

**NTS Charging Methodology Forum (NTSCMF) Minutes**  
**Wednesday 01 February 2017**  
**Elexon, 350 Euston Road, London NW1 3AW**

**Attendees**

Chris Shanley (Chair)	(CS)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Aisling Jensen-Humphreys	(AJH)	ConocoPhillips
Amrik Bal	(AB)	Shell
Anna Shrigley	(AS)	Eni UK
Charles Ruffell*	(CR)	RWE
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	(JCh)	SSE
Jenny Phillips	(JP)	National Grid NTS
John Costa	(JCo)	EDF Energy
Julie Cox	(JCx)	Energy UK
Kieron Carroll	(KC)	PSE Kinsale Energy
Lucy Manning	(LM)	Gazprom
Marine Valls*	(MV)	Storengy UK
Nahed Cherfa	(NC)	Statoil
Nick Wye	(NW)	Waters Wye Associates
Rebecca Hailes	(RH)	Joint Office
Robert Wigginton*	(RW)	Wales & West Utilities
Roddy Monroe	(RM)	Centrica Storage
Vladislav Zuevskiy	(VZ)	Northern Gas Networks

\* via teleconference

Copies of all meeting papers are available at: <http://www.gasgovernance.co.uk/ntscmf/010217>

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 (11 January 2017)**

The minutes of the previous meeting were approved.

**1.2 Pre-Modification discussions****1.2.1 Draft proposal - Provision of NTS Cost Information (E.ON)**

CW advised that this is still under discussion with the Proposer; consideration deferred to next meeting.

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## 2. Workgroups

No business to consider.

## 3. Gas Charging Review

CW gave a brief overview of the programme for the meeting.

### 3.1 Review of Sub-group Meetings and Report(s)

The next two Sub-group meetings will be held on 14 and 23 February 2017.

Attention was drawn to the publication and location of the Sub-group papers/output. Discussion papers are at various stages in development (new, draft, and 'locked down' - this means the Sub-group has reached a conclusion and it can inform the modelling and UNC Modification/s).

CW outlined topics and items discussed at the January Sub-group meeting, summarised the status of certain topics in more detail, and gave a brief overview of the conclusions reached by the Sub-group where appropriate.

#### *Locational Signals*

The use of the locational signals to Network Users was considered limited and not a significant factor in decision making.

#### *LRMC Sensitivity*

The original underlying principles for the LRMC model were thought to be less relevant today than when first developed. At the moment there is no new investment and also falling demand and on this basis the LRMC model was not believed to be the methodology to progress.

#### *Article 9*

An updated paper had been provided. The only discount proposed to be applied from Article 9 will be the 50% discount to the capacity-based transmission tariffs at entry points to and exit points from Storage facilities, where the relevant location is designated as a 'Storage site' in the Licence. CW noted a linked issue of combined ASEPs to be reviewed.

The treatment of Storage capacity was discussed in more detail; it was recognised that there were numerous issues, including how to treat capacity bought for Storage project purposes, how this should be defined and should it be accommodated with a discount. It was observed that Article 35 affords some protection to long term capacity commitments that were bought before Entry into Force (EIF). A separate issue may exist as to whether Article 9 allows a discount to be applied to capacity under an existing contract and how that capacity can be identified as 'storage'. RM explained that capacity is bought (but not necessarily eventually used) as part of the phases of the development of a storage project - would this be defined as storage capacity? An example of the use/progress of such a project was briefly described. How would storage capacity be defined for Article 9? This needs to be explored further by the Sub-group, and any advance views would be welcomed.

NW noted that the purpose of the Sub-group was to identify a reasonable basis for setting up a model, and develop this for discussion and manipulation to achieve the best approach. CS observed that as many options/issues as possible should be explored/documentated early on to provide the most appropriate basis for starting any change process, and parties should feed in views to inform the revised paper. CS suggested that it would also be useful to include this topic on the agenda for the next meeting in order to share the Sub-group's thoughts on the issues and how they may be addressed during the review/modification process.

