

NTS Charging Methodology Forum (NTSCMF) Minutes
Wednesday 02 November 2016
Consort House, 6 Homer Road, Solihull B91 3QQ

Attendees

Chris Shanley (Chair)	(CS)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Amrik Bal	(AB)	Shell
Andrew Pearce	(AP)	BP Gas
Anna Shrigley*	(AS)	Eni UK
Charles Ruffell*	(CR)	RWE
Colin Hamilton	(CH)	National Grid NTS
Colin Williams	(CW)	National Grid NTS
David Cox*	(DC)	London Energy Consulting
David Reilly	(DR)	Ofgem
Debra Hawkin	(DH)	TPA Solutions
Gerry Hoggan	(GH)	ScottishPower
Graham Jack	(GJ)	Centrica
Jeff Chandler*	(JC)	SSE
Julie Cox	(JCx)	Energy UK
Pavanjit Dhesi*	(PD)	Interconnector UK
Peter Bolitho	(PB)	Waters Wye Associates
Richard Fairholme	(RF)	Uniper
Robert Wigginton	(RW)	Wales & West Utilities
Sarah Chleboun	(SC)	National Grid NTS
Sinead Obeng	(SO)	South Hook Gas
Vladislav Zuevskiy	(VZ)	Northern Gas Networks

* via teleconference

Copies of all meeting papers are available at: <http://www.gasgovernance.co.uk/ntscmf/021116>

The NTS CMF Document Library has been set up on the Joint Office website and can be accessed at: <http://www.gasgovernance.co.uk/ntscmf/doclib>.

1. Introduction and Status Review

CS welcomed all to the meeting.

1.1 Approval of Minutes (05 October 2016)

The minutes of the previous meeting were approved.

1.2 Pre-Modification discussions

No business raised.

2. Workgroups

No business to consider.

3. Gas Charging Review

CW outlined the programme for the meeting.

3.1 Report on output from interim Sub Group

Documents from the first meeting (19 October 2016) had been published for information purposes.

Following a brief discussion it was agreed that in order to advance progress, the frequency of the Sub Group meetings should be increased to two a month. The second meeting may be on occasion a teleconference or cancelled if not critical that month. CW would make and notify these additional arrangements to participants. In the meantime parties were encouraged to feed back on any issues/topics between meetings.

CW summarised items discussed at the first meeting. The ToR had been established. The Transportation Model/current framework was under review, key issues had been identified and further analysis was being performed. The CWD Model had been introduced and participants will help to shape and develop this model further. The LRMC and CWD Models are the starting point for the Sub Group's analysis, with the Postage Stamp Model possibly serving as a further comparator. Currently these models were two extremes - an approach with a forward-looking focus on an expanding network, and a more usage focused approach - but there may also be a hybrid at the end of the day. A better understanding was needed of the different principles behind the charges produced by the two models.

DR observed that previously there had appeared to be four potential models under consideration at a EU level - Postage Stamp, Virtual Point (LRMC is a version), CWD, and Matrix. CW confirmed that the principles behind each of these approaches had been looked at, and the most suitable ones appeared to be CWD, the Virtual Point and a potential variation of the Virtual Point.

The Sub Group was identifying key issues with the current framework and how the current approach may or may not meet relevant objectives and stakeholder developed objectives. Views on all aspects are being sought; a critique of the current framework will be developed and a final assessment will be produced. The next phase of output from further analysis of the Transportation Model (sensitivities of various inputs - individual and combined effects are being analysed) will be reviewed at the next meeting. DR suggested that an audit of the CWD model might also need to be factored in to check there are no errors apparent. CW indicated that the Sub Group would subject everything to close scrutiny and a clear audit trail would be evident. Responding to a question from JCx, CW confirmed that it would also look at how Entry prices can be adjusted within the Model; the logic and calculations would be shared to assist understanding. GJ asked if consideration should be given to potential approaches as to how capacity can be acquired via the current auctions or applications. DR indicated that this topic would be better discussed by the CAM workgroup.

3.2 Analyses summaries to support Options

These would be provided as and when the Sub Group had completed its deliberations.

