

NTS Charging Methodology Forum (NTSCMF) Minutes
Wednesday 05 October 2016
Elexon, 350 Euston Road, London NW1 3AW

Attendees

Chris Shanley (Chair)	(CS)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Andrew Pearce	(AP)	BP Gas
Anna Shrigley	(AS)	Eni UK
Charles Ruffell	(CR)	RWE
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	(JC)	SSE
John Costa	(JCo)	EDF Energy
Julie Cox	(JCx)	Energy UK
Kieron Carroll	(KC)	PSE Kinsale Energy Ltd
Les Jenkins	(LJ)	Joint Office
Mads Damso Nielson	(MN)	DONG Energy
Mark Sneddon*	(MS)	Total
Marshall Hall	(MH)	Oil & Gas UK
Nahed Cherfa	(NC)	Statoil
Nick Wye	(NW)	Waters Wye Associates
Pavanjit Dhesi	(PD)	Interconnector
Rob Hutcherson	(RH)	Green Network UK
Rob Wigginton	(RW)	Wales & West Utilities
Roddy Monroe	(RM)	Centrica Storage
Ross Clark	(RC)	Mercuria Energy Trading
Sarah Chleboun	(SC)	National Grid NTS
Vladislav Zuevskiy	(VZ)	Northern Gas Networks

* via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/ntscmf/051016>

1. Introduction and Status Review

CS welcomed all to the meeting.

1.1 Approval of Minutes (06 September 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

CW apologised for the lateness of publication of the final pack, recognising that very few parties would have had time to review the information provided.

3.1 Development/refinement of the Workplan

CW provided an overview of the draft plan, noting that a fairly aggressive timescale might need to be imposed to sharpen focus on some areas, and highlighting the main period for offering opportunities for flexibility (August 2016 - April 2018) with respect to the UNC processes. The main conclusions from the review were expected to start to be incorporated into a draft modification by January/February 2017.

MH queried the plan of keeping EU and GB related aspects 'together', observing that there were two different timescales in operation, and it might be more efficient to separate them out. CW indicated that this would be kept under review. MH reiterated the dissatisfaction expressed by parties in relation to the outcome of Ofgem's GTCR and asked again for this to be reviewed in light of the intervening changes in circumstances (in particular Brexit and its potential timetable/impacts) believing it would not be sensible to proceed on the same basis as indicated before. MH felt it would be better to progress the EU required changes as a priority and then look to improve the UNC more generally. LJ reminded participants that this NTS Charging Review was being undertaken in the best interests of GB regime, and would proceed to align with and demonstrate whatever EU compliance was required.

3.2 Report on output from interim Sub-group(s)

Following the previous meeting, a number of industry participants had expressed interest in contributing to development of various aspects of the review through the means of a Sub-group; a first Sub-group meeting had yet to be arranged. CW noted a further three parties also indicated their interest. CW intended to provide details of the proposed Sub-group meetings (dates/venues) to the interested parties very soon.

A provisional work programme for both the sub-group and the main NTS CMF Workgroup was displayed. It was proposed to establish an order to the discussions so the key topics for each NTS CMF are known in advance. GJ suggested there was a need to think about the underlying modelling assumptions, and whether different products might be required and whether it could, at the least, be established what capacity products were going to be available (and what any variables might be). Could any acceptable assumptions be isolated and baselined early on? CS suggested a definitive list of topics for review and how they relate to other areas (and any interdependencies), would be useful.

NW suggested starting off with at least two base charging methodologies, to test in some degree how improvements could be incorporated and how they operate in relation to the EU tariffs changes. There could be many options, but there should be a focus on the current base methodologies under investigation (existing LTMC and CWD). The GB's current charging methodology could be measured against the reviews Objectives but this cannot be done in isolation, and two or more scenarios were required to make this a meaningful process. It could be a major piece of work across a number of months, but a start needed to be made.

The discussion on scoring of methodologies would be expected to take place at the main NTS CMF Workgroup, together with any 'front runner' ideas, principles and measurements that they would be based upon. Part of the subgroup's initial discussion will be to better understand the purpose of shorthaul, discounts, multipliers, etc. and if a change were required to the UNC processes. AP pointed out that a decision on a single or dual regime should be made first, and a brief discussion followed. Interactions and/or impacts should be tested for in a proper manner, and commentaries in respect of Ofgem's GTCR conclusions would also be provided. Once various models were under review then a range

of adjustments could be given consideration.

