

## NTS Charging Methodology Forum (NTSCMF) Minutes

Friday 03 June 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
Caroline Rossi	(CRo)	ExxonMobil
Colin Hamilton	(CH)	National Grid NTS
Colin Williams	(CW)	National Grid NTS
David Reilly	(DR)	Ofgem
Debra Hawkin	(DH)	TPA Solutions
Graham Jack	(GJ)	Centrica
Jeff Chandler	(JCh)	SSE
John Costa	(JCo)	EDF Energy
Julie Cox	(JCx)	Energy UK
Kieron Carroll	(KC)	PSE Kinsale Energy Ltd
Laura Johnson	(LJo)	National Grid NTS
Lucy Manning	(LM)	Gazprom
Mads Nielsen*	(MN)	DONG Energy
Nick Wye	(NW)	Waters Wye Associates
Pavanjit Dhesi	(PD)	Interconnector UK
Richard Fairholme	(RF)	Uniper
Robert Wigginton	(RW)	Wales & West Utilities
Roddy Monroe	(RM)	Centrica Storage
Steve Edwards	(SE)	Wales & West Utilities
Sue Ellwood*	(SEI)	Consultant

\* via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/ntscmf/030616>

### 1. Introduction and Status Review

#### 1.1 Approval of Minutes (04 May 2016)

The minutes from the previous meeting were approved.

#### 1.2 Pre-Modification discussions

No business raised.

### 2. Workgroups

No business to consider.

### 3. Due Discrimination - discussion point

JCh gave a short presentation, outlining the background to the judgement (on an electricity charging matter), which upheld GEMA's decision to have different charging treatments for the different users; it was not "unlawful discrimination" and no misinterpretation of the Directive 2009/72/EC (Electricity). Attention was drawn to relevant paragraphs of the key

document. In essence, it is not unlawfully discriminatory to have a Dual Charging Regime if differential treatment is Objectively Justifiable. This leads to certain questions, i.e. what is meant by a dual charging regime? What reasons are there for treating the charging of IPs and domestic points differently? A short discussion followed, during which other participants noted that there were other examples of similar judgments. DR added that the Tariff NC does allow for it. CW pointed out that different treatment of users happens today, so it is not restricted to IPs and Non IPs; it is the whole package being looked at and not just EU.

## 4. Gas Charging Review

### 4.1 Terms of Reference (ToR)

CW reiterated the top 5 issues, and asked for views on interpretation - appropriateness and clarity - and how the relevant objectives can be met. These were discussed.

GJ observed it is not clear what is going to happen and when, and what is changing; a clear timetable/line of sight is required, and what is in a transitional period. There is also a need to understand what sort of notice can/will be given and when. CH responded that the TAR NC included some 'hard' dates, but there was still no real transparency over what part of code applies when.

Within a fixed methodology it is easier, but TAR NC affects the stability and a clear understanding/sight is required. Were there areas where things might be delivered earlier? How are systems to be updated and when? LM believed that clarity regarding the problem was still required and how best to solve it.

NW pointed out that the relevant objectives applied to the current regime, and these should be capable of being modified to achieve the required outcome; they are very secondary to all else. It was important to keep with a limited number of key principles that we want to achieve. LM added that a clear idea of criteria against which to test would be required very early on.

CW felt that clearer definition was required in relation to these top issues. LJ suggested creating an assessment tool to articulate - high, medium, low - for each issue and then to rank each solution relative to each other. SE added this would need to become a sustainable tool to absorb/evolve, to reflect changes in markets, flows, etc and across year. It will also need to reflect the future needs of the gas market and its users - optimum use of the system to provide appropriate network development/evolution.

It was also suggested that there would be a need to review the current methodology and critique against these criteria, and see where improvements/changes might be required, and what other models might be more appropriate (CWD and others). There needs to be greater understanding of where the current regime/methodology is failing, e.g. in respect of fairness.

Referring to 'Stability of Prices', GJ suggested this should be extended to wholesale gas prices as well.

NW agreed to take an action to establish what were the 5 key issues against which to assess any model, with sufficient granularity to enable comparative ratings against each. It was suggested that this was, in effect, existing Action 0401 (on National Grid NTS) and it was agreed to transfer that responsibility to NW.

