

NTS Charging Methodology Forum (NTSCMF) Minutes
Tuesday 06 December 2016
Elexon, 350 Euston Road, London NW1 3AW

Attendees

Chris Shanley (Chair)	(CS)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Amrik Bal	(AB)	Shell
Anna Shrigley	(AS)	Eni UK
Caroline Rossi	(CRo)	ExxonMobil
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
Joanne Parker	(JP)	Scotia Gas Networks
Julie Cox	(JCx)	Energy UK
Kieron Carroll	(KC)	PSE Kinsale Energy
Laura Johnson	(LJ)	National Grid NTS
Lucy Manning	(LM)	Gazprom
Mads Damso	(MD)	DONG Energy
Nahed Cherfa	(NC)	Statoil
Nick Wye*	(NW)	Waters Wye Associates
Pavanjit Dhesi	(PD)	Interconnector UK
Richard Fairholme*	(RF)	Uniper
Robert Wigginton	(RW)	Wales & West Utilities
Sarah Chleboun	(SC)	National Grid NTS
Vladislav Zuevskiy*	(VZ)	Northern Gas Networks

* via teleconference

Copies of all meeting papers are available at: <http://www.gasgovernance.co.uk/ntscmf/061216>

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 (02 November 2016)

The minutes of the previous meeting were approved.

1.2 Pre-Modification discussions**1.2.1 Draft proposal - Provision of NTS Cost Information**

The Proposer was not in attendance; discussion deferred to next meeting.

2. Workgroups

No business to consider.

3. Gas Charging Review

CW outlined the programme for the meeting.

3.1 Review of Sub-group Reports and next steps

CW outlined topics and items discussed at the November Sub-group meeting, and summarised the status of each in more detail.

Locational Signals - Summary Paper

In response to Action 1101 (see 6, below) a one page summary paper on Locational Signals had been produced and published. JCx believed this to be a good approach to follow in respect of the other discussion topics and placing them in the NTS CMF library will make it easy to find any further reference papers in the future.

CW gave an overview of the content and the conclusion reached by the Sub-group. This was reviewed and discussed.

DH asked if the conclusion would be used in the modelling; CW affirmed that it would, and confirmed that National Grid NTS had no major concerns. AS asked if Ofgem was able to provide a view; DR reiterated that the Reference Price Methodology (RPM) was under review and this will contribute to that process. Locational Signals do not appear to be a primary driver, and there are a number of potential charges that could be considered, some containing Locational Signals and some not. Nothing should be ruled out at present. While recognising that it may be too early for the formulation of any decision, parties reiterated that they would appreciate a prompt and clear view from Ofgem at a very early stage should any conclusion not be worth pursuing, to avoid any waste of time and unnecessary work.

Expansion (or not) of networks and the use of Locational Signals were discussed; CW believing it to be neither here nor there. DC observed that actual prices do matter, even though the networks were not in expansion mode and the signals and the model are used to inform decisions; potential effects/use for CCGTs and the electricity side were referred to. DR commented there would still be geographical pricing throughout the UK and this will reflect costs (entry/exit from those points). Electricity was different and there was still more scope for creating signals to encourage/discourage building and demand. It was not the same for gas, and electricity demand should not be considered a key driver. There was a need to be non-discriminatory; CCGTs cannot be favoured over any other party. DC responded that he was more interested in understanding the interplay between gas and electricity.

AB pointed out that the paper did not take into account the views of Producers. Locational Signals at entry still had a value for accurate pricing, and would become more relevant when GB becomes a net importer of gas. CW observed that the Sub-group had a reasonably broad membership and those who had evinced an interest in contributing did not necessarily represent all parts of the industry. The paper therefore reflected the qualified view of its participants. GJ commented that the Locational Signals delivered through the current methodology were so diluted as to be meaningless. It was suggested that if participants had further views on the paper they should feed them through to CW.

Multipliers (discounts)

The Sub-group accepted that the initial and simple approach for modelling was to set all multipliers to 1, and working from that to see if there was any benefit in deviation to assist with more accurate revenue recovery. The discussions were ongoing and it was too early to make a conclusive statement at this stage. All comments are welcomed and CW will prepare a position paper, accepting that it may need to be revisited once other issues had been evaluated.