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### *Multipliers*

CW explained that a simple approach should be followed where possible and for modelling multipliers will be set to a value of 1. This did not endorse a value of 1 as the multiplier for GB, but was simply facilitating a means to begin the modelling and then to consider the impacts of any adjustments. Users will have the flexibility to vary the multiplier(s) applied.

There were other issues linked to multipliers (e.g. impact of scaling rather than revenue adjustment in the Reference Price Methodology, revenue recovery, and behavioural impacts); these will be considered separately over the next few months.

### *Avoiding inefficient bypass of NTS*

CW noted a change to the title (formerly *Optional Commodity Charge*). The paper had been updated to reflect the Sub-group discussions; no conclusion had been reached as yet, and further comments would be welcomed.

### *Interruptible*

The paper had been updated but required more discussion; two approaches had been identified regarding treatment of IPs and Non IPs under the Tariff code; further exploration of the relevant Articles was required. From a modelling perspective both approaches need to be examined and measured against the relevant objectives to identify which might be best (as is today, or should IPs be treated differently). There had been a clear view from Ofgem that unless a change in principle can be justified (so that there is a better fit to the relevant objectives) then it is not likely to be received favourably.

AB asked if Interruptible was only made available after all firm capacity was sold out, observing there might also be a link to CAM in terms of availability that should be considered and possibly fed into the modelling assumptions. CW noted this point.

### *Transmission Services Revenue Recovery*

There was not much change from the previous paper. If the aim was to apply one method across all points then it might be considered to be more appropriate if capacity was the main recovery mechanism for entry and exit. JCh suggested the inclusion of an iterative process in the model, an adjustment of some form (an upfront or scaling type adjustment) to address any revenue shortfall; CW will update the paper.

### *Non Transmission Services Revenue Recovery*

CW explained the approaches explored by the Sub-group, one suggestion being that the use of revenue recovery for Non Transmission Services should be predominantly commodity based; the application may depend on the denominator used in the calculation. As discounts may be provided for in the charging framework, one approach could be to apply it to all flows (if used) or to other units.

### *Forecasting Contracted Capacity*

Observing that this was not a defined term under the TAR code, CW advised it will be quite a fundamental part of the charging framework and can have significant impacts if not accurate. It needs to be transparent, justified and stable in its approach (the use of previous year's flows was not seen to be beneficial - too volatile). Various impacts remained under discussion.

JCx asked if numbers were to be available for sharing/use for modelling (parties should be able to self-model under the TAR code); transparency can help parties to understand if the model is working well but some data confidentiality issues may apply. A question was asked whether the model could be set up with certain data inputs hidden. JP advised that commercial sensitivities needed to be taken into account but this may be possible. CS noted the need to understand where there might be revenue gaps as a result of the model using certain options for the forecast, and the need to understand what was the best forecast, i.e. a forward looking view that gives some degree of predictability, that can be achieved, and then decide on an appropriate approach to reconcile to the allowed revenue. JP recognised the need to try and remove as great an element of volatility as possible. NW

referred to published data (1-in-20, obligated, winter outlooks, etc.) and observed that there was no real understanding of these numbers or how they were generated; there was a need to find an alternative to baseline, and to understand what information/data National Grid NTS has available to it for forecasting future demands. A better comprehension of what is there and how it is used might help to identify/define potential options. JP agreed to clarify what data was available and explain how such information was used in the options developed to date.

**Action 0201: *Forecasting Contracted Capacity - National Grid NTS (JP) to clarify what data was available for forecasting future demands, and explain how the information is used*** in the options developed to date.

It was noted that baselines might be reviewed as part of the next Price Control; the model will need to be able to take account of any potential change. DR observed there was a need to see if there are correlations between previous historical bookings and flows. Other EU countries use capacity forecasts and it might be useful to understand their approaches/methodologies.

**Action 0202: *Forecasting Contracted Capacity - National Grid NTS (CW/CH) to investigate the approaches/methodologies for forecasting used by other countries.***

The behavioural implications of changes to the regime were going to be very hard to predict, and it may be best to let the model run for a period and then review in the light of experience.

