

NTS Charging Methodology Forum (NTSCMF) Minutes
Tuesday 05 December 2023
Via Microsoft Teams

Attendees		
Eric Fowler (Chair)	(EF)	Joint Office
Tanaka Tizirai (Secretary)	(TT)	Joint Office
Alex Nield	(AN)	Storengy
Alistair Craig	(AC)	Ofgem
Amy Howarth	(AH)	Storengy
Anna Shrigley	(AS)	Eni
Anthony Miller	(AM)	South Hook Gas
Ash Adams	(AA)	National Gas Transmission
Brian McGlinchey	(BM)	Pavilion Energy
Carlos Aguirre	(CA)	Pavilion Energy
Chris Wright	(CWr)	Exxon Mobil
Colin Williams	(CWl)	National Gas Transmission
David Bayliss	(DB)	National Gas Transmission
Daniel Wilkinson	DW	EDF
Emma Robinson	(ER)	E.ON
Joseph Glews	(JG)	Ofgem
Julie Cox	(JCx)	Energy UK
Karen Cashio	(KC)	Ofgem
Kieran McGoldrick	(KMc)	National Gas Transmission
Lauren Jauss	(LJ)	RWE
Nathan Li	(LN)	Engie UK Power Ltd
Mariachiara Zennaro	(MZ)	Centrica
Marion Joste	(MJ)	Eni
Nick Wye	(NW)	Waters Wye Associates
Nigel Sisman	(NS)	Sisman Consult
Oliver Weston	(OW)	Ofgem
Oreoluwa Ogundipe	(OO)	Interconnector
Richard Fairholme	(RF)	CCE
Richard Hewitt	(RH)	Observer Hewitt Home and Energy Solutions
<p><i>Please note that NTSCMF meetings will be quorate where at least six participants are attending, of which at least two shall be Shipper Users and one Transporter is in attendance.</i></p> <p><i>Please note these minutes do not replicate/include detailed content provided within the presentation slides, therefore it is recommended that the published presentation material is reviewed in conjunction with these minutes. Copies of all papers are available at: https://www.gasgovernance.co.uk/ntscmf/051223</i></p>		

1. Introduction

Eric Fowler (EF) welcomed delegates to the meeting.

1.1. Approval of Minutes (7 November 2023)

The minutes from the previous meeting were approved.

1.2. Approval of Late Papers

No late papers.

1.3. Review of Outstanding Actions

Action 0301: National Gas Transmission to consider the effect of the removal of non-obligated entry capacity revenue from capacity neutrality.

Update: Colin Williams (CWi) provided apologies for how long it has taken to consolidate the requisite information regarding updates Action 0301 together with Action 0801. CWi confirmed that NGT are making some finishing touches and he anticipates they will be available after this NTSCMF (December 2023) meeting, in readiness to be published alongside the January materials.

CWi provided a summary of what has so far been consolidated. He noted that the pack will cover the following:

- what the action points entail;
- reflection on why some of the views have been raised (i.e. to ensure the sentiments arising from some of the questions raised have been properly captured);
- reminder of how things work (in terms of how non-obligated capacity recovered revenues function, i.e. how they use them and how they treat them); and
- Alternatives.

CWi reiterated an intention to have it ready for individuals to have sufficient time to read through and consider the pack in January. EF sought clarity from CWi regarding the timing of availability so that it can be published alongside these Joint Office minutes. CWi confirmed that, depending on the duration of this meeting, the pack should be ready after the end of NTSCMF.

The Chair sought clarity on a second point relating to CWi's description of the structure of the note and whether NGT will answer the specific questions framed in the action i.e. seeking NGT's views along the lines of suggesting whether a proposed option is useful/helpful, or not useful/helpful, or whether there are any other changes NGT might suggest.

CWi acknowledged the points and mentioned that in respect of the reflections at the end of the pack, they will insert some wording which sets out their views on whether anything can be done in the immediate future.

