

**NTS Charging Methodology Forum (NTSCMF) Minutes**  
**Tuesday 30 July 2019**  
**at Elexon, 4th Floor, 350 Euston Road, London, NW1 3AW**

<b>Attendees</b>		
Alan Raper (Chair)	(AR)	Joint Office
Kully Jones (Secretary)	(KJ)	Joint Office
Adam Bates	(AB)	South Hook Gas
Alex Nield*	(AN)	Storengy
Andrew Pearce	(AP)	BP
Anna Shrigley	(AS)	Eni Trading & Shipping
Bill Reed	(BR)	RWE Supply & Trading
Chandima Dutton*	(CD)	Waters Wyes Associates
Chris Webb	(CW)	BOC (0670R onwards)
Chris Wright	(CW <sub>r</sub> )	ExxonMobil
Colin Williams	(CW <sub>i</sub> )	National Grid
Daniel Hisgett	(Dhi)	National Grid
David O'Neill	(DON)	Ofgem
Debra Hawkin	(DH)	TPA Solutions
Graham Jack	(GJ)	Centrica
Jeff Chandler	(JCh)	Centrica
John Costa*	(JCo)	EDF Energy
Kirsty Ingham	(KI)	ESB
Laura Johnson	(LJ)	National Grid
Paul Youngman*	(PY)	Drax Power Limited
Richard Fairholme	(RF)	Uniper
Sinead Obeng	(SO)	Gazprom
Steve Pownall	(SP)	Xoserve
Terry Burke	(TB)	Equinor
* via teleconference		

Copies of all papers are available at: <http://www.gasgovernance.co.uk/ntscmf/300719>

## 1. Introduction and Status Review

Alan Raper (AR) welcomed everyone to the meeting and invited introductions.

### 1.1. Approval of Minutes (02 July 2019)

The minutes from the previous meeting were approved subject to the changes identified by Colin Williams (CW<sub>i</sub>).

### 1.2. Modifications with Ofgem

David O'Neill (DON) provided an update on a number of Modifications. A decision will be made in due course on Modifications 0667 - Inclusion and Amendment of Entry Incremental Capacity Release NPV test in UNC and 0682 - Market Participant MDD Migration to UNC Governance from

the SPAA.

In respect of Modification 0678 - Amendments to Gas Transmission Charging Regime and its alternatives, DON confirmed that Cambridge Economic Policy Associates (CEPA) have been appointed to undertake the impact assessment. CEPA will be carrying out one or two stakeholder sessions. In response to a question about why Ofgem are not using Baringa to ensure continuity, DON explained that CEPA have been appointed following competitive procurement tender and were selected as the best bid.

With regard to Modification 0686 - Removal of the NTS Optional Commodity Rate with adequate notice, he confirmed that a letter has been published on 29 July 2019 confirming that an Impact Assessment (IA) will be undertaken to explore the impacts arising from the removal of the Optional Commodity Charge (OCC). He also added that Ofgem's decision to carry out an IA does not include any assessment of the merits of the proposal. Again, in response to a Workgroup question, he explained that as CEPA have been appointed to undertake the assessment for Modification 0678, and as there are some similarities and crossovers, CEPA will be asked to carry out the IA. However, he emphasised that as this is a stand-alone Modification which is not dependant on Modification 0678 timelines, it will be assessed on a stand-alone basis. A copy of the Ofgem letter is available here: <https://www.gasgovernance.co.uk/0686>.

A brief discussion took place on the implementation date as the Modification is requesting implementation ahead of the gas year commencing 01 October 2019. Bill Reed (BR) asked if the Modification can be implemented after this date. Debra Hawkin (DH) and Laura Johnson (LJ) indicated that the 01 October is only a recommended date and, in any event, Ofgem have the scope to direct an implementation date that could be after 01 October 2019.

Finally, in respect of Modification 0700 (Urgent) - Enabling large scale utilisation of Class 3, DON stated that in granting Urgency no assessment has been made by Ofgem on the merits of the Modification itself. A copy of the Ofgem letter is available here: <https://www.gasgovernance.co.uk/0700>.

### 1.3. Pre-Modification discussions

None raised.

## 2. Forecasted Contracted Capacity (FCC) Review Update

CWi provided a presentation which covered updates on this agenda item, action 0601 and also action 0702.

**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:**

CWi explained that at the last meeting there had been some requests to elaborate on how specific scenarios would be considered and their interaction with setting or updating Transmission Services (Entry and Exit) Revenue Recovery Charges (TSRRCs). He added that the principal use of TSRRCs is for managing allowed revenue recovery when the anticipated collected revenue would be under or over compared to the target revenue across the regulatory year (April to March) in question.