3.3 Development/refinement of the Workplan

The Workplan was reviewed. CW confirmed there would be a cyclical loop to keep NTS CMF informed of developments.

It was agreed that a central Issues Register should be maintained that would include Issues identified by the Sub Group and the NTS CMF.

CW reiterated some high-level discussion topics.

Locational Signals

Perceived differences between locational and geographical signals were discussed. The current Model has locational signals but other factors mean the signals/charges produced are not as strong as seen historically. The debate will be about whether locational signals are important or not within the broader spectrum to parties, and if this is a strong foundation

to maintain in the current approach. If multipliers reach a certain level then parties may not place as much importance on locational signals. However there was first a need to understand their significance and place in respect of underpinning the current methodology and then understand what purpose/effect/influence the charges have. JCx observed that any differing views on locational signals should be captured and an assessment made in respect of a variety of factors/perceptions/distinctions. Were these signals intended to drive behaviours or not, and does this element actually drive behaviours or not? Locational impacts need to be better understood and what value parties place upon them in their project decision-making. PB added that on the electricity side locational signals have been progressively dampened over time.

GJ commented that the inability to predict what charges are going to be in the future was a major drawback, and that something that provided a more predictable price than is evident in the current model would be preferable. RF observed that from a Shippers' point of view, locational signals is not necessarily a big factor, and explained why; JCx was of the same view, and gave examples. CW reiterated that the analysis will consider the sensitivities and may be able to ameliorate some issues, but views on the degree(s) of importance would have to be clearly established first. RF believed that locational signals were not the most important factor when choosing a model; it was no longer a driving factor for Shippers. It was observed that consistency was required; it was no good having principles evident in the first phase of a model that were subsequently negated in later phases of the modelling, as is the case currently. The LRMC Model had a very locational focus at its core and its intent (economic principles based on those signals) from an overall network point of view. Changes to any of these components could dilute the strength. It was queried if there were any components/factors that could be confirmed now that should be retained when thinking about what might be changed. DR observed that any such signals perhaps might not now need to be as strong as they have been and should be reassessed.

It was suggested this issue be added to the Issues Register.

Action 1101: *Locational Signals - Review of importance of having Locational Signals going forward, to understand if they should be retained or removed and the consequential effect of this decision on the model(s).* To be added to the Issues Register and reviewed by the Sub Group.

Multipliers

DR noted that we could have multipliers or discounts or seasonal factors, but it was necessary to understand if these are needed or wanted, and what informs their purpose/principles. The purpose is important because it is part of the TAR NC, but the approach to their use in GB needs to be justified.

AB pointed out that whatever changes were to be made to effect compliance with TAR NC should be kept as simple as possible and not go beyond what was required as a minimum, unless it was required to improve the GB regime. Decisions to change should not be rushed and it should be borne in mind that the obligation to demonstrate EU compliance might not be required in the next few years depending on what happened in relation to Brexit. AB was concerned that if the focus remained too strongly on what the EU requirements were to be, then an important ability to be flexible in the future may be lost; there needed to be room for manoeuvre should the need arise. It should be possible to change aspects that GB needed and wanted to change, and not get immured in EU Code requirements.

It was observed that Ofgem had not imposed a ToR on this group, but there was an expectation that it should consider and take into account the GTCR views, and there was recognition that the current Tariff regime required revision and repair. CH pointed out that this was primarily a GB Charging Review but that it still needed to be mindful of compliance with the EU TAR NC. Acknowledging this, AB reiterated his counsel that the group should guard against inadvertently implementing provisions that were unnecessary. Regard should be given to what was needful and a light touch would be required to introduce any

expedient change.

GJ reiterated that there was a need to better understand what opportunities for wider interpretations were present and could be exercised, and conversely what constraints there might be in EU TAR NC that may preclude consideration of any particular options. JCx suggested that a legal view on this was required sooner rather than later, so that appropriate interpretations could be made.