Nigel Sisman (NS) mentioned that it has taken a long time to get to this point. He asked Workgroup members to note that 3 years ago CWi committed to looking at the issues surrounding capacity neutrality, and that has not been done. A question then arose earlier this year about the non-obligated entry capacity revenue, because it was one simple example of the issues surrounding capacity neutrality. NS is concerned that the question is going to be lost in the noise of a bigger issue. He noted non-obligated entry capacity revenue is paid by individual users but because it is a contributor to capacity neutrality, it is then returned to the community of users. The current UNC licence and accounting treatment mean that those charges levied and paid for do not contribute to the licence allowed revenues, and therefore, those missing monies give rise to an inflated non-transmission services charge, which most would consider would act to the detriment of the consumer. NS invited NGT to comment on whether there is anything wrong with his statement or it should be taken as fact and the interpretation is reasonable.

CWi stated that the statement is not entirely correct and proceeded to breakdown the issue, starting with noting that non-obligated capacity revenue, both entry and exit, technically contribute. Then there is a secondary process, whereby, the entry non-obligated capacity revenues are returned via capacity neutrality. CWi noted that NS misses the step that links system operator revenue and non-transmission services revenue. NS interposed to note that he did not cover that aspect.

CWi stated that because one of the points referenced by NS was the impact on the non-transmission charge, in order to talk about that, you need consider the wider-context. You cannot talk about it within the context of the previous SO commodity charge. In respect of the process, there is a link between “what do we do” and how is the money treated / recovered. CWi further noted that you have a neutral process from an entry perspective, as part of their overall capacity calculations, non-obligated by default is included in transmission services. However, you do not make a reciprocal adjustment to add that revenue on, and then create the non-transmission services component. Therefore, the entry aspect does not influence the non-transmission service charge. The exit aspect has the potential to do so but depending on the materiality of the reconciliation of the forecast. He noted that, however, the potential influence is limited on to that part of the process. Because at the start of the process, NGT makes a projection of the revenues and then they will add onto system operator to create the non-transmission charge. If they get the projection correct, then when the monies flow through, there is no impact. It impacted but only when there is a reconciliation².

NS mentioned that it is not as CWi presented it in August that we end up with an inflated non-transmission services charge because of NGT’s cashflows work. CWi clarified that is as a result of the way reconciliation would work in relation to the forecasts/actuals. NS noted that we are now confusing year-on-year effects with what is going within the structure.

CWi noted that NS sought for the issue to be laid out step by step and confirmed that that is what NGT are proposing to do. CWi commented that although a simple question in terms of “just review capacity neutrality”, it is not straightforward because you have to work it back a step or forward a step in terms of what people’s concerns are. E.g. if the concern is, one charge influences another, then in almost any scenario of change, that would still happen. The question then becomes what is the concern? Is the concern that a capacity charge can influence a commodity charge; can a Transmission service affect a non-transmission service.

NS confirmed that his concern is that consumers will end up detrimentally treated because of the way capacity neutrality works, and the fact you end with an inflated non-transmission services charge. The second question is to find out whether NGT felt there would be an inappropriate outcome if the non-obligated revenue flowed into the SO allowed revenue area just as it does for exit. NS reiterated his concern is that the way this currently operates acts to the detriment of consumers. He noted that the sums being discussed may be tiny but there is a principle.

NS asked NGT not to get confused within the detail but simply to understand that the current mechanism gives rise to missing monies and therefore, the non-transmission services charge is inflated. The counter to that would be that all the monies that goes through capacity neutrality is refunded to consumers. But I suspect most people think that likely does not happen. There is a detriment to the consumer effect here.

CWi noted that he will try to incorporate a piece on whether or not there a detrimental effect on the consumers. CWi will produce a note which addresses each points together, and it will be circulated with the meeting papers. **Carried Forward**

Action 0801: National Gas Transmission (CWi) to Provide an overview, and an understanding of the reasons underpinning the current treatment, of recovered revenue for Entry Non-Obligated capacity and its inclusion in capacity neutrality. This will also cover thoughts on the potential impacts, for discussion, of changing the treatment of Non-Obligated Entry Capacity revenue.

Update: Please see Action 0301 for the update for this action. **Carried Forward**

1101: Joint Office (HB) to raise a query with the DNs for an explanation as to why capacity bookings are going up when they should be going down.

Text from CWi Email:

In relation to the report that had redacted information (via the Exit Capacity Planning Guidance reports I think) that comments on increases to GDN capacity on it and how this related to the GDN capacity bookings into the future, which only the GDNs would be able to provide. It may be best to run this past Julie as I think the question originated from her or perhaps from an observation she had on the day to help shape the query appropriately.