DR observed that if the RPM ends up with a capacity based tariff then discounts will have to be reviewed and the effects considered; multipliers may have a big part to play. CW suggested that these may be fixed or adjustable by linking them to a framework (to achieve the required revenue recovery). GJ commented that other factors, e.g. security of supply needed to feed into this, and gave examples.

GJ observed there still needed to be something in place that encourages gas to flow to GB. AB noted that the distributional effects of how revenue is collected needed to be taken into account, and gave examples. DR reiterated the need to justify whatever changes are proposed/made and to consider the wider effects. AB pointed out the need to consider wider market forces and impacts on trade - change cannot be viewed in isolation. DR recognised there would be distributional impacts, however retaining the status quo is not a choice. Consideration needs to be given as to how the system should now be designed. Revenue collected from entry charges will not be any different (not changing allowed revenues). Believing there was scope to recover it differently, PD questioned whether it had to stay the same, as gas still needs to be encouraged into the GB market.

DR counselled against 'scope creep' at this stage. Ofgem's view at the moment is 50:50; AB asked if Ofgem was open to change. DR reiterated that on a timeline basis he would counsel against opening this area up. DC questioned, what was the core objective of this review - it should not be seen as just a 'box ticking' exercise - and it was important to avoid any unintended consequences. DR commented that what was good for security of supply was not necessarily good for consumers - a lot of gas that enters the UK also exits it to other non-UK destinations. CS suggested that this might be in the 'too difficult to do camp' and it should be added to the Issues Register. CW referred to its potential to be a variable and noted that there was a new Price Control from 2012/1 and suggested that it might be looked at then as part of a longer term phased approach; other aspects are more pressing for 2019.

Behavioural Assessments

Splitting entry and exit into separate areas for assessment of behavioural responses to price changes was discussed. It was observed there might be a link between multipliers and behaviour; users will respond differently and the varying perceptions on them will need to be better understood. CW indicated that he intended to review the Cambridge Economics work. NW reported that the Midstream Gas Group recognises the importance of behavioural assessments and will engage in developing an analytical survey (bearing in mind commercial sensitivities); the previous CEFA analysis was very limited and needs refreshing/updating. NW briefly explained the proposed approach (two surveys, entry and exit) and anticipated providing an update to the next NTS CMF meeting (the mechanics of the surveys being still under discussion at present). The surveys will be issued for response and the representations received will be used to develop a useful methodology to better understand the potential level of bookings. CW encouraged parties to engage with this and become actively involved to devise a reasoned set of assumptions to give a realistic view of behaviours. NW confirmed that this would be done in parallel with what has been done historically (for entry); exit will be a new area. Pertinent information will need to be carefully extracted to appropriately inform the modelling.

3.2 EU Tariffs Code - Current Outlook

CH provided an update on the current position, and the timeline being followed, noting that the annual auction is the last Long Term auction that falls under the protection of Article 35. The ramifications of Article 35 in respect of existing contracts were still being discussed with National Grid NTS legal team; there were many complications to be thought through, with further clarity on a number of outstanding questions being sought, and it was hoped an update would be provided next month.

AS referred to the Bacton split and the forced allocation of capacity, whereby some Shippers received capacity they did not require, and questioned the treatment under Article

35. CH explained how it would be applied - it is protected because it is concluded before EIF, even though it runs for X years; the Fixed Price element will not change, but it may not preclude other adjustments being made. AS asked if it would attract a floating charge; this was discussed, with CW explaining the protected and unprotected parts of the payable price - not all was clarified as yet. AS reiterated it was still not clear how this capacity would be treated in the future and that a proper legal interpretation was required. CH observed that there was clarity as to what contracts were protected, but it still needed to be understood what was to happen in respect of reconciliation and the interaction with other components; what protection this affords needs to be clarified and the period over which it may/may not apply. Following a holistic legal view, CH anticipated raising modifications in Q1 2017.

The EU TAR NC consultation timeline was then illustrated, with CH drawing particular attention to what the various parties will need to do, and explaining how it would work in relation to the UNC process. This was discussed. DR believed there might have to be a point where Ofgem indicates its 'minded to' decisions on any modification proposals, and this will be submitted to ACER, following which there is another consultation. JCx observed that this did not appear to allow time for any challenges to be raised/addressed. This was discussed; if the industry wanted to challenge it was suggested this might go in parallel with ACER's phase. ACER will be reviewing papers from all Member States and looking at impacts, however this would be a considerable workload in the time allotted. It was noted there would probably be more interest in the submission from some Member States than others. JCx suggested this might be an argument for early submissions to ACER to try and reduce any period of uncertainty. She would prefer a formal Ofgem decision, then the ACER phase, and then look at any issues that may arise. CH and DR noted this view for consideration.