In response to a question from Paul Youngman (PY), CWi clarified that capacity tariffs would remain applicable between October and September.

CWi drew Workgroup's attention to slide 5 which provided more examples of the interactions with TSRRCs. He highlighted that reserve prices are published in May and effective from October. Any deviations between the tariff and anticipated bookings may result in an amendment through the

Revenue Recovery Charge which is a separate charge to reserve prices.

The following comments were made through Workgroup discussion:

CWi confirmed that the Revenue Recovery Charge (RCC) on 01 October would be zero where the anticipated booking used would be the FCC values, which is expected, when calculating and publishing capacity reserve prices in May.

CWi confirmed that there is provision to introduce and set a RCC before 01 October at National Grid's discretion. In response to a question about what criteria would be applied, National Grid suggested that specific circumstances would need to be considered. There is no mandated measure or control so each situation would need to be monitored in terms of why there might be a need to introduce a charge to manage allowed revenue recovery.

BR suggested that this introduces a risk premium in the marketplace which may or may not have a material impact. CWi stated that it was difficult to say what the position might be at this stage but there may need to be a potential trade-off with the 'K' factor. National Grid are monitoring volatile changes across the marketplace.

BR suggested that a consistent approach to charging is important as well as a reasonable degree of predictability of the charges. CWi indicated that National Grid would aim to limit price charges to twice a year (April and October), as is currently the case, but there may be circumstances where 3 changes a year are needed. However, he did not see any reason to deviate from the current expectation of April and October.

CWi then explained the potential things that could influence RRC which could be as a result of:

- Changes to bookings in July window (Exit)
- FCC compared to updated forecast and/or actuals – could be too low or too high
- New sites start producing earlier or later than forecasted too
- A PARCA comes on-stream later than forecasted

These influencers might lead to the need to introduce a RCC or update the current RCC. In addition, any revenue could feed into the calculation of K (for Y+2) or adjustments to the entry rebate mechanism, (if over recovery related to Entry). CWi then briefly talked about the considerations that need to be taken into account when making a decision about amending or introducing a TSRRRC (slide 7).

BR asked if any information will be published on FCCs. A brief discussion followed in response to CWi's comment that updates will be provided through this forum. Workgroup participants felt that it was important to be as transparent as possible and ensure information was widely available to all industry parties. It was suggested that monitoring patterns of behaviour that might affect future bookings and that keeping industry informed where the right steps to take.

#### FCC Calculation for GDN and Non-GDN

CWi explained that as part of Modification 0678 development, Workgroup asked for a review of what FCC should be applied to GDN's. The review considered if GDN's should be considered differently, given the nature of how GDNs book capacity, compared to other Shippers. The approach in Modification 0678 was provided at Workgroup and agreed with the GDNs and driven directly by the questions raised in Workgroup as a pragmatic and helpful option to provide a good proxy for future capacity bookings. CWi confirmed that all the versions of Modification 0678 have the same proposal as the FCC methodology, where the FCC Methodology is either included in the proposal and outside of UNC as a statement, or part of the UNC itself. He then illustrated the GDN versus then Non-GDN approach for Gas Year Y and, also for Gas Years Y+1, Y+2, Y+3 and Y+4

through slides 12 and 13.

The following comments were made in discussion of these slides:

Paul Youngman (PY) asked what the justification is for having two different processes and, also asked if there is supporting analysis to support the different approaches for GDNs and Non-GDNs.

In response, CWi confirmed that as part of Workgroup discussions industry participants have agreed with the FCC methodology and approach. He added that GDNs book differently as they book flat.

In relation to the underlying analysis, CWi explained that the information on the FCC methodology and analysis was made public and requests for any additional information were also met if requested. He reiterated that the mechanism recognises the difference of approach between GDNs and Non-GDNs and, also allows some discretion to National Grid if needed.

A number of other Workgroup participants echoed PYs concerns suggesting that the difference between the GDN and Non-GDN methodology could be regarded as discriminatory. In addition, a two-tiered methodology could impact on costs to consumers.

LJ challenged why there would be more costs to consumers. John Costa (JCo) suggested that this may arise from the fact that the methodology for GDNs allows GDNs to book 1:20 and a significant part of the cost is on a pay-as-you-go basis which is then smeared across flows.

CWi suggested that if the issue is with the volume of capacity booked by DNs this would be because of their licence and as such would be a distribution issue and not a transmission issue.