*As far as the details go and perhaps a correction, National Gas mentioned that they don't use FES forecasts for the DN bookings (as part of an update to the FCC Methodology), but base them on the 1 in 20 peak values from the Long Term Development Statements the DNs publish annually. Where any long term views via these LTDS's from the GDNs are available, we would capture this in our FCC forecasts from using the DN data. **Carried Forward***

HB has been in correspondence with DNs re their future capacity requirements. The Chair will provide an update on that element.

1.4. Industrial Update from Ofgem

Joseph Glews (JG) referred to the Ofgem Expected publication dates timetable at [Code modification/modification proposals with Ofgem for decision - Expected publication dates timetable](#): dated 14 November 2023 and highlighted the most recent updates:

Modification	Estimated Decision Date
0839- Revision of the Modification Panel Membership Cessation Provisions	12 January 2024
0823- Amendment to the Allocation of Entry Capacity and Flow Quantities to Qualifying CNCCD Routes	26 January 2024
0847- Introduction of a Minimum General on Transmission Services Charge	Approved

JG confirmed that Mod0847 has been approved and the decision was published on Ofgem's website on 22 November 2023.

The Ofgem authority decision regarding Mod0847 can be accessed here: [UNC847: Authority Decision | Ofgem](#).

Richard Hewitt (RH) sought a comment from Ofgem regarding their published decision that NGT conducts a periodic consultation as required under Article 26 of the Tariff Code (TAR NC).

JG commented that as noted in previous Workgroups, there is a requirement under TAR to conduct periodic consultation every 5 years. Ofgem has asked NGT to undertake that consultation. The expectation is that the consultation will commence in the new year, and then once feedback has been received from participants, Ofgem will publish its decision. The decision will be aligned with Ofgem's decision relating to its own annual requirement under Article 28 of TAR. JG further noted that the Article 28 decision will need to be made by May 2024, whilst Article 26 has more flexibility, however the intention is for both decisions to be aligned in respect to their publication.

RH noted that the letter stated that there must be 2-month consultation period and it must be completed, with a report submitted to Ofgem with sufficient time to enable them to reach a decision before 31 May 2024. RH noted that given the consultation must last at least 2 months together with a report needing to be drafted and considering Ofgem's decision process usually take a few months; the consultation will need to be released for the end of January 2024. RH indicated that this would need to allow industry enough time to consider the potential contents of the consultation.

JG acknowledged that the timescales are quite tight but indicated that they expect to compress their decision-making process to fit needs of industry, and they are open to discussing with industry to understand how much time they need before the consultation is released.

RH questioned which process takes precedence, between the review under TAR or the fundamental review of GC13. JG stated that the TAR requirement is a legal requirement as obligated by the retained EU Law. However, he acknowledged the scope for change to take place via the TAR process is limited. Ofgem would view the UNC change to take precedence over the TAR process, as the UNC process is more fundamental to getting changes made to the arrangements.

CWi acknowledged that the timescales are tight and noted that NGT will seek to make use of the Workgroup meetings in the beginning of January 2024, and possibly the meeting in February 2024. CWi noted a preference for the TAR consultation to commence in February, to allow the Workgroup time for the materials to be reviewed.

JG stated that Ofgem is not opposed to having the paper at a February CMF provided that the consultation commences shortly after that.

NS noted that GC13 has been live for a long time and highlighted that a detriment of tens of millions of pounds per annum to consumers was identified by consultants. NS asked whether it is known how big the issue is at the moment?

JG confirmed that Ofgem still considers that to be a significant issue as there is still consumer detriment. He noted that that there is potential to do something but it is not their position to suggest what that is, but it is Ofgem's position that something needs to be done.

Julie Cox (JC) mentioned that she sent an email dated 3 May 2023 to JG (Ofgem), and CWi (NGT) regarding the 5-year review and has not reply. JC highlighted that the retained EU law deletes a number of parts relating to the 5-year review, whilst Ofgem's letter does not address the point of what the retained EU law states. She noted that it would have been useful for the direction letter to stipulate what actually needs to be reviewed for compliance purposes.