CH then drew attention to the fact that at the same time as this main consultation, there would be a consultation requiring the NRA to consult with all the NRAs of the directly connected Member States, and outlined the focus of this consultation, which was intended to become an annual review.

CH advised that it is anticipated there will be two ENTSOG Workshops, one around the time of Entry into Force and one in October 2017.

3.3 Workplan - review progress and refine approach

Items proposed for evaluation and development by the Sub-group were discussed under 4.1, below.

3.4 Next Steps

CW confirmed that the model would be developed and shared; this was likely to be around February 2017

It was anticipated that the Sub-group would continue its analysis and assessments of the topics outlined and it would provide one-page summaries as appropriate 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 as appropriate.

4. Issues

4.1 Issues Register

The first issue was reviewed.

TCMF01 - CW agreed the end result will need to reference security of supply, and asked for views on when appropriate analysis was required to show if it influences price.

Commenting generally, JCx observed that this document (Issues Register) was to be a repository for Issues, with each major issue concluding with its own one page document.

The Sub-group needs a list of items regarding which it needs to develop a clear position before any modification(s) can be structured.

CW then drew attention to slides 27 - 32 in the main presentation, which in effect set out such a list (in no particular order of priority) of items for consideration/evaluation. CW read out each item in turn and participants expressed views as appropriate. RW suggested that the rationale for whatever decision(s) were made should be included for each item. CS suggested that minor issues and issues that were to be deferred/reviewed at a future date should also be documented so they are not lost sight of, perhaps separately if necessary. This should also include clear justifications for any decisions taken.

Storage discount - Referring to the figure of 50% CRo asked if this was just a starting point for the model, or can other figures be simulated. CW responded that Tariff Code mandates 50% as minimum; any difference has to be clearly justified. A discussion ensued and PD pointed out that the ability was needed to be able to compare with other factors/aspects. LM believed it should be used as a starting point and that it should not preclude from the modelling and assessment of other values/impacts on flows and competition. It was suggested that a one-page summary on this topic should be produced.

CRo suggested that items could be ranked, and perhaps colour-coded. CS suggested that this could show those that were under investigation (amber), agreed in principle (green) and where different views were held (red). GJ suggested it would be useful to parameterise where appropriate and understand where the model is able to cope with flexibilities.

Use of fixed prices - CW explained this in more detail; it was a specific treatment for incremental (that does not have to be applied). GB has an allowed revenue regime (a floating price and reconciliation), not a fixed price regime (this would conflict with Price Control and give reconciliation issues). DR drew attention to Article 17(2) and encouraged parties to read and form a view on interpretation.

Entry/exit split - Maintaining 50:50 is the starting point for modelling; deviation will need justification. If an alternative is proposed then Ofgem will consider. Any changes could be reviewed over a longer term. CRo and AB believed this to be a fundamental point that should be reviewed now, and form part of a wider ranging review of issues that are of major importance (and not just reviewing those from the point of view of National Grid NTS and Ofgem); greater discussion opportunities were required. DR asked if only gas producers were interested in this or was there a wider audience. It was suggested that if parties had any views/concerns that these be sent to CW for the Sub-group to consider and that a one-page summary report could then be produced.

Multipliers - What flexibilities should the model adopt? AS believed there to be impacts for the secondary trading market; CW suggested that there might be aspects that National Grid NTS would not be aware of and that if parties had concerns they should let him know.

Revenue reconciliation - This was believed to be a fundamental aspect.

Transmission Services revenue recovery - This was believed to contain fundamental aspects; there were a number of interactions.

Non Transmission Services revenue recovery - A clear position needed to be stated and reference was made to earlier work.

Existing Contracts - Clarification were required from the National Grid legal team.

IP/Non IP application - Should there be a split policy in the modelling? Perhaps the first cut should look at a single policy for everything, starting with one approach and investigating/developing from there.

At the conclusion of the high level read-through of these listed items, two other items were suggested should be added: 'Interruptible 'A' factor' and 'Storage/combined ASEPs'.

