

**NTS Charging Methodology Forum (NTSCMF) Minutes**  
**Tuesday 28 January 2020**  
**at Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA**

<b>Attendees</b>		
Rebecca Hailes (Chair)	(RH)	Joint Office
Kully Jones (Secretary)	(KJ)	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
Colin Williams	(CW)	National Grid (joined from item 3 onwards)
Dan Hisgett	(DH)	National Grid
David O'Neill	(DON)	Ofgem
Debra Hawkin	(DH)	TPA Solutions
Ed Bentley*	(EB)	Citadel
Emma Buckton*	(EBu)	Northern Gas Networks
Henk Kreuze	(HK)	Vermilion Energy
James Jackson*	(JJ)	Sembcorp
Jeff Chandler*	(JC)	SSE
Julie Cox*	(JCx)	Energy UK
Kamila Nugumanova*	(KN)	ESB
Kamla Rhodes*	(KR)	Conoco Phillips
Laura Johnson	(LJ)	National Grid
Nick Wye*	(NW)	Waters Wye Associates Ltd
Paul Youngman*	(PY)	Drax
Penny Garner	(PG)	Joint Office
Rebecca Jones*	(RJ)	Mercuria
Richard Fairholme	(RF)	Uniper
Richard Pomroy*	(RP)	Wales & West Utilities
Ross Clark*	(RC)	Mercuria
Samuele Repetto*	(SR)	EDF Trading
Sinead Obeng*	(SO)	Gazprom
Smitha Coughlan*	(SC)	Wales & West Utilities
Terry Burke*	(TB)	Equinor
Thomas Bourke*	(TBo)	Ofgem

Copies of all papers are available at: <http://www.gasgovernance.co.uk/ntscmf/280120>

## 1. Introduction and Status Review

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

RH notified Workgroup that a late presentation had been provided by National Grid in relation to the analysis actions on Methodology 2 and Modification 0678A. She reiterated that for good governance, especially where decisions are to be taken, and in line with the Modification Rules, the Workgroup should be given 5 clear business days to read the material for discussion at Workgroup. Workgroup participants acknowledged the late paper and agreed to accept it.

## 2. Analysis actions on Methodology 2 and Modification 0678A

Dan Hisgett apologised for the late paper submission and explained that the presentation had been through a number of iterations before being finalised.

DH described the scope of the analysis stating that National Grid have modelled the Optional Commodity Charge (OCC) approach under Modifications 0678H/J using Forecasted Contracted Capacity (FCC) instead of Maximum NTS Exit Point Offtake Rate (MNEPOR) in the NTS optional capacity charge methodology 2 formula (Modifications 0678H/J ) and also, separately, using pipeline distance instead of straight-line distance. He clarified that the analysis uses Modification 0678A (Postage Stamp) as the basis of the calculation of charges.

He then took Workgroup through the approach and assumptions (slides 6-9) highlighting that the equation uses an annuity period and the period used in the LRMC methodology of 45 years has been used to allow ease of comparison with Methodology 2. Workgroup noted that this was good to use for comparison but that there may be a case to use a different period.

In response to Workgroup questions, he clarified that a 'like for like' comparison was provided in the analysis with all other parameters unchanged. He reminded Workgroup participants that Methodology 2 includes a load factor of 100% and a 45-year annuity rate.

The assumptions used for the analysis are described in slide 9, DH indicated that these steps have allowed National Grid to provide four different sets of calculations for comparison. The outputs are also used to compare against UNC0678H/J to provide a comparison against an example set of prices from this methodology and from the prevailing methodology.

In addition, DH added that the analysis builds on previous analysis undertaken for Modifications 0678 and uses 2020/21 prices (updated from 2017/18). It also includes non-transmission charges.

DH then took Workgroup through the analysis shown in slides (12-15). The following comments were raised in relation to the analysis results:

### Analysis all based on straight line distances (slide 12)

- a. DH clarified that the sum of the potential transmission service (TS) socialisation and general non-TS socialisation is the amount not paid by the routes considered. He referred to this as the amount "swirled around" i.e. the costs shared across Users.
- b. In response to a question from Henk Kreuze, DH confirmed that lower rates (i.e. higher amounts of discount) lead to higher amount of socialisation.

Bill Reed (BR) sought clarification of why the general Non-TS socialisation costs were discounted. Nick Wye indicated that a paper he provided previously for Workgroup 0621 titled “Application of the OCC charge for SO services” provides more background information in relation to this. He briefly explained that the Transmission Operator (TO) commodity charge didn’t exist so the discount was attached to the System Operator (SO) commodity charge. He believes that SO costs are not relevant to a private pipeline. BR agreed that if you have your own pipeline it is an avoidable cost. The paper is available here: <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2018-02/SO%20derivationv3%20NW.pdf>.

- c. DH confirmed that existing contracts are not included as the assumption is that new capacity is being bought.
- d. Laura Johnson (LJ) clarified that current known sites as at September 2018 were used in the analysis to ensure the same baseline for comparison purposes.
- e. DH confirmed that the ‘longest route’ distances are provided in km.
- f. LJ clarified that the numbers of routes shown in columns 2, 3 and 4 (14, 12 and 14 respectively) are all subsets of the total 37 routes shown in column one (see slide 12).

