

NTS Charging Methodology Forum (NTSCMF) Minutes
Tuesday 07 December 2021
via Microsoft Teams

Attendees		
Eric Fowler (Chair)	(EF)	Joint Office
Helen Bennett (Secretary)	(HB)	Joint Office
Adam Bates	(AB)	South Hook
Alsarif Satti	(AS)	Ofgem
Andrew Pearce	(AP)	BP
Anna Shrigley	(ASh)	ENI
Colin Williams	(CWi)	National Grid
Daniel Hisgett	(DHl)	National Grid
Daniel Wilkinson	(DW)	EDF Energy
Debra Hawkin	(DHa)	TPA Solutions
Hannah Reddy	(HR)	Correla
Henk Kreuze	(HK)	Vermilion Energy
Jeff Chandler	(JCh)	SSE
Joseph Glews	(JG)	Ofgem
Julie Cox	(JCx)	Energy UK
Kamla Rhodes	(KR)	Conoco Phillips
Kieran McGoldrick	(KM)	National Grid
Laura Johnson	(LJo)	National Grid
Lauren Jauss	(LJa)	RWE
Marion Joste	(MJ)	ENI
Nigel Sisman	(NS)	Sisman Energy Consulting
Oliver Weston	(OW)	Ofgem
Pavanjit Dhesi	(PD)	Interconnector
Phil Lucas	(PL)	National Grid
Richard Fairholme	(RF)	Uniper
Ritchard Hewitt	(RHe)	BBL

Copies of all papers are available at: <https://www.gasgovernance.co.uk/ntscmf/071221>

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 (02 November 2021)

EF explained there had been some minor amendments which he showed on screen and Henk Kreuze (HK) requested a further small amendment.

The minutes were subsequently approved pending the amendment request.

1.2. Approval of Late Papers

EF highlighted the late papers that had been provided for the meeting.

RHe commented that most papers seem to be arriving late which makes it difficult to find out the views of various constituencies at such short notice, he asked for papers to be submitted earlier if at all possible.

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 (CWi) provided an update to the Revenue Relationships diagram on page 3 of the paper submitted for this action (Understanding Revenue mapping between the UNC and the Licence for the purposes of Gas Transportation Charges) and explained that dotted lines, annotated as numbers 1, 2 & 3, and additional commentary have been added to explain how revenue treatment is made and how they do or do not link Transmission or Non-Transmission recovered revenues and to TO or SO recovered revenues.

Nigel Sisman (NS) noted that non-obligated entry capacity revenues map to Transmission Services Recovered Revenue but not to SO Recovered Revenue because, for the latter, arrows go in both directions because of the dual cashflows associated with capacity neutrality. He enquired if this suggested something is wrong and might warrant attention.”

Workgroup noted that this may be able to be considered as part of current issue CMF003, and agreed it may need annotating more clearly in order to identify what the real problem statement is:

Issue Ref.	Issue Title	Status Summary
CMF003	Differences in treatment for entry and exit regimes	Concern about potential cross subsidy between consumer groups - e.g. in considering the Entry and Exit Overruns and 'Non-Obligated Entry Capacity', the information provided by National Grid at the July CMF does highlight price control relationships, especially the potential entry / exit differences. National Grid tracking issues of overruns and non-obligated capacity may provide a guide on materiality of different elements.

Anna Shrigley (ASh) highlighted that the Neutrality Arrangements in respect of the Entry Overrun seem to be very strange because under the current arrangements no money from the capacity overruns feed to the Transmission Services Revenue. For example, the value of Entry Overruns for the last year was £3.8 million but nothing was paid towards the actual cost of providing the relevant entry capacity. She suggested it may be better to change the current arrangements so that at least a third (to cover the actual capacity cost) of the value of Entry Overruns is diverted to Transmission Services Revenue.

NS noted that the non-obligated entry capacity and entry overrun issues within capacity neutrality probably amount to more than £10m per annum currently. Whilst he indicated this might be considered only a modest problem in comparison with other current issues, he enquired whether a clearer statement of the problem should be developed, and an agreement reached as to when the underlying issue might be addressed given that a review

of capacity neutrality had been suggested during the development of UNC0748 which had addressed only the most urgent aspects of the capacity neutrality issue.

In conclusion, CWi agreed this is a very complicated area and, to aid understanding, he will try to make it as visual as possible.