JCh pointed out that existing relevant objectives should not be ignored, as these were the assessment tools against which modifications were currently evaluated. NW agreed, but believed they should not be 'set in stone'.

## 4.2 Alternative Reference Price Methodologies

CW reiterated the list of alternative Reference Price Methodologies discussed at the May meeting. Referring to Virtual Point (VP)(includes variant A and B), he asked were these so fundamentally out of line with how we think they will be used?

What should we start with? Are there any others to be included?

NW believed it to be a good place to start to build a picture of what is required/wanted.

The view was that no options should be discounted at present however using CWD and LRMC as a basis for analysing scenarios was a good place to start. Other options or variants on reference price methodologies can be incorporated as the discussions progress.

## 4.3 Modelling CWD and LRMC - continuing development of analysis

A number of graphs were redisplayed from the previous meeting as a reminder.

### *Commodity Charges Overview*

LJo introduced some graphs presenting the commodity charges (TO, SO and rates) calculated as they are today alongside the LRMC and CWD capacity charges, and explained the analysis. RW suggested it would be helpful to include an explanation of any 'anomalies'.

The key assumptions for modelling CWD compared to LRMC were outlined, and further analysis presented on a series of graphs (commodity versus capacity, for Entry and Exit). The information provided was discussed in greater detail. CW noted that it assumed no discount structure and presented a simplified view.

### *Capacity Charge and Commodity Charge Total - Obligated Values*

LJo gave a brief explanation and presented graphs relating to LRMC Entry and Exit charges. The figures were discussed. CW commented that as indicated at the previous meeting National Grid NTS can provide unit rates but it was up to Users to review and feed back into the debate. Impacts identified on individuals need to be assessed by the Users themselves.

### *Revenue - Under/Over Recovery*

LJo presented figures for Entry and Exit, demonstrating what the revenue collected would be and what the differences would be. JCx asked would setting the RPM using obligated capacity levels be considered within the requirements of the code. GJ believed it might depend on how you treat short term products. CW said it all hinges on what goes into the model and its reflections of reality. If you base any charges system on an obligated level it will always be under recovering. RF commented that in 2007 it was over recovering, and asked should we be looking at older historical analyses. This was discussed. Trying to recover too much from the Entry point in this Price Control may have undesirable effects. JCx referred to GCM01 and others, and views that it should/should not be recovering through baseline. Use of forecasting bookings rather than flows were discussed. JCx observed that TAR NC refers to forecasted contracted capacity and if this is got right it should be zero.

Summarising the analysis, LJo indicated that some assessment will have to be made as part of the analysis in relation to behavioural changes; movements between long term and short term may be key to what is potentially driving change in behaviours. JCx thought this would be very difficult to model with any accuracy and that caution should be exercised. CW observed that if you want the majority of the revenue from capacity then what goes into the model has to be close to reality; there was a need to look at building up CWD and LRMC with other concepts to see the effects. JCx said that all the modelling has to be done somehow against capacity booked (against obligated capacity is not good or the right thing to do to achieve revenue recovery).

NW observed that it will be a repetition of the analysis carried out in GTCR and will come out with something very similar; Ofgem had a different preferred position despite that outcome of the analysis. NW suggested looking at current bookings and what parties are paying now (no discounts, not using obligated as a starting point), and what would a discounted/non-discounted regime look like.

#### **4.4 EU Tariffs Code - current outlook**

##### *Key updates relevant to Gas Charging review*

CH gave an update on the current position.

A number of topics were of wider concern to Member States, including ACER's review of charging methodology (most discussed topic); ACER guidance on regulatory accounting principles; Asset cost split; Storage discounts; pricing of backhaul; secondary adjustments, language of periodic consultation, existing contracts, implementation, article for interconnectors, and entry into force.

The revised text of TAR NC will be provided prior to the Comitology meeting at the end of June; the Impact Assessment will be provided for the June meeting. CH drew attention to the Comitology link in the Transmission Workgroup (03 March 2016) slides, advising that the text will be published there on 09 June 2016. It will also be made available for publication on the Joint Office website.

