

NTS Charging Methodology Forum (NTSCMF) Minutes
Tuesday 02 July 2019
at Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA

Attendees		
Rebecca Hailes (Chair)	(RH)	Joint Office
Helen Bennett (Secretary)	(HB)	Joint Office
Alan Raper	(AR)	Joint Office
Alsarif Satti*	(AS)	Ofgem
Andrew Pearce	(AP)	BP
Benoit Enault	(BE)	Storengy
Bill Reed	(BR)	RWE Supply & Trading
Chris Wright	(CW _r)	ExxonMobil
Colin Williams	(CW _i)	National Grid
Daniel Hisgett	(DH _i)	National Grid
David O'Neill*	(DON)	Ofgem
Debbie Baker	(DB)	CF Fertilisers UK Ltd
Debra Hawkin	(DH)	TPA Solutions
Graham Jack*	(GJ)	Centrica
Henk Kreuze*	(HK)	Vermilion
Julie Cox*	(JC _x)	Energy UK
Kamla Rhodes	(KR)	ConocoPhillips
Kirsty Ingham*	(KI)	ESB
Laura Johnson	(LJ)	National Grid
Niall Coyle*	(NC)	E.ON
Nick Wye	(NW)	Waters Wye
Nicky White	(NW _h)	npower
Paul Youngman	(PY)	Drax Power Limited
Richard Fairholme*	(RF)	Uniper
Steve Pownall	(SP)	Xoserve
Terry Burke*	(TB)	Equinor
* via teleconference		

Copies of all papers are available at: <http://www.gasgovernance.co.uk/ntscmf/020719>

1. Introduction and Status Review

1.1. Approval of Minutes (04 June 2019)

Laura Johnson highlighted the minutes needed a slight amendment to the initials shown for Daniel Hisgett and Debra Hawkin in order to tell them apart. With this change in place, the minutes from the previous meeting were approved.

1.2. Modifications with Ofgem

Alsarif Satti (AS) gave an update on the status of the relevant Modifications currently with Ofgem: Modification 0678 and its alternatives and Modification 0686. He explained that Ofgem are still

considering both Modifications and that is the only update available at the moment.

Graham Jack (GJ) asked if Ofgem could give any indication as to when an update could be expected.

Julie Cox (JCx) specifically requested that the statement 'Ofgem can provide no guidance to Industry of a timescale. The Industry is facing a lot of uncertainty at the moment and this is not helpful' be included in these minutes. Many Workgroup participants agreed with her.

Debbie Baker (DB) added that she met with Ofgem recently and as a result of the meeting, Ofgem committed to provide some more insight into its deliberations to inform this Workgroup with its review of Modifications 0678 and 0686 and in order to help with Workgroup 0670R discussions.

David O'Neill (DON) joined the call and said that Workgroup 0670R should be looking at developing a version of Shorthaul that is compliant with EUTAR and other relevant legislation and confirmed that Ofgem are looking at compliance on Modification 0678 and all of its alternatives and Modification 0686.

DON informed the Workgroup that Ofgem have put out a Tender for Economic Assessments and the consultation is likely to commence later on this month (July 2019). He confirmed the Tender has been issued via the Ofgem portal which is standard practice for Ofgem.

New Action 0701: Ofgem to investigate as to whether there is a way of sharing the tender invite to the Workgroup.

DON suggested the Workgroup carries on with the Request 0670R and the Workgroup should ask the question what does an effective and economic Shorthaul product look like. He advised Workgroup not to wait for the Ofgem outcome of Modification 0678 and its alternatives. DON also urged Proposers of Modifications do their own legal assessment of Modifications.

He confirmed there is no update available yet on Ofgem's assessment of compliance regarding Modification 0678 and its alternatives and that Ofgem is engaged in doing its own compliance assessment.

1.3. Pre-Modification discussions

None raised.

2. Forecasted Contracted Capacity (FCC) Update

Action 0601: National Grid to respond to each of the FCC issues and provide a detailed timeline with a Walkthrough of the practical application of the FCC methodology calculation and how it will feed into tariffs.

