

NTS Charging Methodology Forum (NTSCMF) Minutes

Wednesday 22 July 2015

31 Homer Road, Solihull B91 3LT

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Amrik Bal	(AB)	Shell
Andrew Pearce	(AP)	BP Gas
Caroline Rossi*	(CRo)	ExxonMobil
Charles Ruffell	(CR)	RWEST
Colin Williams	(CW)	National Grid NTS
Debra Hawkin	(DH)	TPA Consultants
Gerry Hoggan	(GH)	ScottishPower
James Thomson*	(JT)	Ofgem
Jeff Chandler*	(JC)	SSE
John Costa	(JCo)	EDF Energy
Julie Cox	(JCx)	Energy UK
Peter Bolitho	(PB)	Waters Wye Associates
Richard Fairholme*	(RF)	E.ON UK
Ricky Hill	(RH)	Centrica
Rob Wigginton	(RW)	Wales & West Utilities
Stuart Dawson	(SD)	BP Gas
Terry Burke	(TB)	Statoil
Thomas Dangarembizi	(TD)	National Grid NTS
Vikas Garg	(VG)	National Grid NTS

* via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/ntscmf/220715>

1. Introduction and Status Review

1.1 Minutes

The minutes from the previous meeting (06 May 2015) were approved.

1.2 Pre-Modification discussions

No items for discussion.

2. Gas Transmission Charging Review (GTCR) - Ofgem Update

JT gave a brief update, advising that the review was still being worked on and an industry update was expected later in the summer. It was noted that the current Ofgem lead, Alena Fielding, was taking maternity leave very shortly and that any questions or queries should therefore be directed to David Reilly (David.Reilly@ofgem.gov.uk) who would be covering this area in the meantime.

3. EU Code – National Grid NTS Update

Advising that a full update on the Tariff Code would be made at the Transmission Workgroup on 03 August 2015 (by C Hamilton, National Grid NTS), CW reported that following the removal of the Article relating to certain provisions for charging Storage and its replacement by a smaller piece of text, the position had now been reverted and the Article (now Article 11) restored, where the NRA has ability to approve the methodology considering certain provisions for charging storage. CR added that Comitology was planned for Q1 2016. RH asked if it was known how DECC gathered industry views and formulated its views prior to any contribution. AP observed this was probably achieved through the stakeholder meetings, although there was no formal process he was aware of and suggested that parties contact Sue Harrison at DECC to discuss.

4. NTS Optional Commodity Charge (“Shorthaul”)

4.1 Review of Shorthaul Principles/Modification

CW began the presentation, outlining the background and the proposed approach to review the NTS Optional Commodity Charge. National Grid NTS had taken account of the feedback received and proposed to bring the cost inputs up to date, and to delay a review of the access and broader methodology of the NTS Optional Commodity charge until a later stage. National Grid NTS had been reviewing how the product was being used (currently no barriers, and seen as a commercial product) and it was recognised the costs were significantly out of date in terms of the drivers. It was confirmed that the formula itself had been based on 1998 prices.

Going forward, National Grid NTS would ensure timely discussions would take place on the NTS Optional Commodity charge at a time when any perceived impacts on the charge that may result from the imposition of the EU Tariff Code and the GTCR can be more easily assessed against more certain information. A review of the charging arrangements could then be made and consideration given to how the charging framework may be affected.

It was noted that a change to the methodology, access or objectives of the NTS Optional Commodity charge would require a UNC modification to be made, however a modification is not be required to make a change to the relevant input costs that update the charging function for the NTS Optional Commodity charge.

CW explained that function was in the Statement of Transmission Transportation charges, (not in UNC TPD Y) and this was under separate governance in respect of any updating required. National Grid NTS has the ability to initiate and implement updates and, recognising the industry’s interest and the potential step changes that would likely affect some users, is engaging with industry to seek views/comments on the proposals through means of the Discussion Document. An email drawing attention to this was sent out via the Joint Office on 13 July 2015. (Link to Discussion Documents on National Grid’s website: <http://www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Charging-methodology/Gas-Charging-Discussion-papers/>.)

4.2 NTS GCD11: NTS Gas Charging Document - Updating the Cost Inputs to the NTS Optional Commodity Charge Function

TD summarised the content of the Discussion Document and the governance process for updating Shorthaul, and explained the rationale for the proposed options for updating costs. PB questioned why the governance did not sit within the UNC, believing this to be inconsistent; the principles should be set out in Code and there were concerns that this was now seeking to change a fundamental aspect. CW thought this may have been because there was a significant amount of explanatory information, and explained what can/cannot be updated outside of Code, observing that if putting into Code it was better to

do this with a set of variables that could be easily updated. It was suggested that this area of concern (codifying principles in UNC, with regular review/updating as appropriate) could be looked at in a future review.