JC pointed out that the Exit side is being impacted by the continuing uncertainty in this Review (Capacity auctions), and explained in more detail. DR observed there was no easy solution to the timeline. MH queried if transitional arrangements were required, and should Ofgem consider issuing guidance to participants to help to alleviate any timeline or approach concerns. DR believed that some consensus from NTS CMF about which direction should be taken was required first, before Ofgem could provide a view on how to progress.

3.3 Analyses Summaries to support Options

SC presented further analysis, looking at the CWD Model. A schematic was displayed, outlining potential adjustments (Revenue Adjustment, Unit Price Adjustment, and Complementary Revenue Recovery Charge) that could be applied to recover revenue.

Using Scenario 3 as the worked example a number of graphs, applying each of the potential adjustments in turn, were displayed and reviewed.

Scenario 3 + CRRC Adjustment - The four missing bars/lack of data for Canonbie, Caythorpe, Garton and Milford Haven were queried. It was explained that this was because there was no forecast capacity and therefore the model could not generate a price. This was discussed. Participants suggested the price should not be 'nothing'. A discussion highlighted that the issue may be that these ASEPs do not have a baseline value or may be sold out. For the scenario to be robust a number needs to be there for flowed capacity to enable a price to be populated in the model. It was suggested that the order of the process may need to change to address the flaw, and it should be added to the Issues Log.

Action 1001: Scenario 3 + CRRC Adjustment - National Grid NTS to define a way forward to the issue regarding the absence of primary data for modelling in respect of Canonbie, Caythorpe, Garton and Milford Haven, and provide for inclusion in the Issues Register.

CW commented that CRRC was meant to be a 'top up' element. This was discussed. CW believed a number of questions could be addressed when the Sub-group looked at the model dynamically.

In conclusion, SC summarised that the CRRC was a flow based charge levied at all locations apart from IPs; the Revenue Adjustment only adjusted locations that had a non-zero Forecast Contracted Capacity; and the Unit Price Adjustment adjusted every location.

The CWD Model now had the ability to calculate Reserve Prices, the expected revenue recovery required and how revenue recovery could be achieved by any or a mixture of the three adjustments outlined. The scenarios and the principles will be developed further in the Sub-group and the results will be brought to NTSCMF.

3.4 Multipliers - Consideration of implications and alternatives/remedies

KC recapped on the issue and the aspects that might require consideration. CS confirmed that this topic had been added to the Issues Register as Issue TCMF01.

3.5 EU Tariffs Code - Current Outlook

CH advised that the code was currently undergoing a 3 month scrutiny period by EU Council and EU Parliament. Expected entry into force of TAR NC was anticipated as 01 April 2017, with 31 May 2017 being the expected deadline for the end of implementation period for TAR NC (no significant shift in date was anticipated). Three different application dates would then be activated for the various Chapters.

CH then gave an update on the current position, highlighting the positive changes since

June, and the latest changes since the last meeting.

Conditional Capacity Products - It was suggested this could be interpreted as a potential route for introducing a shorthaul capacity product; CH was considering this.

Revenue reconciliation - There now appears to be greater flexibility than was evident a few months ago. CH indicated that NTS' legal team was reviewing, and will discuss with Ofgem.

NW observed that the industry would like to contribute to these discussions on interpretations, and asked if Ofgem could provide a view on where it considers there might be more flexibility. MH reiterated that this upheld the view that there was a clear difference between the present draft of TAR NC and that considered when the GTCR was concluded, and a review was needed. DR explained that the GTCR focused on entry charges and replacement of the commodity charge with a capacity charge; the reasons for doing that still exist. Capacity costs for capacity bookings are a better cost reflective method, even though they cannot be perfectly attributed. Over booking capacity does not send the right signals, and 80% shortfalls in revenues are not the right way. Capacity based tariffs better reflect costs than commodity based tariffs, and are perfectly consistent with the Tariff Code. Exceptions must be objectively justified by the NRA.

Article 9: Adjustments of tariffs at entry points from and exit points to storage facilities and at entry points from LNG facilities and infrastructure ending isolation - The text had been simplified. CH believed the wording '....ending the isolation of Member States ...' to refer to the Baltic States. PD believed this interpretation could also be used with regard to the Interconnector and explained why. Further consideration needed to be given as to whether IUK and Moffat were covered by this interpretation. DR gave an example scenario of how the EU considered it to be applied for security of supply reasons. PD reiterated his view that there was nothing stopping GB from deciding to apply his interpretation of the article. DR indicated that this needed discussion in a different forum to NTS CMF. MH commented that this was precisely the situation where Ofgem should be able to identify/interpret these opportunities for potential flexibility. DR observed it would be up to Member States to interpret. MH commented that EU law will cease to apply at the conclusion of Brexit, EU arrangements will have to be transposed into UK Law and subsequently issues of interpretation will be decided by the UK courts. In the past GB has tried to avoid infringements and has reacted accordingly, however the future will be different and thinking needs to change to take account of that. CH indicated that 'interpretations' might need to be analysed further to see if further clarity could be established.