AB commented that there were arguments to keep 'on the table' dual regime discussions to avoid following (by default) a narrow path to a single regime. Modelling options need to be kept open; separate treatments exist now and these should not necessarily fall away; due/undue discrimination arguments can be revisited and the approach justified. If a dual regime is to be adopted then sound reasons for doing so will need to be demonstrated. Modelling needs to be flexible enough to simulate both regimes and identify impacts on various aspects; and be able to support justification for different treatments where appropriate to do so (multipliers, interruptible discounts, etc). There are already different products at IPs and Non IPs. Perhaps it would be beneficial to have a summary of why particular treatments existed currently.

CW noted these views and suggestions and indicated that he would produce a list of the items, colour coded, with one-page summaries where appropriate.

Action 1201: *Issues List* - Produce a list of the items, colour coded, with one page summaries where appropriate (including one for entry/exit spilt and storage discounts), for the Sub-group to review and develop positions.

Issues TCMF02 - TCMF06 were not reviewed.

The Issues Register will be formally reviewed at the next meeting.

5. Any Other Business

5.1 "Updated Forecast" in the Ten Year Statement (TYS) 2016

CW gave a short presentation drawing attention to the proposed change in forecast inputs, from Gone Green (GG) to Updated Forecast (UF).

In setting the Gas Transportation charges one of the inputs is the supply/demand scenario and GG assumes that the environmental targets in 2020 are met (and progress to UK's 2050 carbon emissions reduction target). Having listened to observations made by Ofgem and other stakeholders it has been decided to make a change to use "Updated Forecast". CW explained how this was produced and what data formed the basis of the forecast view. There were differences between GG and UF; definitions/details of each scenario could be found in the Future Energy Scenarios (FES) document.

An update to the FES was undertaken in September in preparation for the Winter Outlook report, and this updated forecast (offering a shorter term view of energy supply and demands) has been included in this year's Gas Ten Year Statement (GTYS).

CW advised that National Grid NTS was proposing to move to the Updated Forecast in setting capacity and commodity charges. A graph was displayed, illustrating peak demand comparisons.

Setting charges based on the Updated Forecast should reflect more short term expectations of changes in supply and demand. It is anticipated this would provide more stability in the view of supply/demand and thus prices. This will be used in the production of charges and will therefore be seen in the next QSEC, Commodity and Exit Capacity charges.

RW observed that this seemed to be more reflective of the actual picture, and supported this change in approach. JC commented that using obligated capacity levels would be his preferred position for predicting charges, rather than being based on forecasts.

The Ten Year Statement can be found here: <http://www2.nationalgrid.com/UK/Industry-information/Future-of-Energy/Gas-Ten-Year-Statement/>

Any questions regarding this change can be directed to: colin.williams@nationalgrid.com.

5.2 Change to Gas Capacity and Charging Development Manager (National Grid NTS)

CW advised that Jenny Phillips had been appointed as the Gas Capacity and Charging Development Manager, and that she anticipated attending the NTS CMF and the Sub-group at various times.

She can be contacted on: 01926 653977 jenny.phillips@nationalgrid.com.

6. Review of Actions Outstanding

A formal review of the following actions was deferred to the next meeting (11 January 2017) to enable a post meeting reconciliation with the Issues Register.

1102: *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**

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.

Update: One page summary provided. **Carried forward**

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.

Update: Included in Issues Register. **Carried forward**

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.

Update: Under review. **Carried forward**

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.

Update: Included in Issues Register. **Carried forward**

7. Diary Planning

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

Please see details below.

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 (as at 06 December 2016)

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
1002	05/10/16	3.5	<i>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).</i>	National Grid NTS (CH)	<i>Due Wednesday 11 January 2017</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). To be added to the Issues Register and reviewed by the Sub Group.</i>	National Grid NTS (CW)	<i>Due Wednesday 11 January 2017</i> Carried forward
1102	02/11/16	3.3	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.	National Grid NTS (CW)	<i>Due Wednesday 11 January 2017</i> Carried forward
1103	02/11/16	3.4	<i>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.</i>	National Grid NTS (CW)	<i>Due Wednesday 11 January 2017</i> Carried forward
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 Wednesday 11 January 2017</i> Carried forward
1201	06/12/16	4.1	<i>Issues List - Produce a list of the items, colour coded, with one-page summaries where appropriate (including one for entry/exit spilt and storage discounts), for the Sub-group to review and develop positions.</i>	National Grid NTS (CW)	<i>Due Wednesday 11 January 2017</i> Pending