Action 0107 Carried Forward

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

Update: CWi advised this item is now on the Issues Tracker as a future topic to be discussed CMF002:

CMF002	TAR NC compliance	Discussion at July CMF whether the drafting of the UNC and the National Grid Licence (for example detail in Allowed Revenue and Revenue Recovery mechanisms and definitions) are sufficiently aligned to provided transparency that compliance with TAR NC is achieved. Review of the final mod reports for 0678, 0621 may assist understanding the analysis undertaken by Ofgem in coming to the decisions.
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It was suggested the action is closed and discussions are undertaken as part of a dedicated session to cover CMF002.

Action 0901 Closed

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

Update: CWi provided an update on the action from a presentation that was not published on the meeting page, this has since been published.

General Non-Transmission Services Charges view on October 2022 - Slide 1

CWi explained the Annual Iteration Process (AIP) sits within the Licence, Ofgem run the process which in turn produces the revenues for the following year.

CWi advised the AIP process has been run and the output values for revenues for April 2022 and subsequent years under the RII02 prices control have been generated.

He explained that the following indicative number, that is shown on Slide 3 of his presentation, is based on the values for SO Revenues, turned into Non-Transmission Revenues as normal and focuses on October 2022 and next steps regarding its level.

CWi explained the impact, on the regulatory year the Industry is currently in, the early indication is that this price will continue, certainly into next year. The number that results from the calculation is an indicative number, given the size will need mitigation.

General Non-Transmission Services Charges –indicative view on October 2022 - Slide 3

CWi explained the table shown on this slide shows the indicative view of October 2022 using the latest Price Control Financial Model (PCFM) outputs and this was the earliest opportunity to share the potential impact on Non-Transmission Charges using this publication of revenues from the Ofgem PCFM process.

CWi went on to clarify that National Grid are currently looking at options to potentially mitigate any significant increase. National Grid recognises this is an unusual situation in terms of the trigger, but highlighted the values are indicative, he advised the rates that will be applied from October 2022 and will be published at end of July 2022. CWi highlighted that National Grid are looking at steps to take now to see what can be done to help mitigate those indicative prices.

JCx requested that any Modifications that may be required in order to mitigate the impact, to please be raised as a draft Modification and submit it to the NTSCMF Workgroup for discussion in order to avoid it being raised as an Urgent Modification. CWi agreed that would be the intention.

When Lauren Jauss (LJa) highlighted, that the material being presented was not published. Workgroup noted that the information being presented is commercially sensitive information and needs to be published as soon as possible.

Workgroup raised concerns that commercially sensitive information is being discussed at Workgroup before it is in the public domain.

When Jeff Chandler (JCh) sought clarification that the SO Commodity Charge will increase to almost a penny a therm if no action is taken, CWi clarified the rate was indicative and the value of 0.0362 is an estimate on the outputs of the PCFM as mentioned and any Non-Transmission charges is applicable to Entry or Exit flows.

At the request of Workgroup, a break to the meeting was called for in order for Joint Office to publish the material being discussed.

CW confirmed he will use this forum to update on progress and take on board comments on timing (for any future such indicative changes to prices) and sensitivity of information and reminded this was the earliest opportunity to share such indicative impacts.

Action 0110 Carried Forward

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

Update: CWi provided an update as requested:

- *For any Bad Debt there are process associated for recovery under RIIO2*
- *Transportation Charges: Any bad debts can be recovered via adjustments to allowed revenues which in turn would be recovered through Transportation Charges. There are adjustment terms under both the TO and SO revenue determination for these.*
 - *Time wise, adjustments for these under the specific terms in the Licence, would only be updated in the Annual Iteration Process to produce the Allowed Revenues for a given year.*
 - *Once finally set for the Allowed Revenue Year, any further changes would adjust a subsequent year.*

When Nigel Sisman (NS) asked, in relation to balancing costs, if these are default costs, are they recovered via balancing neutrality, CWi confirmed the balancing costs are recovered via balancing neutrality.

CWi clarified that Balancing Costs are not reflected in his explanation because it is not a transportation charge. When Debra Hawkin (DH) asked, CWi clarified, in terms of any debt, the Balancing Costs are processed differently to the way costs pass through Transportation Charges.

Workgroup agreed more detail is required.

Action 1101 Carried Forward

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

Update: CWi provided an update which describes the publication timeline under the previous charging regime in comparison to the new revised publication timeline. (this can be seen on slide 12 and 13 of the presentation provided for the meeting).

CW highlighted it is too early to indicate that prices will need to change within year, and that National Grid will monitor this closely and will provide plenty of notice should that arise.

Action 1102 Closed

1.4. Modifications with Ofgem¹

Joseph Glews (JG) provided an update for *Modification 0765 - New retrospective debit and credit charges to reflect changes to the treatment of Entry Capacity Revenue between October and December 2020*, (this is not on the current published version of the Expected Publication Dates Timetable) and advised this is being considered, the end of January 2022 is the expected decision date.