*Definitions* - CH reported that different parties were pressing for different definitions; the belief is that some innovation should be allowable. Assuming that 'path based' is removed, AB questioned how would that capacity find its way back onto the market. CH gave a view, believing it would not be totally removed. Parties remained confused as to what is seen as Firm and Interruptible. CH added that National Grid NTS had no appetite to have a third category of product. JCx observed there may be a point reached where the products cannot be bundled (apples and pears). AP gave examples of what was under debate; some EU parties were not in agreement.

*Storage (Article 10)* - Option 1 had the strongest support at this stage. The possible additional text drafting (in red) was displayed. National Grid NTS believes the 'red' text does not apply to GB. Levels of discounts were discussed; CH reported on a wide spectrum of views prevalent across Member States (MS). JCo observed that GSOG had discussed and believed it would add to increased costs and potential closures. CW commented that while some parts seem to be quite prescriptive the element of flexibility is actually there. JCo observed it was all about the starting point - 50, 75, or 100. DR pointed out that the UNC Modification process provides a route/evidence to ACER to explain why it should be at a certain level. JCo queried, did one start at a neutral or disadvantaged point? PD believed an appropriate level, benchmarked, should be considered. DR suggested that parties would not want the NRA to impose, and it was better to emerge from the discussions of this NTS CMF group. KC pointed out that it should be taken into account the fact that parties have made long term investments.

Responding to questions, CH affirmed that different types of storage facilities exhibited different types of behaviours; trying to distinguish how used and whether this affects the factors to be used for calculations. Some scenarios were discussed. CH noted that this text exists now as an attempt to address some concerns raised by various EU parties. DR added that we (GB?) have flexibility between 50 and 100%. LJ observed that GB does not have storage facilities set up to undertake short-term gas trades. JCh reiterated that GB would have to justify any differential treatment. LJ believed the term 'short-term gas trade' opened up all sorts of difficulties, and CH noted this to feedback into EU discussions.

*Article 13: Level of Multipliers and seasonal factors* - Multipliers of less than 1 are of concern to GB; CH noted that GB still seems to be a 'lone voice', but that it is being considered (however there may not be a lot of support for it). GB parties were encouraged to make their views known on this.

*Calculation of Interruptible price (Article 16)* - There was an ongoing debate, is backhaul a separate thing or priced as interruptible.

*ACER Review (Article 27)* - Review cycle now at least every 5 years; the Commission is looking at process streamlining.

*Article 30: Information to be published before the tariff period* - Still under discussion; there is a resistance to publishing the model.

*Existing Contracts (Article 39)* - There is uncertainty as to whether the article gives any protection to GB shippers and clarity is being sought with Commission regarding any applicability to GB. JCo queried what sort of protection was there for parties that may now have to close down facilities (built on the premise of a different charging regime) as a result of this EU code? It may put parties out of business, if grandfathering rights are not agreed to be in place. JCo explained the clause that existed in the electricity code that protects assets/contracts, etc. CH reported that the text is now circulating and EU MS and DECC will be discussing. NW queried, what are we actually protecting? This needs to be very clear? Capacity prices were discussed. NW observed it preserves the initial price you agreed to pay at the time you booked capacity; it does not give parties what they were asking for in Ofgem's GTCR. DR added that clarity was sought by Ofgem, and explained the detail. NW reiterated strongly that GB required absolute clarity and explication as to its position within this Article.

#### **4.5 Dual Regime Discussion**

CW observed that there is a lot of flexibility and signs that a dual regime is permitted, and outlined the main scenarios drawing attention to specific comments relating to each. JCo suggested possibly applying a colour code to reflect GB interest.

##### *NTS Optional Commodity ("Shorthaul")*

CW reiterated the key points on developing change linking EU Tariffs Code and CAM. JCx referred to technical capacity, inclusion/addition to, and this was discussed. There were concerns that GB might not get what it needs from this concept. CH observed that GB prefers Firm and Interruptible products. DR explained what had been asked for, but that it was not certain that this would be obtained.

CW summarised the potential changes relating to the current arrangements.

##### *Pricing for Interruptible Capacity*

CW reiterated the key points relating to the current arrangements and potential changes. JCx referred to the 'A' factor observing that this needs to be discussed by GB. CW responded that the Adjustment factor could be decided at MS level; potential numbers and calculations were discussed. There is a framework and GB may be able to achieve close to zero.