JG acknowledged JC's concerns. He explained that there is a requirement to undertake the review and obtain feedback from industry, similar to Ofgem's Article 28 requirement. Responding to consultations does hold value and provides an opportunity for a wider review to the current arrangements; and if there are any issues which are being missed out by Workgroups, it allows a chance for those issues to be brought to the attention of Ofgem, NGT and the industry.

JC noted that that would only be so far as they related to TAR NC, and highlighted there is difficulty in understanding what compliance with TAR NC means. JC noted that it is not helpful for Ofgem to state that something needs to be done without stating what it thinks needs to be done for compliance to be met. JG acknowledged the concerns. He noted that Ofgem as the decision maker cannot reasonably be expected to undertake a compliance review at the earlier stages of the Mod processes because the Proposer should do that and that modifications can change throughout the process. Secondly, Ofgem cannot fetter their discretion in respect of decisions.

Nick Wye (NW) mentioned that he feels that as we are now out of the EU, Ofgem should have much more discretion to apply the law in a manner which allow them provide input at the outset, perhaps by establishing principles as to what existing contracts mean, what protections they have, and how should they be treated. He noted that this would save a lot of time and money.

JG acknowledged those points and concerns raised, he confirmed that Ofgem will respond to the Workgroup.

New Action 1201: Ofgem (JG) will review TAR NC and work with NGT to confirm requirements of the Periodic Review and feedback to industry within the context of EU Retained Law

1.5. Pre-Modification discussions

No pre-modifications to discuss.

2. Workgroups

2.1 0857 - Revision to the Determination of Non-Transmission Services Gas Year Target Revenue

(Due to Report to 18 January 2024)

<https://www.gasgovernance.co.uk/0857>

3. Non-Transmission Charging Reforms

Ash Adams (AA) provided an overview of the Non-Transmission Charging Reforms presentation and mentioned that NGT wished to discuss further Non-Transmission Charging Reforms, which look beyond Mod0857 and other items covered in 2023. Starting to focus on looking at potential changes in 2025 e.g. the reconciliations, and the allowed revenues being updated.

AA explained that they have produced a timeline of how NGT sees the items progressing between now and 2025. He acknowledged that the timeline is subject to change in view of future discussions over the coming months and future workgroups, and that the information does contain a few assumptions.

RH raised a question regarding the priority of this piece of work following confirmation earlier in the meeting that Ofgem's TAR consultation and GCD13 being equal.

AA noted that he considers this piece of work to be separate and can progress through the workgroups alongside the other two pieces of work, going approximately from January to May 2024.

RH is conscious of the Ofgem timescales for the TAR consultation and further that GCD13 has not received much discussion, and if those items are taken forward, there will not be sufficient time to focus on this third item. RH wanted to know what exactly the priority order would be, or does NGT expect all three to be covered at the same level of priority.

JC noted that there is another piece of work relating to the St Fergus, and essentially there are four pieces of work.

CWi acknowledged an expectation that TAR NC will require peak coverage in January and February; whilst GCD13 will likely lead to substantial discussions and may require a lengthy period of coverage by the workgroup; St Fergus is something which currently being looked at, however, it is an item which will have a 1 or 2-month peak. CWi mentioned that it would be possible to progress and accommodate all four of the items with varying degrees of focus in the upcoming months. He noted that these items do not need to run sequentially, and their related discussions can be held at the same time, but not necessarily with the same weighting.

JC recommended an agenda with timed items for the Workgroup meetings.

AA proposed a workgroup discussion plan to tackle notable issues where reconciliation of costs incurred is then recovered in future years. Potentially a different subset of customers would be paying for the costs compared to those who were actually using the system when the costs were incurred. AA highlighted that there are two aspects in that firstly, it is size of the reconciliations themselves, and secondly, the timings of when they hit the revenues in relation to when the costs were incurred.

JC sought to clarify whether there is any analysis that underpins that assessment and whether it matters; how significant is it that portfolios change year-on-year. Therefore, is it a question of portfolio or the balance between different customer types in their totality and aggregate? JC mentioned that she would not think that the total aggregate amount would change that much.

AA confirmed that whilst there has been analysis, it has not been done for a while. JC highlighted that it needs to be substantiated whether the greater complexity is needed.

NW endorsed JCs' points and noted that we need a broad understanding of the charges impact on a consumer bill. NW speculated that it is likely to be quite small.