Update:

Colin Williams drew Workgroup's attention to the updates to the spreadsheet 'FCC Methodology Issue Log' which was published for this meeting and includes National Grid's response to each of the issues. He urged Workgroup participants to send feedback or questions to National Grid prior to the next meeting so that they can be covered at the next Workgroup meeting. He also urged participants to be specific and ensure the actual methodology, the resulting values and the process around the FCC Methodology are kept clearly separate.

For the walkthrough aspect of this Action 0601, Colin Williams (CWi) talked through the order of activities as shown on slide 2 of the presentation provided ahead of the meeting.

Order of activities in terms of FCC use (simple overview):

1. Calculate FCC using the FCC Methodology. FCC is one of the inputs to calculating capacity reserve prices;

2. Calculate Reserve prices –these are set for the forthcoming tariff (Gas) year (indicatives for further years);

3. Monitor forecast of capacity versus actual bookings –forecast may be reviewed and updated throughout the year to inform Transmission Service Revenue Recovery Charges (TSRRCs). The FCC used in setting the published reserve prices is not updated (i.e. reserve prices are not amended). Monitoring will continue to help shape the FCC Methodology;

4. Calculate the TSRRCs required in order to manage allowed revenue recovery (note: TSRRCs may be introduced ahead of the tariff year);

5. Throughout the tariff year, the RRCs may be updated further (as per the process of calculating the current Transmission Commodity Rates).

Workgroup discussion took place as detailed below:

CWi confirmed that FCC is used in setting the reserve prices and that reserve prices are not amended once they have been set for the year.

CWi explained that Capacity charges are available in May each year, however, up to the end of July, National Grid still have the scope to amend the charges before the start of the year.

Revenue Recovery Charges are separate charges.

Julie Cox (JCx) expressed concern about industry's level of understanding of the magnitude of the Revenue Recovery Charge.

CWi added that the learning on the FCC calculation will be a continual process.

The ideal expectation is that the RRC should be zero if the FCC methodology is accurate.

Bill Reed (BR) said the requirement of the Network Code is to have stability in charges and it would be possible to end up at the end of a year where Industry would not know what the charges will be until the current year is complete; charges could end up being quite volatile.

Workgroup went on to ask about the K Factor process and how it would be developed.

CWi explained that K Factor is stipulated in the Licence.

Graham Jack asked whether how much scope for variation in the K factor there was within the Licence.

CWi advised Workgroup that a Licence derogation would be required for example if there was an implementation for Modifications 0678 or one of its alternatives that is not October.

When asked, AS confirmed for Ofgem that the FCC methodology should be part of UNC and that Ofgem are considering this and have not reached any conclusions yet.

BR stated that the preference is that there is no RRC and that everything is managed via the K Factor process.

CWi advised that the RRC is effective until it is reviewed. This is illustrated in slide 3. It has the potential to be updated 3 times in a year, 1. RRC is set in July; 2. review and update of FCC after October; 3. final opportunity for update up to the end of the charging year.

It was explained that charges are set on the basis of initial reserve prices. If there is a behavioural influence, then that informs future forecast.

RH suggested it would be helpful to have the diagram shown on slide 3 compared with what happens in the current process (current methodology).

BR would like a process description which shows when charges will be reviewed and when they will become effective from.

National Grid is encouraged to recover revenue within the current year otherwise it could be a contravention of the licence.

It was agreed that facilitation of discussions in the Industry about when FCC methodology will be reviewed may need to happen. Parties may want to raise a Modification if they feel strongly about when and how this happens (this would take place after any implementation of Modification 0678

or one of its alternatives).

It was confirmed that a License consultation is run wholly by Ofgem.

Next steps:

BR suggested it would be helpful for Workgroup to see a process description which shows when TSRRC charges will be set, reviewed and updated and when this will happen, together with the duration of any charge.

A standard agenda item to be placed on the NTSCMF agenda – FCC Methodology Review.

Action 0601 Update: It was agreed that National Grid would overlay some scenarios onto the illustration provided on slide 3. National Grid urged Workgroup participants to provide any scenarios that they would like overlaid in order to add extra clarity.

