

NTS Charging Methodology Forum (NTSCMF) Minutes
Tuesday 11 February 2020
at Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA

Attendees		
Rebecca Hailes (Chair)	(RH)	Joint Office
Karen Visgarda (Secretary)	(KV)	Joint Office
Adam Bates	(AB)	South Hook Gas
Alastair Tolley*	(AT)	(EP UK Investments)
Alsarif Satti	(AS)	Ofgem
Andrew Pearce*	(AP)	BP
Anna Shrigley	(ASh)	Eni Trading & Shipping
Bill Reed	(BR)	RWE
Chris Wright	(CW _r)	Exxon Mobil
Colin Williams	(CW)	National Grid
Dan Hisgett	(DH _i)	National Grid
David Cox*	(DC)	London Energy Consulting
David Horan*	(DHo)	Aughinish Alumina Ltd
David O'Neill	(DON)	Ofgem
Debra Hawkin	(DH)	TPA Solutions
Emma Buckton*	(EBu)	Northern Gas Networks
Henk Kreuze	(HK)	Vermilion Energy
James Jackson*	(JJ)	Sembcorp
Jeff Chandler*	(JCh)	SSE
John Costa	(JC)	EDF Energy
Julie Cox	(JC _x)	Energy UK
Kamla Rhodes	(KR)	Conoco Phillips
Kelvin Bradbury	(KB)	National Grid <i>(Item 3.0 only)</i>
Laura Johnson	(LJ)	National Grid
Lewis Heather	(LH)	CEPA <i>(Item 2.0 only)</i>
Lynette Norton	(LN)	National Grid <i>(Item 3.0 only)</i>
Mike Ronan	(MR)	Aughinish Alumina Ltd
Niall Coyle*	(NC)	E.ON
Nick Wye	(NW)	Waters Wye Associates Ltd
Nigel Bradbury*	(NB)	EIUG
Nitin Prajapati*	(NP)	Cadent
Pavanjit Dhesi*	(PD)	Interconnector UK
Penny Garner	(PG)	Joint Office
Petra Koulia*	(PK)	CEPA <i>(Item 2.0 only)</i>
Riccardo Rossi	(RR)	Centrica
Richard Fairholme	(RF)	Uniper
Sinead Obeng	(SO)	Gazprom
Terry Burke	(TB)	Equinor

Copies of all papers are available at: <http://www.gasgovernance.co.uk/ntscmf/110220>

1. Introduction and Status Review

Rebecca Hailes (RH) welcomed everyone to the meeting and invited introductions.

1.1. Approval of Minutes (07 January 2020)

The minutes from the previous were approved.

Rebecca Hailes (Chair) suggested that the 28 January 2020 minutes be approved at the March meeting, following amendments by Ofgem and to allow the Workgroup time to assimilate these changes accordingly.

1.2. Modifications with Ofgem

David O'Neill (DON) provided a short overview on the status of Modifications presently with Ofgem as detailed below:

Modification 0678 – 0678/A/B/C/D/E/F/G/H/I/J (Urgent) - Amendments to Gas Transmission Charging Regime. DON confirmed following the Ofgem 'minded to' position this was now at the consultation stage which closes on 24 February 2020.

Modification 0667 – Inclusion and Amendment of Entry Incremental Capacity Release NPV test in UNC. DON said a decision on this Modification was in progress, and the outcome would be published very soon.

Modification 0686 – Removal of the NTS Optional Commodity Rate with adequate notice. DON confirmed that a discussion was going to take place with the Proposer shortly.

Modification 0687 – Creation of new charge to recover Last Resort Supply Payments DON said a decision on this Modification was in progress.

1.3. Pre-Modification Discussions

There were no Pre-Modifications for discussion.

2. Gas Charging

DON explained that Ofgem had instructed CEPA to conduct a thorough modelling exercise on the Modification 0678 - 0678/A/B/C/D/E/F/G/H/I/J (Urgent) - *Amendments to Gas Transmission Charging Regime*, as part of the analysis Ofgem undertook to inform its 'minded to' position. He explained that Ofgem thought it would be helpful to have a focussed session on the modelling and asked CEPA to join today. He was grateful for providing questions in advance and the role of the Joint Office in coordinating this. He said the modelling is important but it is also important to get the modelling into context:

- a. The minded-to decision took the modelling results into account alongside the principles-based assessment, compliance assessment, and of course the assessment against the relevant UNC objectives. Nine alternatives were excluded on the basis of compliance. The Status Quo is also non-compliant. So while the modelling is important it is one of several inputs into Ofgem's minded to decision.
- b. Modelling is by definition an abstraction and simplification of reality. The use of models is standard and widely accepted. All models have assumptions and the assumptions CEPA made were thoroughly assessment for quality assurance, proportionate and robust. Ofgem also discussed the key assumptions with industry in September 2019.