#### *Revenue Recovery Mechanisms*

The mechanisms can change (TAR allows flexing); discussions with the Legal team were continuing. The model will need to be flexible to cover options for IPs and non-IPs. Multipliers can be a recovery mechanism/tool to reach the allowed revenue, but it needs to be understood if this can be used and what implications there may be (it means different things to different parties). The default position for the model will be 1, but it will have the ability to flex.

JCh made the point that complexity is acceptable if it is more reflective in terms of cost recovery/overall benefit. GJ observed that the provision of as much gas as possible to the UK market needed to be strongly encouraged, and that setting the wrong multipliers/charges would have a direct influence and impact. AB added that it could also bring about the early closure of offshore facilities.

### **3.2 Gas Charging Review (GCR) Decisions List (RAG status)**

In fulfilment of Action 1201, CW had drafted a Decisions List, colour coded to reflect current status (red, amber, green); new topics could be added as appropriate. The list was reviewed item by item.

*Reference Price Methodology* - LM suggested that readers could misinterpret certain statements, and that the form of words used should be adjusted so that it did not give the impression that a formal approval had been given to any of these proposals/positions. Although CWD was the preferred modelling approach at this time, it has not been formally approved. CW noted this and will amend the statement(s).

Responding to a question from VZ regarding availability of CWD output/results, CW affirmed that once developed over the next few months, everyone would have access/ability to run the model. VZ observed that potential reactions to comparisons between LRMC and CWD would need to be kept in mind.

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JCh believed the status should remain at amber.

*Auction Structure* - GJ noted that capacity products should be kept as they are - this was a key point to bring out. CW confirmed that it was not proposed to provide a paper for this topic.

*Treatment of Storage at Combined ASEPs* - The exact split needs to be considered. Commodity discount is applied to flows in/out of Storage facilities. LM thought there might be an easier way to be found of doing this, if you could identify the storage sites that should receive a discount. RM pointed out the need to develop enduring arrangements that could be future proofed. More options needed to be considered, other solutions might be possible, and more debate was required; storage entry points may need to be created and UNC TPD R revisited. The Sub-group should identify and evaluate any definitions, mechanisms, etc, to find the simplest and most pragmatic approach.

*Seasonal Factors* - It was suggested this should be incorporated within the 'Multipliers' paper.

*Existing Contracts* - CW expected that legal opinion regarding the level of protection afforded under Article 35 would be available reasonably soon.

*IP/Non IP application* - Kept as a general topic; may be linked to individual issues.

VZ then asked when would the discussions start on exit off peak discounts for modelling purposes, and will a zero multiplier for exit stand in the future. CW responded that the one page summary had been produced to set out the position reached for modelling purposes, but it was recognised that this may have to be revisited at a later date once work has been done on other variables.

Responding to a question from KC, CW said there was a discount for firm and interruptible. KC observed that having a zero capacity charge in a 100% capacity regime does not make sense? CW said this point was still under discussion. GJ observed that it would not necessarily be a 100% capacity regime. Interconnectors are different because of the TAR code. It is very complex, and many other inter-related areas remain under discussion. From a modelling point of view there is some flexibility to consider either a single or dual regime.

### **3.3 Behavioural Assessment of charge changes**

A questionnaire has been developed by the Midstream Gas Group with the aim of gathering pertinent information from parties that can then be assessed to consider any potential behavioural changes (especially in respect of capacity bookings) as a result of any price changes from the framework in place today. This data will then be used to inform/develop some modelling assumptions regarding behavioural changes.

An email was issued on 31 January 2017 via the Joint Office ("*Gas Charging Review: Questionnaire - Capacity booking behaviour and Capacity prices*"), requesting participation and setting out the completion requirements. It included a link to the survey:

[https://www.surveymonkey.co.uk/r/Gas\\_Charging\\_Capacity\\_Behaviours](https://www.surveymonkey.co.uk/r/Gas_Charging_Capacity_Behaviours).

Responses were required by 17 February 2017.