##### *Provisions/Changes for Storage*

CW reiterated the key points relating to the current arrangements and potential changes. Attention was drawn to the 'cost to flow gas'.

##### *Non Transmission Services and Dual Regime*

The three charge items were outlined; application was discussed. There were benefits to all network users. Transmission Services are defined; all else fits under Non Transmission Services. Shrinkage can fit under either (it has to be justified where it is put). JCx suggested creating a list to clarify the understanding of where things are best placed.

##### *Revenue Recovery - Cost to Flow Gas Commodity Charge*

CW explained how this might be treated if Transmission or Non Transmission, reminding of the current framework and what then what may be permitted under current understanding. A short discussion ensued. Based on a Non Transmission Service it is treated differently

and it needs to be justified where it sits and who pays for it (reason for discount and why any such level of discount is then levied on other parties).

In summary, there are a number of options where there could be a dual regime in GB, based on GB discussion and subject to Ofgem's approval.

Shippers reiterated their need to know what was happening now (under increasing internal pressure to establish the position) and whether a dual regime would be the appropriate way forward; a clear steer was required. Were multipliers going to affect domestic IPs? DR advised Ofgem was not confident that GB was going to get multipliers less than 1. NW observed that we needed to assess this and decide for ourselves. Do we need regimes operating at domestic points? How do we justify having a dual regime? JCx commented that having identified what a dual regime might look like, should we now be defining what a single one would look like? AP asked, do we want to wait until text comes out before the next meeting? LJ asked if there should be an informal consultation seeking views from the whole industry now? This was discussed; it was believed there was insufficient clarity for parties to make any valid assessment at this stage. A small matrix of dual/single regimes was required suggested JCx, noting that what a single regime looks like had yet to be articulated, and assessed as to how different was that to the current regime. If Ofgem does not like a dual regime, what does the alternative look like?

DR reiterated the scope of the GTCR, its conclusions and the reasons for its views; Ofgem had not changed its views in the interim. JCx noted the TAR NC is not yet final; there is no formal process to feed back into Ofgem that original assumptions and positions have moved on, and that perhaps it should be reconsidering. AB asked was Ofgem willing to re-examine the assumptions/conclusions on the basis that some of these factors have changed since the conclusion of GTCR. DR believed Ofgem would have to have something submitted to it. JCx observed that the TAR NC seems to have firmed up in areas where GB had previously assumed there might be greater flexibilities, and issues of possible cross subsidies are evident - this should surely force a re-examination.

LJ asked CW if he could produce analysis to clarify what a single regime would look like. CW suggested it might look like the reverse of the information on Slide 60. LJ believed that needed to be articulated more clearly.

**Action 0601: *Single Regime* - National Grid NTS to produce analysis to clarify what a single regime might look like.**

JCx added there was a need to understand what rules apply and where, and if there were any exceptions, e.g. storage, and what this might mean, and where there is any level of flexibility. It is not possible to be 'selective' from TAR NC to fit the regulator's view of what should be applied here or there. It needs Ofgem to be open to a reconsideration of its GTCR views. JCx then summarised what the unintended consequences might be if there was no reconsideration. DR did not agree with JCx's view that Ofgem was being selective in its expectations of certain applications. Cost reflectivity and the arrangements put forward under the GTCR (commodity charges, floating charges, discounts, appropriate recovery) were then discussed.

NW, referring to the details in an Ofgem letter regarding openmindedness, noted that one of the measures is cost reflectivity and this is an important point to Ofgem - but this could in fact be the lowest criterion for industry, depending on what else is agreed. JCx reiterated that the TAR NC had changed from GB's initial views/expectations and views on what was possible/impossible to achieve were affected. LJ added why anything was done would still need to be justified.

#### **4.6 Relevant Objectives**

CW summarised the general themes running through the relevant objectives, and noted that a 'traffic light' system had been suggested to assist in the measuring/comparing of

RPMS when considering against relevant objectives. It might also help to rate as to how what is being considered adds benefit(s) over and above what pertains today.