JG advised a new updated version of the Expected Publication Dates Timetable will be published shortly where updates to the expected decision dates for *Modification 0687 - Creation of new charge to recover Last Resort Supply Payments* and *Modification 0696V - Addressing inequities between Capacity booking under the UNC and arrangements set out in relevant NExAs*, may be available.

1.5. Pre-Modification discussions

1.5.1. Revision to the determination of National Grid NTS Target Revenue for Transportation NTSCMF Charging

Referring to the material provided, CWi provided a brief overview of the proposal which included:

Overview – Slide 2

CWi highlighted the purpose of the proposal is to revise the method of the determination of National Grid NTS Allowed Revenue for a Gas under the NTS Transportation Charging Methodology (TPD Section Y Part A-I).

The purpose of this change is to achieve a greater degree of year-on-year stability in the pricing of Transmission Services Capacity and to reduce the volatility from current conditions not to remove it completely.

To keep the integrity of the process going through, the Transmission Services Entry Rebate mechanism would need to be removed.

Solution – Slide 3

CWi briefly explained the intended solution detailed on slides 3 & 4:

- *FRY is a measure that determines revenue proportions per the current Uniform Network Code (UNC).*
- *The method of determining the target Gas Year Revenue would need updating to cover the two revenue values, for the relevant period associated to the two Regulatory Years that a Gas Year bridges.*
- *The FRY that would be used to calculate the proportion of revenue associated to the Regulatory Year that starts in the Gas Year being priced that will be explored to determine any measure of materiality.*
- *Under / over recovery - follows the current process without specific treatment.*
 - *Therefore, pricing would be setting recovery expectation that could under or over recover relative to a Regulatory Year .*
- *In order to preserve would be removed the integrity of this approach, the Transmission Services Entry Rebate.*

Solution – Revenue Value Calculations – Slide 4

October to March Revenue Value:

¹ A copy of the expected publication dates timetable can be found at: <https://www.ofgem.gov.uk/publications-and-updates/code-modification-proposals-ofgem-decision-expected-publication-dates-timetable>

- *The value of the revenue for the Regulatory Year (RY) ending in the Gas Year (GY) being priced would be the difference between the allowed revenue and the expected recovery to the end of the September preceding the Gas Year.*

April to September Revenue Value:

- *The value of the revenue for the six-month period of the Regulatory Year starting in the Gas Year being priced would be the (1-FRY percentage mentioned above) multiplied by the most up to date revenue value available for the forecast Allowed Revenue for the Regulatory Year starting in the Gas Year being priced. This would be a Price Control Financial Model (PCFM) output.*
- *It is worth noting that this would benefit from being the most up to date value subject to re-publication criteria.*

The two revenue values for each six-month part of the Gas Year (mentioned in the bullet point above) are added together to determine the Gas Year Target Revenue for Transmission Services.

Next Steps – Slide 5

When CWi advised Workgroup that the Modification has been drafted, JCx expressed her dissatisfaction that if the Modification is ready for publication tomorrow why a draft has not been made available for this Workgroup to review it. CWi advised he wanted the opportunity to talk Workgroup through the basics of the solution.

Workgroup agreed that National Grid could have brought some of the issues forward for debate at this meeting and as a general governance issue, it seems that the NTSCMF meetings are regularly not seeing material in advance of the meeting.

CWi advised the aim of the Modification will be to submit the Final Modification Report to the March 2022 UNC Panel and a decision from Ofgem will be required if a change was to be effective from 01 October 2022.

Post meeting note:

New Modification 0796 - Revision to the Determination of National Grid NTS Target Revenue for Transportation Charging, has now been published and will be considered by UNC Panel on 16 December 2021.

2. Workgroups

No Workgroups to consider.

3. Issues

3.1. Industry Issues Tracker Update

EF introduced the latest version of the NTSCMF Issues Tracker which can be found here: <https://www.gasgovernance.co.uk/ntscmf/071221>.

LJo presented some slides that refer to topics to consider for future review which included the following, for a detailed view, please refer to the presentation material published on the meeting page:

Charging Reform: Further discussion topics for feedback - Slide 3

LJo provided an insight into an October 2023 topic that warrants adding to the Tracker which may or not be of benefit, but suggests it is added.

She advised it is worth keeping a watching brief on the impact of existing contracts within the overall methodology; Entry/Exit split and Seasonal charging.

Discussions & Development - Slide 4

LJo suggested setting a timetable of when topics can be discussed and highlighted this is a Forum Tracker for the Forum to discuss together.

