23 as detailed below:

Entry Capacity & Revenue FY23 - Slide 2

Entry Capacity & Revenue FY23 – at January 2023



Exit Capacity & Revenue FY23 - Slide 3



General Non-Transmission & St Fergus Compression Revenue FY23 - Slide 4

DAB explained this graph shows Actuals against Forecast and compares the forecast against what has been collected. The result shows less was collected than was forecast which is mainly attributable to additional flows at Bacton and January being a lot milder than previous years which meant a significant reduction in LDZ demand resulting in an under collection in the month.

Oreoluwa Ogundipe (OO) if there is any scope for publication of the non-transmission charges to be published in May as opposed to waiting until July.

DAB clarified this is not something that National Gas are looking at doing because the Charging Team are dependent on information from DNs and the Future Energy Scenarios (FES) team. He explained that the FCC Methodology is used and then a normalisation process based on the FES forecast plus any intelligence.

5. Long Term Revenue Forecasts

CWi noted this was a 'rolling agenda item' and that there was no update this month.

6. Any Other Business

6.1. St Fergus Compression Update

When asked, Daniel Hisgett (DHi) advised there is no update to provide.

6.2. Charging Discussion Document Update

Mariachiara Zennaro (MZ) requested an update on when the final consultation document will be published.

DHi advised, following a lot of very good feedback, revisions are being made to the document. It is envisaged that the final consultation document will be issued soon and will have a lengthy consultation.

7. Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/events-calendar/month

Time / Date	Paper Publication Deadline	Venue	Workgroup Programme
10:00 Tuesday 04 April 2032	5pm Monday 27 March 2023	Via Microsoft Teams	Standard Workgroup Agenda
10:00 Tuesday 02 May 2023	5pm Monday 24 March 2023	Via Microsoft Teams	Standard Workgroup Agenda
10:00 Tuesday 06 June 2023	5pm Monday 30 May 2023	Via Microsoft Teams	Standard Workgroup Agenda
10:00 Tuesday 04 July 2023	5pm Monday 26 June 2023	Via Microsoft Teams	Standard Workgroup Agenda
10:00 Tuesday 01 August 2023	5pm Monday 24 July 2023	Via Microsoft Teams	Standard Workgroup Agenda
10:00 Tuesday 05 September 2023	5pm Monday 28 August 2023	Via Microsoft Teams	Standard Workgroup Agenda
10:00 Tuesday 03 October 2023	5pm Monday 25 September 2023	Via Microsoft Teams	Standard Workgroup Agenda
10:00 Tuesday 07 November 2023	5pm Monday 30 October 2023	Via Microsoft Teams	Standard Workgroup Agenda
10:00 Tuesday 05 December 2023	5pm Monday 27 November 2023	Via Microsoft Teams	Standard Workgroup Agenda

Action Table (as of 07 February 2023)

Action Ref	Meeting Date(s)	Minute Ref	Action	Reporting Month	Owner	Status Update
1001	04/10/22	1.3	National Gas Transmission (CW) to provide an explanation on the treatment of non-obligation capacity and overruns for January 2023.	February 2023	National Gas Transmission (CW)	Closed
0201	07/02/23	1.3	Result of Closed Action 0104 National Gas Transmission (DAB) to update the 3 scenarios, to include the most up to date actual data. <i>(Note: this will not be indicative prices for next year and does not include revised FCC's).</i>	March 2023 April 2023	National Gas Transmission (DAB)	Carried Forward