Please refer to the published slides for further details. The draft timeline provides further details about the timeframe. NGT confirmed that more details will follow.

Anna Shrigley (AS) mentioned that from a shipper's point of view is that it would be desirable to have stable and predictable charges. She argued that stable and predictable charges from the perspective of facilitating competition would have a positive impact.

AA continued with the presentation and drew the Workgroup to a number of questions of which he is happy to receive comments for during the meeting or offline after the meeting at his following email address: Ashley.Adams@nationalgas.com

4. NTS Gas Charging Consultation

CWi confirmed they will present the proposals for the next steps in the next NTSCMF meeting in January 2024.

AS asked CWi to confirm the statement mentioned at the previous (November) meeting that it is unlikely that any other changes would be made in regards to the charging before October 2025. CWi confirmed that is the case.

AS noted, that she welcomed the longer-notice period provided for significant changes.

5. Capacity and Revenue Monitoring

David Bayliss (DB) provided the Capacity and Revenue Monitoring Report summarising the Entry and Exit capacity and revenue actuals against the forecast.

DB noted that demand has jumped up 40% compared to September 2023, however, it is still historically lower than the usual October numbers for throughput.

DB highlighted the differences in behaviours concerning capacity bookings for Entry and Exit. Please refer to the published slides for full details.

6. Any Other Business

6.1 Forecasted Contracted Capacity (FCC)

AA mentioned that NGT has a requirement under the UNC to keep the FCC methodology under review and notify industry of any proposed changes 40 business days before they notify reserve prices and also provide industry a period of time to challenge that. Therefore, this timeline means they have a deadline to publish a FCC methodology by the end of March 2024. He reminded the Workgroup that last year, there were no material changes to the FCC, however, this upcoming year they may potentially want to make a minor a change because of

some of the headers may do not necessarily match the FCC methodology. AA noted that they will bring further details in January 2024.

7. Diary Planning

NTSCMF meetings are listed at: <https://www.gasgovernance.co.uk/NTSCMF>

All other Joint Office events are available via: www.gasgovernance.co.uk/events-calendar/month

Time/Date	Meeting Paper Deadline	Venue	Workgroup Programme
10:00 Thursday 11 January 2024	5 pm Wednesday 03 January 2024	Via Microsoft Teams	Standard Agenda
10:00 Tuesday 6 February 2024	5 pm on Tuesday 29 January 2024	Via Microsoft Teams	Standard Agenda

NTSCMF Action Table						
Action Ref	Meeting Date	Min Ref	Action	Reporting Month	Owner	Status Update
0301	07/03/23	1.3	National Gas Transmission to consider the effect of the removal of non-obligated entry capacity revenue from capacity neutrality. <i>Would NGT consider this to be a helpful change? Does NGT consider that there are other necessary, or desirable changes (in UNC and/or Licence) to appropriately manage non-obligated entry cashflows?</i>	December 2023	National Gas Transmission (CWi)	Carried Forward
0801	01/08/23	1.3	National Gas Transmission (CWi) to provide an overview, and an understanding of the reasons underpinning the current treatment, of recovered revenue for Entry Non-Obligated capacity and its inclusion in capacity neutrality.	December 2023	National Gas Transmission (CWi)	Carried Forward
1101	07/11/23	3.0	Joint Office (HB) to raise a query with the DNs for an explanation as to why capacity bookings are going up when they should be going down.	December 2023	Joint Office (HB)	Carried Forward
1201	07/12/23	1.4	Ofgem (JG) will review TAR NC and work with NGT to confirm requirements of the Periodic Review and feedback to industry within the context of EU Retained Law.	January 2024	Ofgem (JG)	New Action

UNC Workgroup 0857
Revision to the Determination of Non-Transmission Services Gas
Year Target Revenue
Tuesday 05 December 2023
Via Microsoft Teams

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Kieran McGoldrick	(KM)	National Gas Transmission
Lauren Jauss	(LJ)	RWE
Nathan Li	(LN)	Engie UK Power Ltd
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1. Introduction and Status Review

Eric Fowler (EF) welcomed delegates to the meeting.

1.1. Approval of Minutes (07 November 2023)

The minutes from the 7th of November 2023 meeting were amended following Ash Adams (AA) of National Gas Transmission providing clarificatory amendments. The Workgroup considered and approved the amended minutes.