NW explained that the survey was a sequence of connected questions/common themes that leads through to give a reasonable understanding that is capable of interpretation. The challenge will be to translate this into meaningful data to input to the model to enable booking behaviour of individual parties to be forecast, and to provide a better understanding of this in relation to the sectors/activities in which parties are engaged.

The output of the questionnaire will be discussed at the sub-group and summarised to the NTSCMF. It was suggested that it would be useful to publish an electronic copy of the

survey for information purposes. CW agreed to provide this.

**Action 0203: *Behavioural Assessment Survey - National Grid NTS (CW) to provide an electronic copy for publication.***

### 3.4 EU Tariffs Code – Current Outlook

CW provided an update on the current position, and the timeline being followed, noting that Entry into Force was still expected around 26-28 March 2017, with an industry workshop planned for 29 March 2017 in Brussels (to be confirmed, and to follow a workshop on CAM amendment on 28 March 2017).

The TAR NC will be implemented in phases: Entry into Force, From 1 October 2017, and Before 31 May 2019. The TAR NC will introduce changes to the rules governing the payable price at IPs; changes impact capacity from 01 October 2019. National Grid NTS will be raising a formal modification to align the UNC to reflect these requirements. This will be discussed at the next Transmission Workgroup:

<http://www.gasgovernance.co.uk/tx/020217>

### 3.5 Workplan – Review progress and refine approach

The outputs are helping to scope out the various options that the model will need to cover. CW reiterated the focus of the Sub-group.

*Plan and change process*

A draft indicative timeline was displayed, illustrating the charging review timeframe alongside other changes. There could be more than one UNC modification raised if it was agreed that it was necessary, and appropriate, to treat certain areas separately.

### 3.6 Next Steps

It was proposed to continue the work of the Sub-group and provide any output to the NTS CMF for review and discussion.

## 4. Issues

### 4.1 Issues Register - Review

CS displayed the Register onscreen, drawing attention to the status summary/action taken to date in respect of each issue. It was anticipated that the *Gas Charging Review (GCR) Decisions List (RAG status)* would supersede this Issues Register.

*Proposed new items*

None identified.

## 5. Review of Actions Outstanding

**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:** Work is continuing. **Carried forward**

**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.

**Update:** Document provided. **Closed**

**0101:** All to read the issue summary papers contained in the within the NTS CMF Document Library and provide feedback as necessary to CW, SC and LJ.

**Update:** Ongoing activity. **Closed**

**0102:** National Grid NTS (CW) to produce a separate reference table explaining when the new charges would apply to the different capacity products.

**Update:** Work is continuing. **Carried forward**

## 6. Diary Planning and next agenda

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

Time/Date	Venue	Workgroup Programme
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 01 February 2017)**

<b>Action Ref</b>	<b>Meeting Date(s)</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
<b>1002</b>	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 06 March 2017</i> <b>Carried forward</b>
<b>1201</b>	06/12/16	4.1	<i>Issues List</i> - 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.	National Grid NTS (CW)	<b>Closed</b>
<b>0101</b>	11/01/17	3.1	All to read the Issue Summary papers contained within the NTS CMF Document Library and provide feedback as necessary to CW, SC and LJ.	ALL	<b>Closed</b>
<b>0102</b>	11/01/17	3.2	National Grid NTS (CW) to produce a separate reference table explaining when the new charges would apply to the different capacity products.	National Grid NTS (CW)	<i>Due 06 March 2017</i> <b>Carried forward</b>
<b>0201</b>	01/02/17	3.1	<i>Forecasting Contracted Capacity</i> - National Grid NTS (JP) to clarify what data was available for forecasting future demands, and explain how the information is used in the options developed to date.	National Grid NTS (JP)	<b>Pending</b>
<b>0202</b>	01/02/17	3.1	<i>Forecasting Contracted Capacity</i> - National Grid NTS (CW/CH) to investigate the approaches/methodologies for forecasting used by other countries.	National Grid NTS (CW/CH)	<b>Pending</b>
<b>0203</b>	01/02/17	3.2	<i>Behavioural Assessment Survey</i> - National Grid NTS (CW) to provide an electronic copy for publication.	National Grid NTS (CW)	<b>Pending</b>