Moving on to consider the two options, TD observed these demonstrated a RIIO approach versus an Indexation approach.

Option 1 - Using pipe sizes and unit costs that were provided under the RIIO-GT1 Price Control

The costs that underpin the calculation for Shorthaul would be based on costs related to National Grid's Price Control settlement agreed by Ofgem. This option only uses those pipe sizes for which National Grid received unit costs as part of the RIIO-GT1 Price Control agreed with Ofgem. The 0km (connection cost) is based on 14.55% of the project cost at 50km distance for the different flow rates, and indexed 09/10 costs to 2015/16 prices using RPI.

It was questioned how the 50km figure was arrived at, and CW explained in more detail; there were elements here that were not in Code but were in the existing equation/derivation. National Grid NTS was trying to effect minimal change and just replace the input costs where possible. It was questioned, connection costs had nothing to do with distance? CW gave a further detailed explanation. It was noted that there could not be a zero rate for the Optional Commodity Charge; the fixed cost element allows a rate to be derived for a zero distance. A short discussion ensued regarding how the formula was originally derived and what values were used, and which elements of the current formula were being replaced. TD gave a brief explanation of how National Grid NTS was approaching this, indicating slight differences to what was previously used. JCx observed that Price Control appeared to driving in a certain direction. CW explained how the calculation was constructed (portfolios, unit costs, etc); unit costs were probably an average of sizes/ project costs/experiences at the time. PB observed that the proposed derivations might actually be more realistic now. It was noted that National Grid NTS has certain costs (relevant to revenue allowance) that have to be referred to and can be verified by Ofgem.

It was questioned had actual connection charges risen as much as inflation. RH noted the need to have more cost reflective charges, but could not see the logic in applying it these ways, forcing up some tariffs by 200%, if a party was to continue paying the Optional Commodity Charge; the impact appears to be significant in some instances. JCo agreed with the need to have cost reflective charges where possible, (some parties may have had 'discounts' up to this time - investment decisions were made with the best information available at the time) and it was the right thing to do, even though there may be big step changes for some parties. CW agreed that timeliness of investment was a good point. Flexibility of available product also had a bearing and the use of it as a genuine alternative to investment, but it appears to be used as a commercial product. Step changes will affect parties in different ways and all views would be welcomed. JCX added that the current situation was a consequence of historical decisions, and that perhaps there should be a more forward looking focus where possible.

Option 2 - Updating the current portfolio of unit costs using publicly available indices and including the pipe sizes and unit costs that were provided for under the RIIO-GT1 Price Control

This option is a fusion of both current and new pipe sizes; it uses the current portfolio of pipe sizes and adds to them the unit costs for the three pipe sizes agreed under the RIIO-GT1 price control. It uses a steel index and RPI to update the unit costs for the current portfolio of pipe sizes using a combination of the steel index and RPI to index costs from 1998 up to 2015/16. Using both sets of indices applies only to those pipe sizes that are part of the current portfolio.

A table comparing the portfolio of pipe sizes was displayed.

Four different options were referred to in the Decision Document and TD gave a brief overview of each. Graphs were displayed for 'Current', 'Current RPI', 'Option 1' and 'Option 2', illustrating the rates (April 2015) under each option. TD drew attention to various points.

The various impacts had been considered. TD summarised the key assumption relating to predicted behavioural change, the total volume flow, and the choice of charges, and then drew attention to a table illustrating the impacts on the TO and SO Commodity Charges across the different options. CW observed that this showed a small change in behaviour (this was difficult to assume); price is then seen as the only driver.

Graphs were displayed illustrating the impact on combined Commodity charges, and the impact with revenue from NTS Optional Commodity. Impacts across various Shipper sector groups were considered. Graphs were presented, illustrating the impact on the NTS Optional Commodity Charge Volume and the NTS Optional Commodity Charge Revenue. Not a lot of volume change was expected across the groups. Revenue from Shorthaul will increase; conversely a decrease in revenue on SO Commodity collection will be seen.

The two options reflect a revenue difference, rather than a significant effect on site behaviour.