1.2. Approval of Late Papers

None

1.3. Review of Outstanding Actions

Action 1101: NGT (CWi) to provide an explanation of transparency and how to track values to give confidence in the process.

Update: Ash Adams (AA) presented an overview of the published General Non-Transmission Charge Model excel spreadsheet. The main purposes of the presentation was to provide clarity and transparency on how the proposed methodology would work under MOD0857. AA pointed out that the format will allow people to play around with the document and test for sensitivities themselves. He explained that the aim of the model is to show how the key inputs follow through to determine the gas year target revenue and the general non-transmission services price.

AA mentioned that in order for the iterative process which determines “K” to work automatically, individuals should enable iterative calculations in excel. To do so, you will need to go to ‘file’ > ‘options’ > ‘formulas’ and tick the ‘iterative calculations box’ to enable.

AA explained that the numbers relating to the revenues do not match exactly the figures in the PCFM on Ofgem’s webpage because the figures in the model take into account the updated forecasts and shrinkage costs. He further noted that they publish those values as part of charge setting every year and they can be found in the notice of charges on NGT’s transmission charging webpage.

For a specific link to the webpage, please see: [Transmission system charges | National Gas](#)

Julie Cox (JC) raised a question regarding the timings of the final notices on the NGT’s transmission system charges webpage. She noted that the latest final notice is dated July 2023 and provides two months of changes to be applied in October 2023. JC sought clarification as to when NGT would update their shrinkage forecasts year-on-year.

AA confirmed that for the years beyond the current formula year, they would also include an updated forecast for shrinkage costs.

JC asked whether for the year starting in October, the values might be known before July?

AA explained that for the current year, the values set out within the PCFM would be those used by NGT i.e. year T. However, for the indicative years they would use the updated values which are based on the best available information at the time.

JC asked whether it is correct that the PCFM would be released by NGT around the month of December.

AA confirmed that the first submission would be in December, but there is a facility to do a re-submission in May, subject to there being material reasons for change.

JC stated that Shippers seeking to undertake tariff settings for October would have the revenue figures by the end of May, but not the shrinkage figures or the adjustment to the revenue figures. JC highlight that the sort of transparency needed, is to understand where the figures come from; when they will be available; whether they may subsequently change; and when do NGT have confidence in them.

Colin Williams (CWi) explained that there is a mixture between certainty and confidence. He noted that when NGT set the prices, they are tied to the latest PCFM and for the futures years NGT has the scope to adjust (e.g. shrinkage) and indication of this would be given within the non-transmission tariffs. He further explained that with respect to the PCFMs for this year, the timings have been slightly adjusted i.e. the submission will be made this December and published January 2024 by Ofgem. If no materiality thresholds are met between now and 6th May 2024; then the values published in January 2024 would be those which NGT will use to set the tariffs. However, if materiality thresholds are met, NGT will have an opportunity to request a re-publication by 6 May 2024, and Ofgem will have until the end of May to republish if they agree.

JC asked what the materiality thresholds are.

CWi explained that the materiality test has changed this year, it used to be a financial number (e.g. £10 million) but now is 3% of the allowed revenue (i.e. 3% of TO or 3% of SO). If the total value of each changes by more than 3%, NGT will have an opportunity to request a re-publication.

JC enquired whether industry has been informed about these changes. CWi believed that those changes likely would have been published on Ofgem's website. CWi elaborated that NGT will not know with absolute certainty until May in respect of the revenues to be used. However, NGT will know whether NGT is seeking re-publication or not. By the end of May, we would know what those exact value would be for the immediate year.

JC asked whether that would also include the shrinkage / adjustment values?

CWi explained that shrinkage would form part of the re-publication consideration. However, for the future years, NGT has the scope to change those values.

JC asked, if NGT is aware of this by the end of May, why can they not set the tariffs in June alongside the capacity charges which they set at the beginning of June. Doing so would provide industry more notice, allowing them to better set their tariffs.

David Bayliss (DB) explained that NGT would only have the revenue values at the end of May, whilst the through-put and the other supporting data would not be available until the end of June. He noted that there are significant benefits of NGT using the very latest data at the time when they set the tariff charges. Although, he appreciates that the advantages for the shippers and suppliers obtaining the data at the earliest point possible.