Lewis Heather (LH) then delivered the CEPA presentation, which covered the modelling approach, techniques and the methodology used, together with the answers to the questions previously provided by the 6 Workgroup participants. The presentation can be viewed via the link: <https://www.gasgovernance.co.uk/ntscmf/110220>

LH also added that the CEPA written response to these questions would be made available on the Ofgem website at:

<https://www.ofgem.gov.uk/publications-and-updates/nts-charging-methodology-forum-ntscmf-session-cepa-unc678-quantitative-analysis-11-february-2020>

Slide 10 - Mechanism for gas and electricity price impacts. John Costa (JC) questioned the fact the electricity consumers would be benefiting as the gas price decreased, in the region of £1million, added to the fact the CCGTs would also be affected, and he wanted to know what the impact would be, if this was multiplied by £100million across the whole electricity market. LH said the modelling accommodated all these types of impacts, including the CCGTs and the non CCGTs. LH also said that 80% of the CCGTs were able to take up the NOC based on National Grid Gas information on previous Users of the NOC product. He noted that not all of the 80% necessarily used the NOC (which was an endogenous decision in the model). He added that from the NOC methodology perspective, NOC 1 had a higher take up than NOC 2.

Nick Wye (NW) asked how the use of shorthaul was optimised, in that, was the option for the capacity to be moved in the market possible, for example at the beach. LH said the shorthaul model incorporated relevant entry-exit combination routes. .

Slide 11 - Modelling Storage. Nick Wye (NW) mentioned a reference in the CEPA report that he could not find in the meeting to the modelling of storage capacity.

Post Meeting Note:

Upon further clarification after the meeting NW pointed to the paragraph:

“We note that the annual capacity tariff may overestimate the capacity charge that is actually paid by storage, under the status quo, particularly at exit. Under existing arrangements, more than 70% of exit capacity at storage points was booked through the interruptible product in 2017/18. This capacity product is booked at a significant discount to the annual product. The effective tariff at storage exit points is therefore somewhat lower than the annual tariff represented in Figure 3.6.”

Given this additional clarification CEPA are now able to respond. This text references the presentation of results in Figure 3.6 – i.e. considering only the annual tariff does not reasonably represent storage behaviour.

In fact the model incorporates assumptions of the proportion of bookings across products (for storage and for all other entry and exit points) which reflects those proportions booked in 2017/18. A follow up response has been provided by CEPA on this despite the question not being raised at the meeting.

<p>New Action 0201: Ofgem (DON) to investigate the modelling of the storage capacity and the assumption that NTS Exit Capacity booked at storage was on a firm basis, rather than interruptible which better reflects commercial reality.(Note: as referenced in Section 2 above, clarification from NW and clarity on this corresponding action was added after the meeting.)</p>

Post Meeting Update on Action 0201:

LH provided the following response after the meeting:

- For all capacity (entry and exit) CEPA assumed that the proportions of different capacity products booked by different types of users remained constant at the level observed in the most recent gas year (2017/18) as provided to us by NGG
- In the case of storage exit capacity, the relevant proportions were 29.33% Annual capacity and 70.67% daily off-peak exit capacity (non-firm) 'DONEX and IPDONEX'

Julie Cox (JCx) stated that a large proportion of the analysis seemed to be aligned to the marginal unit price and this must be different, especially in relation to the outputs for a current year, against the gas flow and the marginal supply, as there were fluctuations. LH said the analysis was modelled for three Gas Years in the future, which had been modelled at the earliest point to present the revenue impacts and flows, together with the marginal type of supply. (JCx) again reiterated her concern that this had not been modelled on an actual reality type basis, especially against the status quo.

Riccardo Rossi (RR) said that the shorthaul implied the impact on the marginal supply was minimal in relation to one with National Occupation Classification (NOC) and one without NOC. LH said in the model there were CWD and Postage Stamp with NOC of different designs which could differ from the marginal unit price, and so, could attract prices from other sources of gas.

Sinead Obeng (SO) asked whether CEPA's international gas market model includes the full cost of transportation from IP TSOs such as IUK and BBL. LH agreed to check this and revert back.

New Acton 0202: Ofgem (DON) to provide more information regarding what is incorporated from gas imports, including interconnector transportation tariffs.

Post Meeting Update on Action 0202:

This question has been addressed in the note prepared by CEPA, available at: <https://www.ofgem.gov.uk/publications-and-updates/nts-charging-methodology-forum-ntscmf-session-cepa-unc678-quantitative-analysis-11-february-2020>

LH concluded his presentation and there were no more questions.

3. RIIO-T2 Business Plan Update (incl. Action 0905)

RH stated that the RIIO-T2 Business Plan Update had only been supplied on 10 February 2020 and was classed as a late paper. She reiterated that all papers should be supplied at least 5 days prior to any meeting to allow all participants the appropriate time to assimilate the information provided. All were happy to accept this late paper for discussion.

Colin Williams (CW) explained that this Business Plan was an updated version from the one originally supplied in July/August 2019 and that this version had been published in December 2019, adding that this version had more up to date figures and also incorporated the actions.