JCo suggested certain improvements to the illustration of information; CW believed this would be very difficult to accommodate given commercial sensitivities and positions of various parties. National Grid NTS had tried to provide sufficient information in the Discussion Document for parties to be able to calculate/assess their own positions. It was believed very few users would be affected from a volume point of view, but rather a revenue standpoint, which is a commercial decision. RH asked had consideration been given to the possibility that the proposed changes might so adversely affect a site (as margins are very small) to the point where it may decide to shut down/mothball, and that this may have impacts on security of supply. CW responded that price sensitivities were evident in all price tariffs and it is impossible for National Grid NTS to know how greatly it may affect different business models. RW commented that it could be questioned whether any such site would have been operating at all over the years without what appeared to have been this existing element of cross-subsidy. It was suggested that any such concerns should be raised confidentially with National Grid NTS.

Returning to the presentation TD summarised the impacts. There is an impact based on no changes to volumes (flows not affected and users only paying lesser of NTS Optional Commodity or Combined NTS Commodity). It was believed that under the proposed Options the majority of NTS Optional Commodity charge users would remain below the Combined Commodity rate. Decreases on Commodity charges are likely to be greater for SO commodity than TO Commodity charges, and as volume impact is low (volumes that may move to pay normal Commodity) this has a minimal impact on TO and SO (Entry and Exit) Commodity charges. As the NTS Optional Commodity rates increase under both options this increases the revenue collected from the NTS Optional Commodity charge, and a decrease in SO (Entry and Exit) Commodity charges.

Discussion Document Questions and Timescales

CW briefly reviewed the questions included in the Discussion Document. The closing date for responses is Friday 21 August 2015; nothing would be published until after this date. Responses will be reviewed and a report will be produced; a decision will then be made on an appropriate way forward and brought to the next meeting. All responses, confidential and otherwise, will be welcomed and he confirmed that confidential responses would not be published.

JCx commented that she would like to see the Indexation values and was using the RII-O numbers the right thing to do? She believed using costs as they relate to the NTS is not quite right when considering third party actions. CW agreed to include this information and update the Discussion Document on the website as version 1.2.

CW confirmed National Grid NTS would be looking to make a decision by the end of September, to be able to include in the indicatives for April 2016. CW also confirmed that National Grid NTS was in dialogue with Ofgem and that visibility was maintained regarding the updating of a value in the Charging Statement. JT confirmed that Ofgem was content with the review process going ahead and was keen to see the industry's responses. Should a party have any concerns, these should be directed to David Reilly (Ofgem).

5. Issues

5.1 Forecast Peak Demand Reduction (11%)

JCx raised concerns that a forecast 11% peak demand reduction was significant and will drive up exit charges, and has the potential to materially impact the Transportation model, and will have consequential impacts (locational, general, movement to off peak products, change bookings, TO commodity rate, demand estimation, etc) - it was very complex and she was still trying to think this through. CW indicated this was being assessed and that National Grid NTS would present on the perceived impacts (charging centric) of a forecast 11% peak demand drop at the next meeting.

Action 0701: Forecast Peak Demand Reduction (11%) - National Grid NTS to present on the perceived impacts (charging centric) of an 11% peak demand reduction.

6. Workgroups

No business to consider.

7. Any Other Business

7.1 "Generic Revenue Driver Methodology" Review

VG gave a presentation, outlining the background. The methodology must be reviewed every two years and includes consultation with interested parties. A number of changes (10) were proposed and VK briefly highlighted these.

Additional comments would be welcomed. Responses to the consultation should be sent to: vikas.garg@nationalgrid.com by Friday 14 August 2015.

8. Review of Outstanding Action

0501: The Statement of Gas Transmission Transportation Charges and the Shorthaul formula - Clarify and report on the Licence obligations and governance arrangements in respect of each.

Update: Covered in the presentation. **Closed**

9. Diary Planning

Meeting papers (including Action updates) and agenda items should be submitted to the Joint Office (enquiries@gasgovernance.co.uk) by Friday 18 September 2015.

NTS CMF Workgroup meetings will take place as follows:

Time/Date	Venue	Workgroup Programme
10:30, Tuesday 29 September 2015	31 Homer Road, Solihull B91 3LT	<ul style="list-style-type: none"> • GTCR • EU Update • NTS GCD11: NTS gas

		<p><i>Charging Document - Report</i></p> <ul style="list-style-type: none"> • <i>Forecast Reduction in Peak Demand - charging impacts</i>
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Action Table (22 July 2015)

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
0501	06/05/15	4.	<i>The Statement of Gas Transmission Transportation Charges and the Shorthaul formula</i> - Clarify and report on the Licence obligations and governance arrangements in respect of each.	National Grid NTS (CW)	Closed
0701	22/07/15	5.1	<i>Forecast Peak Demand Reduction (11%)</i> - National Grid NTS to present on the perceived impacts (charging centric) of an 11% peak demand reduction.	National Grid NTS (CW)	Pending