Topics discussed to date - Slide 5

LJo explained, as part of the Gas Open Letter, National Grid stated that there were a number of topics that would be discussed in the future. To date the Forum have discussed the following topics:

Revenue

- The discussions on this has led to the development and submission of Modification 0790 (Urgent) - Introduction of a Transmission Services Entry Flow Charge.

Tariffs

- Changes to the way the Revenue is derived for a particular Gas Year, this was discussed as pre-Modification earlier today.

Future topics for discussion and prioritisation - Slide 6

LJo provided a list of suggested topics for discussion and prioritisation:

- Existing Contracts (EC's) and the interaction with other Charges. (LJo advised this links to Modification 0792 - Amendments to Cost Recovery under OAD).
- Forecasted Contracted Capacity (FCC) discussed earlier today as annual obligation to review methodology.
- Entry and Exit split.
- Interactions of the revenues between TO and TO (Licence) and Transmission Services and Non-Transmission Services (UNC).
- Seasonal Pricing or seasonal factors i.e. 6-monthly pricing, changes per season, multiplier changes, seasonal factor changes.
- Inefficient Bypass product

Workgroup feedback suggested the issue against these topics should be identified in the first instance, such as an issue that something is trying to solve, or people are trying to understand.

RHe noted there are two topics he sees as being worthy of future discussions: Entry and Exit split and Inefficient Bypass product.

Pav Dhesi (PD) advised he would advocate further discussions relating to Entry and Exit split.

EF made amendments to the Issues Tracker in order to add Issue **CMF006 – Entry and Exit split**.

Referring to signatories of the Uniform Network Code being able to add issues to the Issue Tracker, ASH expressed her concern that non- signatories to the UNC are being allowed to add topics for discussion to the Issues Tracker. EF confirmed that anyone can add an issue onto the Issues Tracker, anybody can propose issues for review but ultimately the Code Governance decides what needs to be modified.

PD noted that, as a UK TSO it would be really unfortunate if he was not allowed to raise an issue as he is unable to raise a Modification as he is not a signatory to the Code.

EF advised he will reformat the Issues Tracker to extract the problem statement from the status summary but with the content it currently has. He requested Workgroup to review the Issue Tracker and email to Joint Office if they think there are other things support going on the tracker.

New Action 0112: Workgroup participants to review the Issues Tracker and email Joint Office with any comments.

CMF007 - Inefficient Bypass product and **CMF008 - capacity/neutrality** were also added to the Issues Tracker.

The updated NTSCMF Issues Tracker has now been published.

4. Forecasted Contracted Capacity (FCC)

4.1. FCC Methodology

Laura Johnson (LJo) provided an update on the Forecasted Contracted Capacity (FCC) Methodology 2021/22, for a detailed update, please refer to the published slides on the meeting page.

Concentrating on the graphs shown on slides 4 and 5, LJo explained:

- Orange blocks represent actual values;
- The red line is the original Forecasted Contracted Capacity (FCC); and
- The blue line is the revised FCC applying retrospectivity. In both graphs (Entry and Exit) the revised FCC is showing closer to the actual values.

Proposal for the FCC Methodology Review for Gas Year 2022/23 to look at the following updates - Slide 6

LJo provided a view of what the proposal for the FCC Methodology Review for Gas Year 2022/23 is to look at:

Exit

- Exit FCC to monthly from annual (to align to the Entry FCC)
- Review of the DN's 1 in 20 peak
 - Is there any update on what will be booked based on the new Exit Capacity Planning Guidance (ECPG)
 - Any modifications which influence FCC
- UNC 0785 combining Bacton Exit Points - FCC at Exit points as per Licence

Entry

- Any modifications which influence FCC

RHe referred to the graph for Exit and asked if the output has been affected by Covid, he said the forecast looks very reasonable, but a drop in demand could give false sense of security. LJo agreed to consider if Covid has had an impact.

JCx noted that the graphs show an overall position and asked if they can be presented in a lower granularity, such as DN's vs Power Stations.

New Action 0212: FCC Methodology: National Grid (LJo) to consider if the Exit graph, (FCC Original (2020/21) v Revised Methodology (2021/22): Gas Year Oct 20 –Sep 21 -EXIT), has been impacted by Covid.

New Action 0312: FCC Methodology: National Grid (LJo) to consider if the graphs can be presented in a lower granularity, such as DN's vs Power Stations.