RF observed that, leaving aside multipliers, the question remained should we still have discounts for short term capacity? What is its purpose and what is its value? Will it be EU compliant? It was suggested that the Sub Group needed to do some thinking on this prior to the December meeting.

Action 1102: Add topic “Options with regard to the GTCR proposal to reduce Reserve Price discounts” to Issue Register (linking to Multipliers issue), for further investigation by Sub Group.

Concluding the discussions, CS suggested that the Sub Group prepare succinct one page summaries of its assessment of any issues and include recommendation of an approach for change (or not) where appropriate, which the NTS CMF could then review and debate as necessary.

3.4 EU Tariffs Code - Current Outlook

CH provided an update on the current position, and the timeline being followed. From the second Comitology meeting there were a number of changes impacting GB and CH gave a brief outline, before moving on to report on two GB Issues in more detail (Payable Price and Article 9, Discounts).

Payable Price

CH highlighted that Article 25 (floating price) refers to IPs only but other Articles related to the reference price methodologies capture all points; the NTS lawyers are looking at what this actually means for GB and CH will return to NTS CMF with a view.

CH clarified his understanding of Payable Price and responded to questions. The setting of reference prices was also discussed. Being mindful of any cross subsidy effects, CH highlighted that the intent is that charges needed to be set to recover revenue as closely as possible. Revenue recovery was discussed. The current methodology will have to be revisited and realigned, and the Sub Group will look at this in more detail and in particular the forecasts currently used.

Action 1103: *Payable Price and revenue recovery* - Sub Group to review potential changes to the current methodology in light of the payable price articles and in particular the forecasts currently used.

Article 9 Discounts

Relevance or not to GB was discussed. CH noted that this article obligated GB to have discounted storage of at least 50%. CH asked for views as to what principles should be considered in setting of a discount (if not the default 50%) *and* it was suggested that this be added to the Issues Register, to be considered by the Sub Group.

CH also explained that discounts for LNG entry points were also permitted but this was just an option and not a firm requirement like Storage. CH felt that the progression of such an option should be left to these parties and not be a priority for the Workgroup. However, PD believed the option was also relevant to Interconnectors as this infrastructure could increase security of supply and that it should not be dismissed at this stage. It was suggested that this should also be added to the Issues Register and that any further work should look to clarify the background and intent supporting the final article wording.

Action 1104: *Article 9 Discounts (a) clarify background and intent behind article and, b) define the process for setting of and application of such discounts in GB* - To be

added to the Issues Register and considered by the Sub Group.

Responding to questions, DR confirmed that Ofgem was in ongoing dialogue with other NRAs when looking at BBL, Moffat and IUK EU compliance matters. Any consultation process may have to include adjacent TSOs, as NRAs must maintain an awareness of any impacts on their neighbours. Reference was made to the Irish position and its interconnector's qualification for any type of security of supply related discount - the group indicated it would be interested to hear Ofgem's views regarding this.

3.5 Next Steps

It was anticipated that the frequency of Sub Group meetings will be increased as agreed and that the Sub Group will continue its analysis and assessments and provide one page summaries to the NTS CMF for review and debate, when the issues identified have been fully investigated.

The NTS CMF will continue its work in the following areas:

- Assessment of Sub Group reports/summaries
- Identification of other issues and agree any actions
- Review Issues Register
- Receive an update on EU Tariffs Code
- Review progress and refine the Workplan/approach.

4. Issues

4.1 Issues Register

The Issue Register was reviewed. Three further issues had been identified by the Sub Group and added to the register, pending further discussion. Other issues identified by this group and the Sub Group will be included as appropriate.

5. Review of Actions Outstanding

0902: *NTS CMF Library* - National Grid NTS to provide a current collection of documents for review at the next meeting, to be assessed for potential inclusion in an NTS CMF data store/library area on the JO website.

Update: Sub Group meeting papers had been provided for information and the best location for storage/accessibility was discussed.

The NTS CMF Document Library has been set up on the Joint Office website and can be accessed at: <http://www.gasgovernance.co.uk/ntscmf/doclib>. **Closed**

1001: *Scenario 3 + CRRC Adjustment* - National Grid NTS to define a way forward for the issue regarding the absence of primary data for modelling in respect of Canonbie, Caythorpe, Garton and Milford Haven, and provide for inclusion in the Issues Register.