Article 13: Level of multipliers and seasonal factors - There appeared to be expanded flexibility. There may have to be an annual process/consultation to decide what the multipliers should be.

Article 26: Periodic consultation - Use of a standard template is no longer mandatory.

Article 35: Existing contracts - CH confirmed that for the fixed price elements after entry into force (01 April 2017) the price paid will be the floating price for that year (at an Interconnector Point). There will have to be publication of indicative floating pricing going forward. The restriction of fixed price will only apply to IPs (unless a single regime is adopted). CH indicated that fixed price capacity cannot be released at IPs unless it is incremental and has been agreed. A brief discussion ensued and it was observed that there is ambiguity and a lack of clarity in this Article and it may need further consideration by lawyers. This was important for assumptions made in the modelling and clarity was required. There is confusion in the terminology and its use. It was noted that the interpretation of 'floating' differs between GB and TAR NC - this will need clarity, and what can be part of the core reference methodology. It was suggested that National Grid NTS might provide clarity on what is permissible and what is prohibited.

Action 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).

Issues concerning GB were outlined. These included:

- Calculation of discount for storage points if not 50%
- Discounts applied to storage points may require ASEPs that include a storage entry point to be split (c.f. Bacton)
- Calculation of discount for interruptible capacity at IPs and value of “A” factor
- Role of multipliers and how they are set.

CH noted the feedback received and will continue to look at impacts of the post comitology version of the EU tariff code.

3.6 Concerns with the existing framework

CW reiterated the aims, the objectives, issues and potential measures for improvement.

NW described an approach for moving forward. The aim was to establish a predictable stable pricing regime. To do this a proper understanding of where the current methodology is flawed or failing is required (the flaws/failings need to be identified and the level of materiality agreed) before appropriate remedies can be investigated (and impacts assessed) and applied to effect positive improvements. NW outlined a number of identified flaws in the current GB model.

The current GB model and any others (CWD, etc.) could then be measured against (for better/worse) the review’s objectives. It is clear that some of the objectives proposed are not being achieved by the current methodology. The objectives needed to be prioritised and levels of potential achievement realistically assessed. The current methodology needed to be critically assessed and explored to see if it could be made to work better before considering discarding and replacing. Without any pre-judgement, potential behavioural responses to a methodology change also needed to be tested, assessed and predicted - modelling assumptions needed to be done early on to try and predict realistic responses to different prices/products, etc.

CW believed the Sub-group could discuss and start work on assessing the current methodology. The approach would be to identify problems, apply potential solutions and study the effects/results and measure/score achievement against objectives.

Referring to Ofgem’s ability to force action to implement EU changes, JC voiced concerns regarding the lack of time, and observed that this should not preclude a modification and alternatives being raised at any time if required.

The approach to consultation was then discussed. Noting a defined audience, it was suggested and agreed that it would be better to have had a UNC Modification consultation first, with an Ofgem decision, before an ACER consultation (which would go to a much wider audience). CW noted this for adjustment on the Workplan.

3.7 Next Steps

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

- Assessment of current Charging methodology, including prioritisation of objectives and identification of flaws/remedies
- Assessment of reports on output of Sub-group meeting(s)
- Production of analyses summaries to support options
- Identification of other Issues and agree any actions
- Review and refine the Workplan/approach.

4. Issues

4.1 Issues Log

The Issue Log was reviewed. Other issues identified by the Sub-group will be included as appropriate.

Referring to the discussions regarding EU TAR Code Article 35, AS suggested this might be considered for inclusion.

5. Any Other Business

None raised.

6. Review of Actions Outstanding

0901: Existing Contracts - Entry Capacity Bookings - National Grid NTS (LJo) to provide a breakdown (monthly, quarterly, annually) of entry capacity bookings and an analysis/ comparison of past and present behaviours (including storage and non-storage, etc) and how it might change going forwards.

Update: Addressing this action, CW gave a brief presentation providing a number of graphs illustrating breakdowns of the entry capacity booked (via QSEC/ over gas years 2016 - 2032/per ASEP for various years). Some entry capacity is booked out until 2031/32 but the amount is reducing (a noted trend was that Long Term booked capacity is reducing). If the charging regime does not change then it is expected this trend would continue. However, if the charging regime did change then this expectation could potentially change but that would depend on booking behaviours.