#### 4.7 Next Steps

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

- how to rate development of options and measurement against relevant objectives would be progressed
- the building up of analysis to show how single and dual regimes might look, incorporating the necessary assumptions for reference price methodologies, that will include in addition to the core RPM(s):
  - continued consideration of Long and Short Term pricing and behaviours
  - continued discussions on alternative products
  - any potential discounts like that for storage
  - continued discussions on principles behind using either approach
- share for discussion how to refine analysis to accommodate price responsiveness
- developments in the EU Tariffs Code would continue to be monitored.

#### 5. Issues

None raised for discussion.

#### 6. Any Other Business

None raised.

#### 7. Review of Actions Outstanding

**0401:** National Grid NTS NW to produce an assessment tool or model - a 'straw man' - to enable different methodology options to be considered and compared.

**Update:** Refinement to be continued; action has been amended to reflect that responsibility for this action has been passed to NW (see discussions at 4.1, above).

**Carried forward**

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

**Update:** Under development. **Carried forward**

**0501:** *Methodology Comparison Document/Matrix* - National Grid NTS to produce an initial document/matrix to show the various features for each methodology together with a compliance statement.

**Update:** Under development. **Carried forward**

**0502:** *Potential Approaches* - All parties to consider prior to the next meeting and provide views to CW on suitability/unsuitability to enable assessment to take forward or discount.

**Update:** The view was that no options should be discounted at present. **Closed**

**0503: Booked Capacity - additional information** - National Grid NTS to provide additional information (i.e. commodity price that recovers the relevant revenue) to enable a better comparison of principles.

**Update:** Presented; completed. **Closed**

**0504: Existing GB Contracts statement (Price can't be adjusted for contracts concluded before 29 November 2013)** - Ofgem to clarify the legal understanding /interpretation of what this means for GB's existing contracts.

**Update:** DR reported that the view was that parties need to take their own legal advice.  
**Closed**

**0505:** Provide National Grid's view as to whether the Dual Regime scenarios are EU-compliant.

**Update:** Presented; completed. **Closed**

## 8. Diary Planning

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

Workgroup meetings will take place as follows:

Time/Date	Venue	Workgroup Programme
10:00, Tuesday 05 July 2016	Consort House, Prince's Gate Buildings, 6 Homer Road, Solihull B91 3QQ	See 4.7, above.
10:00, Wednesday 03 August 2016	Energy UK, Charles House, 5-11 Regent Street, London SW1Y 4LR	<i>To be confirmed</i>
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>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	Energy UK, Charles House, 5-11 Regent Street, London SW1Y 4LR	<i>To be confirmed</i>
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	Energy UK, Charles House, 5-11 Regent Street, London SW1Y 4LR	<i>To be confirmed</i>
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### Action Table (03 June 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	<del>National Grid NTS</del> 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>Due at 05 July 2016 meeting</b> <b>Carried forward</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>As soon as possible</b> <b>Carried forward</b>
0501	04/05/16	4.3	<i>Methodology Comparison Document/Matrix</i> - National Grid NTS to produce an initial document/matrix to show the various features for each methodology together with a compliance statement.	National Grid NTS (CW/LJo)	<b>Due at 05 July 2016 meeting</b> <b>Carried forward</b>
0502	04/05/16	4.4	<i>Potential Approaches</i> - All parties to consider prior to the next meeting and provide views to CW on suitability/unsuitability to enable assessment to take forward or discount.	ALL Parties	<b>Closed</b>
0503	04/05/16	4.5	<i>Booked Capacity - additional information</i> - National Grid NTS to provide additional information (i.e. commodity price that recovers the relevant revenue) to enable a better comparison of principles.	National Grid NTS (CW/LJo)	<b>Closed</b>

<b>0504</b>	04/05/16	4.7	<i>Existing GB Contracts statement (Price can't be adjusted for contracts concluded before 29 November 2013) - Ofgem to clarify the legal understanding /interpretation of what this means for GB's existing contracts.</i>	Ofgem (DR)	<b>Closed</b>
<b>0505</b>	04/05/16	4.8	Provide National Grid's view as to whether the Dual Regime scenarios are EU-compliant.	National Grid NTS (CW/LJo)	<b>Closed</b>
<b>0601</b>	03/06/16	4.5	<i>Single Regime</i> - National Grid NTS to produce analysis to clarify what a single regime might look like.	National Grid NTS (CW/LJo)	<b>Due at 05 July 2016 meeting</b> <b>Pending</b>