Analysis all based on pipeline distances (slide 13)

- a. LJ confirmed that the analysis is on the same basis as the Transmission Services model.
- b. NW observed that the analysis does not consider the likelihood of a site bypassing given that pipeline distances are generally longer than straight line distances. In a comparison of standard charges versus short-haul the number of sites that will continue to use short-haul are likely to be overstated because of the distances used.
- c. LJ clarified that the distance used is from Entry to Exit.
- d. LJ clarified that straight-line distance is used for the current OCC.

RH asked Workgroup if there was general agreement to use this ‘pipeline distance’ approach as a representative measure. There were mixed views, some Workgroup participants had concerns about the short timescales for an October 2020 implementation, others felt more discussion was needed on the use of straight line versus pipeline distances.

HK stated that in the Netherlands, 130% is used as a minimum and pipeline distance is used as a proxy for bypass distance. RH asked what the justification was for using 130%. HK indicated that if the most direct route is taken then there is likely to be an underestimation but if pipeline distance is used then this may lead to overestimation, so he suggested perhaps the 130% is something in between as a way of achieving a more accurate outcome.

Julie Cox (JCx) asked how this would impact potential locations where the straight-line distance is too high, such as some Power Stations. LJ clarified that the distance from the connection to Terminal is used and not from the Power Station.

There was broad agreement that the two current viable measures are straight line and pipeline and further thought is needed to consider if there are any other potential measures for calculating distance at the point the solution is being developed.

Analysis all based on straight line distances with load factor applied (slide 14)

- a. The £65m potential TS socialisation amount is the difference between what short-haul Users pay on short-haul rates compared with a non-discounted figure. Workgroup suggested the short-haul contribution should be included in the analysis slide and suggested adding it as an additional row above the potential TS socialisation amount.
- b. CW confirmed that the minimum annual fee is included.
- c. A brief discussion took place on the pipeline sizing and whether it is based on load factors. CW suggested that for the prevailing model it is 75% and 100% for Methodology 2.

RH concluded the discussion by thanking National Grid for the helpful analysis.

### 3. Workgroups

#### 3.1. 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>

### 4. Next Steps

RH confirmed that CEPA would attend the next meeting on Tuesday 11 February to respond the industry questions on the Modification 0678 impact assessment.

A brief discussion took place on Action 0905, CW indicated that he planned to invite colleagues from the RIIO team to the next meeting to provide a general update as well as an update on the action.

RH confirmed that the meeting will start with the update on Action 0101 in relation to the Workgroup questions for CEPA (relating to the Modification 0678 impact assessment) and confirmed that 45 minutes was allocated to this agenda item at the request of Ofgem. JCx questioned whether there was sufficient time allocated to this agenda item given the number of industry questions put forward. In response, David O'Neill (DON) indicated that some questions were covered by the CEPA report and a written response to these would be provided following the meeting; the other questions would be addressed at the meeting.

JCx asked if the written response could be provided in advance of the meeting and suggested industry may have some follow-up questions.

DON ~~reiterated said~~ that ~~both the analysis and~~ CEPA's attendance at the 11 February meeting ~~are is~~ intended to ~~aid industry understanding facilitate the process~~. ~~Ofgem had volunteered this as those involved heavily in the UNC678 process had indicated they had some questions about CEPA's analysis. He said he expected that CEPA will answer all the issues raised (and also referred to Ofgem's 23 December 2019 publications which set out the analysis in detail and answered some of the questions that industry had raised) and it is then up to respondents to the UNC678 consultation to raise any remaining issues they have with the modelling. He suggested that industry include any questions as part of their consultation responses.~~ He also confirmed that all (non-confidential) consultation responses will be shared with ACER and all (non-confidential) consultation responses will be published.

Alsarif Satti (AS) reminded Workgroup that Paragraph 3 of Article 26 requires all consultation responses to be published together with a 250-word summary of responses and reminded industry to provide these 250-word summaries alongside their consultation responses.

RH confirmed that Workgroup participants welcomed an update from the RIIO – 2 team and suggested that 15-30 minutes would be allocated for this item. CW suggested that if industry parties have any specific questions, they send them to him in advance of the meeting.

**5. Any Other Business**

None.

**6. Diary Planning**

Further details of planned meetings are available at: [www.gasgovernance.co.uk/events-calendar/month](http://www.gasgovernance.co.uk/events-calendar/month)

Workgroup meetings will take place as follows:

Time / Date	Venue	Workgroup Programme
10:00 Tuesday <b>11 February 2020</b> (changed from 04 February)	Radcliffe House, Blenheim Court Warwick Road Solihull B91 2AA	CEPA response session RIIO-2 Update Standard Workgroup Agenda
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 Table (as at 28 January 2020)**

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	<b>Carried Forward</b>
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	ALL	<b>Pending</b>

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