Lynette Norton (LN) and Kelvin Bradbury (KB) introduced themselves and explained they were from the National Grid Regulatory Finance Team, where they worked on the financial aspects of RIIO-T2. LN explained the RIIO-T2 Business Plan had been submitted to Ofgem in December 2019 and that the open hearings would commence in April 2020, where National Grid would be challenged on their assumptions, with the final approval by Ofgem taking place in June 2020.

KB and LN then proceeded to provide an overview of the material contained in the presentation, this can be viewed via the link: <https://www.gasgovernance.co.uk/ntscmf/110220>

LN presented the following information - Slide 3 – What are impacts for the billpayers, as detailed below, and there were some brief general discussions from Workgroup participants as to what items were encompassed in the categories:

- Innovation = 1%
- Incentives = 6%
- Running the system costs = 10%
- Rates and licence fees = 13%
- Running and operating costs = 14%
- Maintaining current network capability 17%
- Past investment in the network 17%
- Funding network spend 22%.

Slide 4 - Revenues and potential impacts on tariffs

RR questioned the revenue in relation to the charging coming from the entry commodity area. CW said this was split in relation to the fundamentals of price controls to recover those revenues. JC said in that case, surely there would be financial impacts on the DNOs and the cost of capital impact and RR agreed with this comment. CW explained that the DNOs have two separate licence agreements regarding the revenues and the price.

Slide 6 – What is our proposal for depreciation and asset lives?

JCx said the decarbonisation plan would be reviewed by Ofgem, and she added that the depreciation would affect the way assets were removed. LN said that Ofgem would be questioning all the depreciation and asset lives area in-depth. JCx said it was showing as two impacts and she felt it should be encompassed into one.

LN then continued to overview the rest of the presentation, and she reiterated that Ofgem would be assessing every aspect of the Business Plan in its entirety.

R1102: Tariff Impacts

CW explained that this this presentation was a slightly updated version to the original and was modelled on transmission only and was based on Modification 0678A. The full presentation can be viewed via the link: <https://www.gasgovernance.co.uk/ntscmf/110220>

A brief general discussion took place in relation the Slide 13 – Indicative Percentage Difference in Exit charges (flat average) JC and Nigel Bradbury (NB) said it would be helpful to have more information on the 'seesaw effect' (the difference between regulatory and tariff year) and mitigating issues, regarding exit and entry. CW said that the numbers shown were Transmission only and would not account for impacts of things like Short Haul. He said he would supply more information in relation to the allowed revenues used in determining the indicative percentages.

<p>New Action 0203: National Grid (CW) to include the revenues used to calculate the indicative percentage differences in charges along with the appropriate commentary for clarity to illustrate the changes</p>
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4. Workgroups

4.1. 0670R - Review of the charging methodology to avoid the inefficient bypass of the NTS

(Report to Panel 16 July 2020)

<http://www.gasgovernance.co.uk/0670>

5. Forecasted Contracted Capacity (FCC) Review

5.1. FCC Methodology Issues Log

Deferred until the March meeting.

6. Long Term Revenue Forecasts

Deferred until the March meeting.

7. Issues

Deferred until the March meeting.

8. Review of Outstanding Action(s)

Action 0905: National Grid to provide an explanation of why there is a 14% drop in entry charges between RIIO-1 and the 1st year of RIIO-2.

Update: CW confirmed this action could now be closed as updated information had been supplied instead. **Closed.**

Action 0101: Workgroup to provide questions in relation to the CEPA impact assessment to Joint Office by 5pm on Monday 13 January 2020 and Joint Office to send the industry questions to Ofgem by 5pm on 17 January 2020.

Update: DON and LH agreed this action could be closed as the questions document had now been produced and the questions had been dealt with. **Closed.**

9. Any Other Business

10. 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 March 2020	Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA	Standard Workgroup Agenda
10:00 Tuesday 07 April 2020	Elexon, 350 Euston Road, London NW1 3AW	Standard Workgroup Agenda
10:00 Tuesday 05 May 2020	Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA	Standard Workgroup Agenda

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
0905	03/09/19	3.0	National Grid to provide an explanation of why there is a 14% drop in entry charges between RIIO-1 and the 1st year of RIIO-2.	National Grid	Closed
0101	07/01/20	1.0	Workgroup to provide questions in relation to the CEPA impact assessment to Joint Office by 5pm on Monday 13 January 2020 and Joint Office to send the industry questions to Ofgem by 5pm on 17 January 2020.	ALL	Closed
0201	11/02/20	2.0	Ofgem (DON) to investigate the modelling of the storage capacity and the assumption that NTS Exit Capacity booked at storage was on a firm basis, rather than interruptible which better reflects commercial reality. (Note: as referenced in Section 2 above, clarification from NW and the corresponding action was added after the meeting.)	Ofgem (DON)	Pending
0202	11/02/20	2.0	Ofgem (DON) to provide more information regarding what is incorporated from gas imports, including interconnector transportation tariffs.	Ofgem (DON)	Pending
0203	11/02/20	3.0	National Grid (CW) to include the revenues used to calculate the indicative percentage differences in charges along with the appropriate commentary for clarity to illustrate the changes.	National Grid (CW)	Pending