AR asked what can be done to allay Workgroup concerns. CWi reiterated that Workgroup concerns are with the FCC methodology and GDN booking obligations and not a transmission issue. The methodology is fit for purpose for the current licence obligations. If the FCC was lowered for GDNs then a knock-on effect could be an increase in the tariff charges to GDNs.

Graham Jack (GJ) asked if CEPA would be looking at this issue as part of their work. DON noted that in the responses to the Draft Modification Report 0678, these issues were not raised.

Anna Shrigley suggested that it would be helpful to capture the benefits of having a better-quality forecast.

This part of the discussion was concluded with AR confirming that there is a general requirement to review methodologies as part of a standing agenda item.

LJ then briefly talked through slide 15 illustrating an example timeline for gas year 2021/22 for auction and allocation events. She clarified that this only covers how Shippers book capacity.

It was noted that there was a couple of typos in the slides, so LJ agreed to provide an updated version.

The final discussion area within the presentation was in relation to allowed revenue versus gas year. CWi provided a reminder of what is currently in place (slide 17) before stating that Slide 18 provides an extract of the Legal Text for Modification 0678 and its alternatives. He explained that within the Legal text for 0678, (and all alternatives), there is a section which covers the differences stated above and how the revenue will be apportioned to try to reduce volatility in the prices.

BR asked if the allowed revenue is wrong will this lead to a change. He added that FCC is driven by Users and allowed revenue cannot be influence by parties. He asked if this should be picked

up by the 'K' factor.

### 3. Update on Long Term Revenue Forecasts

CWi advised Workgroup that this is a long-term standing agenda item and there is no specific update for this meeting. BR asked if the RIIO-2 business plan is consistent with the long-term revenue forecasts. CWi indicated that there is no impact on allowed revenues. BR asked if more information can be provided to provide an insight on the potential tariff implications based on the RIIO-2 business plan.

In terms of how the tariffs are calculated, CWi suggested that it is unlikely that the current approach would be used going forward and indicated that there may need to be a change to the licence.

**New Action 0704:** National Grid (CW) to provide an update on the potential tariff implications based on the RIIO-2 business plan at the 03 September meeting.

### 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 0601:** See agenda item 2.0 above. In addition, in response to a question from PY about whether there is a timeline for the production of tariffs, LJ confirmed that the values will be published when the prices are produced in May. Workgroup agreed to close this action. **Closed**

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

**Update:** An Update was provided as part agenda item 2.0 so this action was closed. **Closed**

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

**Update:** DON confirmed that CEPA would be identifying a suitable forum for industry in relation to the impact assessment.. In relation to whether the tender invite can be shared he stated that procurement exercise is carried out through an invitation to tender (ITT) portal which is only available to the tendering organisations and not available as a public document. He added that if industry parties wished to view the tender documents, they would need to submit a Freedom of Information request to Ofgem. Workgroup participants suggested that CEPA are invited to the 03 September meeting and, also asked if the meeting could be held in London. Workgroup agreed to close this action. **Closed**

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

**Update:** CWi provided a one-page slide as part of his presentation to clarify the process for calculating, setting and updating TSRRCs (slide 9). No further questions were raised so this agenda item was closed. **Closed**

**Action 0703:** Workgroup to provide comments on what National Grid has written against the issues on the FCC/FCC Methodology Issues Log.

**Update:** Workgroup participants to provide any further comments directly to National Grid.  
**Closed**

## 7. Any Other Business

### 7.1. BEIS/Ofgem Consultation on reforming the energy industry codes

DON provided a brief update confirming that BEIS and Ofgem have jointly published a consultation on reforming the energy industry codes on 23 July 2019 with a closing date of 16 September 2019. The reform covers four areas which are considered to improve the existing arrangements:

- Provision of strategic direction
- Empowered and accountable code management
- Independent decision making
- Code simplification and consolidation.

Details of consultation and how to respond are available here:

<https://www.ofgem.gov.uk/publications-and-updates/consultation-reforming-energy-industry-codes>

## 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 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 30 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> )	<b>Closed</b>
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	<b>Closed</b>
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)	<b>Closed</b>
0702	02/07/2019	2.0	National Grid to provide clarification of process for calculating, produce a procedure for setting and updating Transmission Services Revenue Recovery Charges (TSRRCs).	National Grid (CW <i>i</i> )	<b>Closed</b>
0703	02/07/2019	7.0	Workgroup to provide comments on what National Grid has written against the issues on the FCC/FCC Methodology Issues Log.	All	<b>Closed</b>
0704	30/07/19	3.0	National Grid (CW <i>i</i> ) to provide an update on the potential tariff implications based on the RIIO-2 business plan at the 03 September meeting.	National Grid (CW <i>i</i> )	<b>Pending</b>