JC suggested that it would be beneficial to consider the process being carried out earlier than the status-quo. She noted that it would be interesting to understand Ofgem's point of view on this aspect, considering the impact on consumers.

Lauren Jauss (LJ) articulated whether it is better to wait until later to ensure that the charges are as accurate as possible or to fix the charges earlier but the increased risk of over or under recovery. She identified that if the difference between setting the charges earlier or later is a certain value; users have to price that amount into their trading and enterprise due to the uncertainty. She noted that when considering whole end-to-end cost efficiency, it may be best for rates to be fixed earlier.

EF paraphrased the point that if there is uncertainty, then Users have to price in the risk, and that risk premium gets paid for by customers. An earlier price setting will reduce the risk premium and provide better certainty for the consumer but may then result in any cost changes that have to flow through NGT's mechanism, adding to the problem that this Mod is trying to solve.

Nigel Sisman (NS) supported the comments made by JC, and added that it is good to see an explanation of how the process works, as it allows for the gaps in the process to be observed. NS highlighted that the values for the SO MAR value for Formula Year t will be reconcilable against a published PCFM but that for FY t+1 and later years will not be. What is important that there is transparency about both the numbers NGT uses and both qualitative and quantitative assumptions for the NG forecasts are made available.

NS further highlighted another major input to the calculation, that relating to the demand projections on six monthly basis. He noted that NGT indicated that if they were to go backwards they would have to use an earlier forecast. However, NS highlighted that there is an earlier forecast of demand which is feeding into the FCC, and this influences the transmission service charging. Therefore, he noted that there is an inconsistency between the two charge setting processes. He acknowledged that there is a reason for NGT's approach, as they are trying to carry out the calculations for the non-transmission later, on the basis of better information. However, industry needs to consider whether that is a sensible approach or whether it is best to bring the process forward.

CWi confirmed that as far as the revenues, the PCFM process is strict, and they must use that. However, for subsequent years, it is not as prescriptive and they would have a degree of flexibility, but typically they would only change the shrinkage values.

NS sought clarity as to whether it would make more sense to undertake the projections and thus have the consistency and forecasting base for both the immediate and subsequent years.

CWi explained that the PCFM concludes at the end of May in respect of NGT. However, for future years NGT can use its discretion and not be limited to the timescales prescribed by the PCFM.

AA continued with the provision of the presentation and running through the calculations/data.

NS noted that the published model had inconsistent values for meter maintenance adjustment and NTS Metering Revenue Expected (Annual). NG was asked if there was a reason for the apparent disparity.

DB indicated that it was undertaking an internal review of the spreadsheet model and acknowledged the errors would be corrected.

NS further accepted that NG did not wish to change its proposal but again raised the issue about whether the iterative nature of the derived k approach had sufficient merit to warrant inclusion given the "black box" nature of the calculation. He also repeated his suggestion that a better Seasonal Allocation Factor could be defined by reference to Formula Year t+1 rather than G y. He noted that he endorsed the approach drafted by Charles Wood in the context of UNC0796 and which had only been changed on the morning of the final UNC0796 Workgroup meeting.

2. Conclusion of Workgroup Report

The Chair presented the current version of the Workgroup report and ran through each section with the Workgroup for their consideration and comments.

The Workgroup agreed that the securing of effective competition between relevant shippers was the best relevant objective for this modification. However, they do not think that the impact/improvements provided by this modification are beyond marginal, however, there are no negative impacts arising from the modification was raised.

NS further noted that we all know that the proposed modification is far from the best one but that it delivers on the intent and is helpful for regime function. However, it is far from clear whether it enhances the prospect of competition between shippers. He noted that the Workgroup members never connected the benefits of the proposal with the RO in a convincing manner.

3. Next Steps

The Workgroup Report will be published and submitted to the December Modification Panel meeting.

4. Any Other Business

None.

5. Diary Planning

No further meetings

0857 Action Table						
Action Ref	Meeting Date	Min Ref	Action	Reporting Month	Owner	Status Update
1101	07/11/23	5.0	NGT (CWi) to provide an explanation of transparency and how to track values to give confidence in the process	December 2023	NGT (CWi)	Closed