Update: Included in the Issues Register. **Closed**

1002: *EU TAR NC Article 35: Existing contracts* - National Grid NTS to provide clarity on how this article applies to contracts at IPs and non IPs (before and after this Article enters into force).

Update: Under review. **Carried forward**

6. Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/Diary

Please see details below.

2016 Meetings

Time/Date	Venue	Workgroup Programme
10:00, Tuesday 06 December 2016	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	See 3.5, above.

2017 Meetings

Time/Date	Venue	Workgroup Programme
10:00, Wednesday 11 January 2017	Consort House, Prince's Gate Buildings, 6 Homer Road, Solihull B91 3QQ	<i>To be confirmed</i>
10:00, Wednesday 01 February 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	<i>To be confirmed</i>
10:00, Monday 06 March 2017	Consort House, Prince's Gate Buildings, 6 Homer Road, Solihull B91 3QQ	<i>To be confirmed</i>
10:00, Wednesday 05 April 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	<i>To be confirmed</i>
10:00, Monday 08 May 2017	Consort House, Prince's Gate Buildings, 6 Homer Road, Solihull B91 3QQ	<i>To be confirmed</i>
10:00, Monday 05 June 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	<i>To be confirmed</i>
10:00, Monday 03 July 2017	Solihull	<i>To be confirmed</i>
10:00, Wednesday 02 August 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	<i>To be confirmed</i>
10:00, Monday 04 September 2017	Solihull	<i>To be confirmed</i>
10:00, Wednesday 04 October 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	<i>To be confirmed</i>
10:00, Monday 06 November 2017	Solihull	<i>To be confirmed</i>
10:00, Wednesday 06 December 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	<i>To be confirmed</i>

Action Table (02 November 2016)

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
0902	06/09/16	3.6	<i>NTS CMF Library</i> - National Grid NTS to provide a current collection of documents for review at the next meeting, to be assessed for potential inclusion in an NTS CMF data store/library area on the JO website.	National Grid NTS (CW, LJo, SC)	Closed
1001	05/10/16	3.3	<i>Scenario 3 + CRRC Adjustment</i> - National Grid NTS to define a way forward to the issue regarding the absence of primary data for modelling in respect of Canonbie, Caythorpe, Garton and Milford Haven, and provide for inclusion in the Issues Register.	National Grid NTS (CW/SC)	Closed
1002	05/10/16	3.5	<i>EU TAR NC Article 35: Existing contracts</i> - National Grid NTS to provide clarity on how this article applies to contracts at IPs and non IPs (before and after this Article enters into force).	National Grid NTS (CH)	<i>Due Tuesday 06 December 2016</i> Carried forward
1101	02/11/16	3.3	<i>Locational Signals - Review of importance of having Locational Signals going forward, to understand if they should be retained or removed and the consequential effect of this decision on the model(s).</i> To be added to the Issues Register and reviewed by the Sub Group.	National Grid NTS (CW)	<i>Due Tuesday 06 December 2016</i> Pending
1102	02/11/16	3.3	Add topic " <i>Options with regard to the GTCR proposal to reduce Reserve Price discounts</i> " to Issue Register (linking to Multipliers issue), for further investigation by Sub Group.	National Grid NTS (CW)	<i>Due Tuesday 06 December 2016</i> Pending
1103	02/11/16	3.4	<i>Payable Price and revenue recovery</i> - Sub Group to review potential changes to the current methodology in light of the payable price articles and in particular the forecasts currently used.	National Grid NTS (CW)	<i>Due Tuesday 06 December 2016</i> Pending

1104	02/11/16	3.4	<i>Article 9 Discounts (a) clarify background and intent behind article and, b) define the process for setting of and application of such discounts in GB) - To be added to the Issues Register and considered by the Sub Group.</i>	National Grid NTS (CW)	<i>Due Tuesday 06 December 2016</i> Pending
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