GTCR did not propose any change to LTMC. It was noted that parts of the GTCR conclusions have been superseded by the evolution of TAR NC, e.g. in relation to Storage.
Closed

0902: NTS CMF Library - National Grid NTS to provide a current collection of documents for review at the next meeting, to be assessed for potential inclusion in an NTS CMF data store/library area on the JO website.

Update: Under review; additional papers would emerge from the Sub-group. It was suggested that the Issues Log and Scenario Tracker should be accessible in the centralised location when created. **Carried forward**

0903: Scenario Tracker – National Grid NTS to provide a means of capturing and storing scenarios assessed, that easily identifies key variables and any assumptions/dependencies, for publication on the NTSCMF webpage.

Update: Provided with the meeting papers for information purposes. **Closed**

0904: Interim Sub-workgroup Meetings - National Grid NTS to make arrangements for interim sub-workgroup meetings, and parties to register interest in participation with CW.

Update: See 3.2, above. **Closed**

0905: Issue - Derivation of Multipliers - KC to develop a paper looking at implications, with possible suggestions for alternatives/remedies, for consideration at the October meeting.

Update: See 3.4, above. **Closed**

7. Diary Planning

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

The programme of NTS CMF meetings for 2017 has now been arranged; please see details below.

2016 Meetings

Time/Date	Venue	Workgroup Programme
10:00, Wednesday 02 November 2016	Consort House, Prince's Gate Buildings, 6 Homer Road, Solihull B91 3QQ	See details noted at 3.7, above.
10:00, Tuesday 06 December 2016	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	<i>To be confirmed</i>

2017 Meetings

Time/Date	Venue	Workgroup Programme
10:00, Wednesday 11 January 2017	Consort House, Prince's Gate Buildings, 6 Homer Road, Solihull B91 3QQ	<i>To be confirmed</i>
10:00, Wednesday 01 February 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	<i>To be confirmed</i>
10:00, Monday 06 March 2017	Consort House, Prince's Gate Buildings, 6 Homer Road, Solihull B91 3QQ	<i>To be confirmed</i>
10:00, Wednesday 05 April 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	<i>To be confirmed</i>
10:00, Monday 08 May 2017	Consort House, Prince's Gate Buildings, 6 Homer Road, Solihull B91 3QQ	<i>To be confirmed</i>
10:00, Monday 05 June 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	<i>To be confirmed</i>
10:00, Monday 03 July 2017	Solihull	<i>To be confirmed</i>
10:00, Wednesday 02 August 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	<i>To be confirmed</i>

10:00, Monday 04 September 2017	Solihull	<i>To be confirmed</i>
10:00, Wednesday 04 October 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	<i>To be confirmed</i>
10:00, Monday 06 November 2017	Solihull	<i>To be confirmed</i>
10:00, Wednesday 06 December 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	<i>To be confirmed</i>

Action Table (05 October 2016)

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
0901	06/09/16	3.6	<i>Existing Contracts - Entry Capacity Bookings - National Grid NTS (LJo)</i> to provide a breakdown (monthly, quarterly, annually) of entry capacity bookings and an analysis/comparison of past and present behaviours (including storage and non-storage, etc) and how it might change going forwards.	National Grid NTS (LJo)	Closed
0902	06/09/16	3.6	<i>NTS CMF Library - National Grid NTS</i> to provide a current collection of documents for review at the next meeting, to be assessed for potential inclusion in an NTS CMF data store/library area on the JO website.	National Grid NTS (CW, LJo, SC)	<i>Due by Wednesday 02 November 2016</i> Carried forward
0903	06/09/16	3.6	<i>Scenario Tracker – National Grid NTS</i> to provide a means of capturing and storing scenarios assessed, that easily identifies key variables and any assumptions/dependencies, for publication on the NTSCMF webpage	National Grid NTS (CW, LJo, SC)	Closed
0904	06/09/16	3.7	<i>Interim Sub-workgroup Meetings - National Grid NTS</i> to make arrangements for interim sub-workgroup meetings and parties to register interest in participation with CW.	All parties	Closed

0905	06/09/16	4.1	<i>Issue - Derivation of Multipliers - KC</i> to develop a paper looking at implications, with possible suggestions for alternatives/remedies, for consideration at the October meeting.	PSE Kinsale Energy (KC)	Closed
1001	05/10/16	3.3	<i>Scenario 3 + CRRC Adjustment -</i> National Grid NTS to define a way forward to the issue regarding the absence of primary data for modelling in respect of Canonbie, Caythorpe, Garton and Milford Haven, and provide for inclusion in the Issues Register.	National Grid NTS (CW/SC)	<i>Due Tuesday 25 October 2016</i> Pending
1002	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 Wednesday 02 November 2016</i> Pending