New Action 0702: National Grid to provide clarification of process for calculating, produce a procedure for setting and updating Transmission Services Revenue Recovery Charges (TSRRCs).

3. Update on Long Term Revenue Forecasts

CWi advised Workgroup that the long term revenue forecast information was published earlier in the year. Due to time constraints he urged Workgroup participants to review the slides and raise any questions back to National Grid.

Paul Youngman (PY) commented that National Grid's RIIO-T2 Business Plan has been released and asked if there was any further information that National Grid could share regarding long term revenue forecasting such as how uncertainty will be built into the Forecasted Contracted Capacity (FCC) and its methodology. CWi advised that, from a National Grid perspective, one of the key aspects of RIIO-T2 will be how much money National Grid needs to recover in any given year (Allowed Revenue). He added that RIIO-T1 introduced the K value. RIIO-T2 also introduces revenue adjustment value. When more is known on RIIO-T2, CWi will relate it at this Workgroup.

Workgroup discussed the possibility of asking for a one-off derogation to allow for the setting of charges in April 2020 should this be required. It was added that this was previously requested for April 2013 and a non-UNC consultation was carried out prior to the derogation being granted.

4. Workgroups

4.1. 0670R - Review of the charging methodology to avoid the inefficient bypass of the NTS
(Report to Panel 15 August 2019)
<http://www.gasgovernance.co.uk/0670>

5. Issues

None.

6. Review of Outstanding Action(s)

Action 0602: National Grid and Ofgem to consider solutions to tariff uncertainty associated with change in allowed revenue, due to Tariff vs Regulatory Year, e.g. licence changes, 'softening' of over/under recovery.

Update: An Update is expected at the next Workgroup 30 July 2019. **Carried Forward.**

7. Any Other Business

RH highlighted the Issus Log to the Workgroup and asked all participants to provide comments on the updates made by National Grid.

Action 07034: Workgroup to provide comments on what National Grid has written against the issues on the FCC/FCC Methodology Issues Log.

8. Diary Planning

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

Time / Date	Venue	Workgroup Programme
10:00 Tuesday 30 July 2019	Elexon, 350 Euston Road, London NW1 3AW	Standard Workgroup Agenda Tariff Vs Regulatory Year
10:00 Tuesday 03 September 2019	Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA	Standard Workgroup Agenda
10:00 Tuesday 01 October 2019	Elexon, 350 Euston Road, London NW1 3AW	Standard Workgroup Agenda
10:00 Tuesday 05 November 2019	Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA	Standard Workgroup Agenda
10:00 Tuesday 03 December 2019	Elexon, 350 Euston Road, London NW1 3AW	Standard Workgroup Agenda

Action Table as at 02 July 2019

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
0601	04/06/19	2.0	National Grid to respond to each of the FCC issues and provide a detailed timeline with a Walkthrough of the practical application of the FCC methodology calculation and how it will feed into tariffs. <i>Additional update to Action 0601 – National Grid to overlay some scenarios onto the illustration provided on slide 3. National Grid urged Workgroup participants to provide any scenarios that they would like overlaid in order to add extra clarity.</i>	National Grid (CW <i>i</i>)	Carried Forward
0602	04/06/19	3.0	National Grid and Ofgem to consider solutions to tariff uncertainty associated with change in allowed revenue, due to Tariff vs Regulatory Year, e.g. licence changes, ‘softening’ of over/under recovery.	National Grid (CW <i>i</i>) and Ofgem	Carried Forward
0701	02/07/2019	1.2	Ofgem to investigate as to whether there is a way of sharing the tender invite to the Workgroup	Ofgem (DON)	Pending
0702	02/07/2019	2.0	<u>National Grid to provide clarification of process for calculating, produce a procedure for setting and updating Transmission Services Revenue Recovery Charges (TSRRCs).</u> National Grid to produce a procedure for setting and updating Transmission Services Revenue Recovery Charges.	National Grid (CW <i>i</i>)	Pending
0703	02/07/2019	7.0	<u>Workgroup to provide comments on what National Grid has written against the issues on the FCC/FCC Methodology Issues Log.</u> Workgroup to provide comments on what National Grid has written against the issues on the Issues Log.	All	Pending