

## NTS Charging Methodology Forum (NTSCMF) Minutes

Wednesday 03 August 2016

Energy UK, Charles House, 5-11 Regent Street, London SW1Y 4LR

### Attendees

Les Jenkins (Chair)	(LJ)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Amrik Bal	(AB)	Shell
Andrew Pearce	(AP)	BP Gas
Charles Ruffell	(CR)	RWE
Colin Hamilton	(CH)	National Grid NTS
Colin Williams	(CW)	National Grid NTS
David Reilly	(DR)	Ofgem
Gerry Hoggan	(GH)	ScottishPower
Graham Jack	(GJ)	Centrica
Jeff Chandler	(JC)	SSE
Jim Purdie*	(JPu)	Total
Joanne Parker	(JP)	Scotia Gas Networks
John Costa	(JCo)	EDF Energy
Kieron Carroll	(KC)	PSE Kinsale Energy Ltd
Laura Johnson	(LJo)	National Grid NTS
Lucy Manning	(LM)	Gazprom
Mark Sneddon*	(MS)	Total
Marshall Hall	(MH)	Oil & Gas UK
Nahed Cherfa	(NC)	Statoil
Peter Bilotto-Jensen*	(PBJ)	DONG Energy
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

\* via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/ntscmf/030816>

### 1. Introduction and Status Review

#### 1.1 Approval of Minutes (08 July 2016)

The minutes from the previous meeting were approved.

#### 1.2 Pre-Modification discussions

No business raised.

### 2. Workgroups

No business to consider.

### 3. Gas Charging Review

#### 3.1 Proposed Objectives

LM provided a brief overview of the 6 previously identified issues, drawing attention to the changes made, following feedback from the previous meeting, to defining what these might mean in terms of perceptions/expectations when considered as objectives. In the interests of maintaining a relatively concise list, Competition had been included within Security. References to relevant objectives had been removed; this was a priority list rather than an 'all encompassing' list; there would be other areas that would also require consideration but that have not been deemed to be of as great a priority.

The changes were discussed; further revisions were suggested and were noted by LM.

CW observed that some objectives might need to be measured against/complied with irrespective of whether or not they appear on the list. Consideration needed to be given as to what type of methodology objectives were being measured against as these might differ, as may the outcome which different methodologies were trying to achieve, e.g. investment and usage methodologies will have different purposes and therefore different objectives. There may be limiting factors that may need to be applied against certain objectives and this should be borne in mind when assessments are made. Cost reflectivity was briefly discussed. PB noted that this list was compiled from a User's perspective (cost reflectivity can be a nebulous concept) and it was important to take account of this when considering developments. GJ commented that the Users' priorities and what Users' want the methodologies to do should still be kept in sight. LJ pointed out that National Grid NTS was the party with the Licence obligations, and that the list should be seen as an industry test of acceptability.

The list will be an evolving document, capable of change by the NTS Charging Methodology Forum, and will be instrumental in informing Ofgem's assessment of any identified alternatives put forward and its subsequent decision making.

#### 3.2 Options for implementing the TAR Code

JCh gave a presentation on behalf of Energy UK members aiming to facilitate consideration of the issues, sensitivities and questions arising from the EU TAR code and its subsequent implementation by GB. It was believed that the forthcoming electricity Capacity Mechanism auctions (applying in 2020) necessitated a good understanding of what is going to be required is needed before this coming November. It was noted that time was becoming short and development of a solution needed to be progressed.

It was thought there would be some issues that will need to be considered irrespective of other decisions. In respect of allocation of services/revenue to transmission and non-transmission services, can SO revenue be treated as non-transmission services and continue to be recovered by a SO commodity charge? It was suggested that National Grid NTS should consider producing a table indicating the initial allocation of services/revenue (identifying separate elements), for review.

In respect of the price of contracts/booking before 16 Sept 2016 is protected (fixed revenue bookings), it was suggested that National Grid NTS should consider preparing a revenue profile for such contracts for future years, identifying storage separately from other points.

A Strawman was suggested to assist and quicken progress; JCh outlined the basis on which it could be developed:

- Reference price methodology – CWD with 50:50 entry: exit split

- Transmission services revenue net of existing contract revenue for a given year
- Storage capacity discount – 100%. Energy UK’s reading of the TAR code is that Storage will pay commodity fees (CRRC, flow based, non-transmission services); to balance existing treatment it would be beneficial to satr with 100% discount.
- Multipliers – set all to 1 (vary for sensitivity analysis)
- Work up entry and exit capacity charges based on capacity on two inputs, at obligated levels and historical flows; and determine any under-recovery adjustment as (a) CRRC and, as an alternative (b) as an additive adjustment (uplifted at a uniform rate).