4.2. FCC Monitoring

CWi presented an overview of the Capacity and Revenue Monitoring which included the following:

Entry Capacity & Revenue FY22 at October 2021 - Slide 2

CWi explained this shows the overall capacity to date as well as the revenue position to date. He advised the variances between the forecast and actual to date, shown on both the Capacity and Revenue graphs, are encouraging:

Capacity (YTD) Variance = -0.7%

Revenue (YTD) Variance = -1.9%

Exit Capacity & Revenue FY22 at October 2021 – Slide 3

CWi explained that, dominating the Capacity and Revenue Actual to Date is the Distribution Networks booking in excess of the levels input to the forecast. He said that National Grid need to have an understanding of why this is happening.

The variance for the Capacity graph is showing higher than the Entry variance and the Revenue is very slightly lower:

Capacity (YTD) Variance = 2.4%

Revenue (YTD) Variance = -0.2%

CWi advised he will keep on monitoring the up-to-date view and will look to improve and refine it further.

General Non-Transmission & St Fergus Compression Revenue FY22 at Oct 2021 - Slide 4

CWi explained this graph provides a flow-based performance forecast where a dip in the actuals can be seen in the summer where the lowest demand days ever seen were logged.

St Fergus compression costs

CWi advised, if by the end of the year there is any difference between the St Fergus compression costs forecast vs the actuals, the difference gets absorbed into SO. CWi confirmed that the St Fergus compression cost is not a ring-fenced charge.

Workgroup sought to understand the materiality of this difference.

New Action 0412: St Fergus Compression Costs: National Grid (CWi) to investigate the extent to which the out-turn compression cost may vary from forecast and the effect on the SO charges.

It was highlighted that the Gas Distribution Networks capacity bookings should be discussed with National Grid and it appears this has moved from an incentive regime to a new regime without transparency and seems to be not working.

5. Long Term Revenue Forecasts

Not discussed.

6. Next Steps

EF confirmed the next steps to be:

- Workgroup participants to review the Issues Tracker
- National Grid will consider the discussion points from this meeting and feedback to Workgroup in January 2022.

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	Via Microsoft Teams	Standard Workgroup Agenda

11 January 2022		
10:00 Tuesday 01 February 2022	Via Microsoft Teams	Standard Workgroup Agenda
10:00 Tuesday 01 March 2022	Via Microsoft Teams	Standard Workgroup Agenda
10:00 Tuesday 05 April 2022	Via Microsoft Teams	Standard Workgroup Agenda
10:00 Tuesday 03 May 2022	Via Microsoft Teams	Standard Workgroup Agenda
10:00 Tuesday 07 June 2022	Via Microsoft Teams	Standard Workgroup Agenda
10:00 Tuesday 05 July 2022	Via Microsoft Teams	Standard Workgroup Agenda
10:00 Tuesday 02 August 2022	Via Microsoft Teams	Standard Workgroup Agenda
10:00 Tuesday 06 September 2022	Via Microsoft Teams	Standard Workgroup Agenda
10:00 Tuesday 04 October 2022	Via Microsoft Teams	Standard Workgroup Agenda
10:00 Tuesday 01 November 2022	Via Microsoft Teams	Standard Workgroup Agenda
10:00 Tuesday 06 December 2022	Via Microsoft Teams	Standard Workgroup Agenda

Action Table (as of 07 December 2021)

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
0107	05/01/21	5.0	National Grid (CW _i) to provide documented explanation and diagrams detailing the relationship between the SO /TO and TS/non-TS revenue services.	National Grid (CW _i)	Carried Forward
0901	02/09/21	3.1	<i>CMF002 – TAR NC Compliance</i> National Grid (CW _i) to update the slide from the last presentation on this subject: Revenue Mapping	National Grid (CW _i)	Closed
0110	05/10/21	5.0	<i>Long Term Revenue Forecasts:</i>	National	Carried

			National Grid (CWi) to provide an update on increased Shrinkage costs and the timing effect on future prices	Grid (CWi)	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)	Closed
0112	07/12/21	3.1	Workgroup participants to review the Issues Tracker and email Joint Office with any comments	Workgroup	Pending
0212	07/12/21	4.1	FCC Methodology: National Grid (LJo) to consider if the Exit graph, (FCC Original (2020/21) v Revised Methodology (2021/22): Gas Year Oct 20 – Sep 21 - EXIT), has been impacted by Covid.	National Grid (CWi)	Pending
0312	07/12/21	4.1	FCC Methodology: National Grid (LJo) to consider if the graphs can be presented in a lower granularity, such as DN's vs Power Stations	National Grid (CWi)	Pending
0412	07/12/21	4.2	St Fergus Compression Costs: National Grid (CWi) to investigate the extent to which the out-turn compression cost may vary from forecast and the effect on the SO charges.	National Grid (CWi)	Pending