This model could be refined by considering scenarios with:

- Different multipliers for short term products and behavioural responses (clarify assumptions)
- Different discounts for storage
- Modelling of interruptible capacity (Daily could be a sensitive issue)
- Modelling of Shorthaul (capacity and/or commodity basis).

Following the presentation, CW then gave his views on what might be done. Referring to Slide 3, point 2, for Entry only he would look to do this across a range, bearing in mind the sensitivity of the data. There would be a fixed component(s) within the framework, but this could still have variable components within it; CW gave examples. It may become evident as development progresses that some option(s)/interaction(s) may not work.

Referring to the suggested Strawman (Slide 4), CW pointed out that there were other reference price methodologies that can be employed; alternatives may emerge as analysis progresses. For Storage capacity discount, more ranges could be applied; CW may look to start at 50% and see what emerges; the same might be possible for Multipliers. RF commented that he understood about ranges, but there is really a need to have something fixed and then vary one at a time to gain an incremental understanding. CW acknowledged RF’s point and described a potential approach to build a picture. In parallel, developments/outcomes will also need to be tested against the priority issues/objectives list, and be monitored against the requirements of the other codes, e.g. CAM, and any obvious links should be noted and assessed.

LJ then asked if there were any other views. LM suggested that the current regime should be reviewed to assess the extent it meets/falls short of the objectives, and then consider what actions might be required to effect improvements, i.e. what should charges look like to meet the GB regime. GJ suggested a second Strawman to look at that. RF observed that timescales are important; progress to date had been quite slow, and a clear plan was required to indicate how we are going to reach the conclusion.

AB asked if this contemplated a single or dual regime? JCh responded that as a trade body this had not been agreed upon, but that his own view was that it could facilitate a dual regime. GJ observed that a dual regime could be considered and then consider collapsing into a single regime. AB indicated that his concern lay in the fact that we could be driving inadvertently towards a particular regime.

#### *Next Steps*

Timelines were considered, noting that the review was centred more on code delivery/EU compliance dates and fulfilling EU/UNC obligations, rather than November dates. Consultations/change processes may need to be taken into account, and different prioritisations may need considering. JCh observed it would be helpful to have something on the range.

It was suggested that more frequent meetings (perhaps by teleconference) might be required. Responding to questions regarding the output from the Strawman, CW explained the approach (spreadsheet, summary of analysis). The adaptability of the model to accept varying factors was discussed; it may contain some information that could not be shared. CW gave his view of the model and potential for dynamic aspects to enable 'real time' reassessment of changing aspects. SO added that she would like to see more information regarding sensitivities. GJ suggested treating every Entry and Exit point as an individual, with each having its own multiplier. CW will look to build a model so that various components can be changed as necessary. There will be a need to understand what the multiplier is there to do, what its purpose is for each point. It will be an iterative process and as transparent as possible. MH observed that Shippers would want to see the effects of exercising any discretion(s).

LJ added that CW should also consider how analysis would be progressed; small additional workshops might be required to go through the detail. RF asked for target dates. CW indicated that the Tariff Code and the UNC drive the dates.

**Action 0801: National Grid NTS to develop a Strawman/modelling based on the criteria as set out in the Energy UK presentation and subsequent discussion, and include a plan that establishes an end date.**

### 3.3 Terms of Reference/Objectives

CW recapped on discussions to date. A table was then presented, summarising the objectives (as presented by LM at 3.1, above), the drivers for each objective and suggestions on the range of measures that could be applied to potentially improve the positions. CW explained each item in more detail, noting that there were several aspects that drive issues with the current framework. LM commented that she found this to be a very useful way of structuring/understanding what can be done to effect improvements. It should be very useful to assess/focus the work required.

Parties were encouraged to provide any further comments to CW as soon as possible, and in particular if anything else was identified that it was believed should be included.

### 3.4 EU Tariffs Code - Current Outlook

The timeline remained the same as before. CH gave an update on the current position in respect of a number of Articles and any changes that had occurred, highlighting aspects of interest to GB parties.

### 3.5 Revenue and Income Treatment - Current versus TAR

CW gave an overview of the classification of revenues, services and products. The current GB framework was illustrated, and examples provided to show the interaction between charges and revenue. The EU Tariff Code general revenue reconciliation/recovery structure was then illustrated, together with key definitions from Article 3. CW indicated that the working assumption was that TO equates to Transmission Services, and SO equates to Non Transmission Services, and summarised that under the EU Tariffs Code a "service" for Transmission or Non Transmission could relate to either the amount being recovered (if that service is catered for under the allowed revenues; and/or the product used to recover or contribute to allowed revenues.

It was asked if there was an element of discretion available to the TO as to where services sit, and suggested there might be a need to look more closely at the sensitivities of particular classifications and potential for impact on other charges. The implications for particular interpretations would need to be clearly understood. The position of Shorthaul was discussed. It was questioned whether consideration should be given to reallocating services/revenues, bearing in mind that some aspects

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of the GB regime are based on artificial constructs. Trying to tie a EU Tariff code into a network structure devised many years ago to support a certain market may prove difficult and perhaps should be revised. Comparators were briefly discussed. This could be an opportunity to simplify the GB regime. DR observed that moving Shorthaul from SO to TO would give no evident consumer benefit at this point, and Licence changes are unlikely to be considered or made until after the EU Tariff code enters into force.

### 3.6 Next Steps

It was anticipated that work would continue in the following areas:

- *Continued development of detailed workplan*
- *Development of a Strawman for modelling potential options, and include a plan that establishes an end date*
- *Production of analysis summaries to support options*
- *Establishment/planning of sub-workgroups as necessary to consider detail of analysis.*

## 4. Issues

### 4.1 Draft Issue Log

The draft Issues Log was reviewed and it was agreed to be a suitable mechanism for use going forwards. LJ explained that the intent was that related matters (to the Charging Review), too complex or difficult to resolve at the current time, would be documented so they weren't 'lost'. Parties were encouraged to submit any identified issues to the Joint Office for inclusion within the Issues Log.

## 5. Any Other Business

### 5.1 Ten Year Statement - obligation to update

Referring to the Ten Year Statement, RW asked if there was any obligation to update this, pointing out that the assumptions on which tariffs and calculations had been based were seen to be no longer valid and the model no longer reflected reality. CW responded that change to tariffs was unlikely before next year. Recognising RW's concerns, CW advised there was always a tension between assumptions and forecasts on which calculations had to be based, and the seasonality and actual reality experienced. The timings of the availability of data and when calculations must be performed have always been difficult; the current timescales were in place as part of Exit Reform.

## 6. Review of Actions Outstanding

**0401:** Waters Wye Associates (NW) to produce an assessment tool or model - a 'straw man' - to enable different methodology options to be considered and compared.

**Update:** Completed. **Closed**

**0403:** National Grid NTS (CW) to provide, for circulation, a communication to apprise the wider community of the work that was being developed within this forum.

**Update:** This remains under development. **Carried forward**

**0701:** Joint Office (LJ/MB) to consider introduction of a new standing 'Issues' agenda item including provision of an issues log template.

**Update:** Completed. **Closed**

## 7. Diary Planning

Further details of planned meetings are available at: [www.gasgovernance.co.uk/Diary](http://www.gasgovernance.co.uk/Diary)

**Post Meeting Note:** Please note that changes may be made to the following meetings:

- 05 October 2016 - Venue may change.
- 02 December 2016 - Date and venue may change.

Any changes to arrangements will be confirmed prior to the next meeting.

Time/Date	Venue	Workgroup Programme
10:00, Tuesday 06 September 2016	Consort House, Prince's Gate Buildings, 6 Homer Road, Solihull B91 3QQ	<i>To be confirmed</i>
10:00, Wednesday 05 October 2016	Energy UK, Charles House, 5-11 Regent Street, London SW1Y 4LR <i>(venue may change)</i>	<i>To be confirmed</i>
10:00, Wednesday 02 November 2016	Consort House, Prince's Gate Buildings, 6 Homer Road, Solihull B91 3QQ	<i>To be confirmed</i>
10:00, Friday 02 December 2016 <i>(date may change)</i>	Energy UK, Charles House, 5-11 Regent Street, London SW1Y 4LR <i>(venue may change)</i>	<i>To be confirmed</i>

### Action Table (03 August 2016)

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
0401	06/04/16 <i>(responsibility passed to NW on 03/06/16)</i>	4.8	NW to produce an assessment tool or model - a 'straw man' - to enable different methodology options to be considered and compared.	Waters Wye (NW)	<b>Closed</b>
0403	06/04/16	4.8	National Grid NTS to provide, for circulation, a communication to apprise the wider community of the work that was being developed within this forum.	National Grid NTS (CW)	<b>Carried forward</b>
0701	08/07/16	3.4	To consider introduction of a new standing 'Issues' agenda item including provision of an issues log template.	Joint Office (LJ/MB)	<b>Closed</b>

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<b>0801</b>	03/08/16	3.2	National Grid NTS to develop a Strawman/modelling based on the criteria as set out in the Energy UK presentation and subsequent discussion, and include a plan that establishes an end date.	National Grid NTS (CW)	<i>Due 06 September 2016 meeting</i> <b>Pending</b>
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