

NTS Charging Methodology Forum (NTSCMF) Minutes

Wednesday 06 April 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
Anna Shrigley	(AS)	Eni
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
Fiona Cottam*	(FC)	Xoserve
Gerry Hoggan	(GH)	ScottishPower
Graham Jack	(GJ)	Centrica
Jeff Chandler	(JCh)	SSE
John Costa	(JCo)	EDF Energy
Laura Johnson	(LJo)	National Grid NTS
Lucy Manning	(LM)	Gazprom
Marshall Hall	(MH)	Oil & Gas UK
Nahed Cherfa	(NC)	Statoil
Nigel Sisman	(NS)	SEC
Peter Bilotft-Jensen	(PBJ)	DONG Energy
Peter Bolitho	(PB)	Waters Wye Associates
Richard Fairholme	(RF)	Uniper
Robert Wigginton	(RW)	Wales & West Utilities
Sarah Lloyd	(SL)	National Grid NTS
Terry Burke	(TB)	Statoil

* *via teleconference*

Copies of all papers are available at: <http://www.gasgovernance.co.uk/ntscmf/060416>

1. Introduction and Status Review

1.1 Approval of Minutes (10 February 2016)

The minutes from the previous meeting were approved.

1.2 Pre-Modification discussions

None were raised.

2. Workgroups

No business to consider.

3. EU Update

CH gave an update on the current position in respect of the EU Tariffs Code (TAR NC). This was now in the comitology process, which may be concluded by September/October, however the impact assessment was not yet approved nor was the text finalised. Subject to progress and approvals, it was possible it could achieve 'entry into force' in January 2017, but in the (likely) event of an additional meeting this may be delayed until April 2017.

The issues and concerns raised at the Member States (MS) informal meeting in March were outlined; further work was being done on these. CH reported on certain areas in more detail:

- *Implementation* - The latest date is June 2018 (17 months after entry into force), but this is deemed too short for a proper and consistent implementation in the GB regime. National Grid NTS is pushing back on this. If it slips it will not hit the July auctions. ENTSOG is proposing 24 months implementation.
- *Reference Price Methodology (RPM)* - Quite a big push from some TSOs for reinstatement of postage stamp counterfactual; not much of a GB issue but will take up much discussion time. Having two Cost Allocation Tests is not liked, but may be too difficult to remove. DR observed that Ofgem had submitted a proposal to 'weaken it' to minimise any impact (given the current perceived inability to make it meaningful); a number of arguments have been presented to the Commission. The proposed RPM is to be subject to an industry consultation.
- Concerns regarding ACER's role post consultation on the proposed charging regime, with enhanced powers perceived to be beyond its scope (belief it should be limited to monitoring/reporting). DR confirmed Ofgem does not have an increased role through this (DECC has also made proposals to weaken ACER's role). There is a view that ACER's review will slow down the implementation process, and that it does not have the competence for certain tasks. No NRAs appear to support the enhanced role of ACER.
- *Storage Discounts* - Latest proposal is for a discount of at least 50% with no criteria required if higher discount proposed. ENTSOG to advocate more flexibility. The text is expected to be issued by 14 April 2016.
- *Fixed versus floating prices* - ENTSOG proposing TSOs to offer fixed prices where fit for purpose.
- *Multipliers at IPs* - For quarterly and monthly capacity to be between 1 and 1.5; for daily and within day capacity products to be between 1 and 3. Defaults to 1 to 1.5 after 4 years. Multipliers to be reviewed after 2 years and code may be amended to new ranges if need for change identified. ENTSOG to push for no automatic reduction in cap after 4 years but should be outcome of prescribed review.

Ranges and recovery were discussed; the range of 1-1.5 was not seen to be sufficient and it was suggested that a range of 0 to 1.5 would give more flexibility. CH confirmed GB had put this to the Commission, but it was the only Member State to do so. DR could continue to ask DECC to persist in pushing for it.

- *Interruptible capacity at IPs* - By default interruptible price to be based on probability of interruption. NRA may allow ex-post discounts under certain conditions. Text under review by EC, but no details as yet.
- *Existing Contracts* - Code protects fixed price element of existing long-term capacity contracts where it was booked before 29 November 2013, and where Incremental was booked after 29 November 2013 and before the code enters into force. This

text is in the section of code applicable to all points but the code only obliges a move to floating prices at IPs.

Recognising the time constraints that operated at each meeting, it was suggested that any EU update information be limited to any identified matters of importance and pertinence to this charging review. It was also suggested that CH might consider highlighting EU areas where there may be discretion and flexibility in what may be attempted and developed, and/or where a different line might be followed providing there was an acceptable justification.

4. Charging Review

4.1 Approve the Terms of Reference

The draft was reviewed and approved. A formal version will be provided for publication.

4.2 Confirm the Work Plan

The draft was reviewed and discussed. It was observed that it should build in opportunities to undertake sound analysis through which to better comprehend commercial impacts and on which to base appropriate principles. The document is likely to evolve, as what needs to be done is better understood.

Asked about a deadline for completion of this work, DR indicated that this might be dictated by the development/progress of the EU Tariff NC.

LJ advised that the Joint Office was looking at providing a designated area on its website as a repository for information related to this work.

CW noted comments and will provide Work Plan version 1 for publication.

Charging Obligations and relevant objectives

CW reiterated the Licence and UNC obligations relating to charging, pointing out that these should be kept under review as discussions progress. GJ suggested that EU objectives could be added to these as more clarity was achieved.

NS asked if there was any particular definition for certain elements, e.g. cost reflectivity, noting the importance of having a 'standard' interpretation for many areas. This was briefly discussed. DR drew attention to certain documents published by Ofgem relating to its Gas Transmission Charging Review. It was observed that the TAR NC does not consider commodity charges to be cost reflective. CW explained his own views and gave examples. The underlying methodology was cost reflective and gave 'pure' signals, but then there were provisions, that may distort the pure view, to enable appropriate recovery.

4.3 Alternative Capacity Method - Capacity weighted distance

Current methodology for Capacity Charges - The Transportation Model

Post Meeting Note: National Grid NTS has provided the following definition: A "solved network" calculates the minimum total network flow distance on the NTS given a set of supply and demand flows.

CW described the NTS Transportation Model, what it calculates and what its inputs were, and explained that it has two elements, the NTS Transport Model and the Tariff Model. The core steps for reference prices and payable prices, and how they differ, were then illustrated and explained. The purposes of the two charges were slightly different; the underlying models were the same, the adjustments differ. For Exit Capacity there is an explicit assumption in terms of bookings. The Payable Price calculated and changed each

Gas Year is relevant to the allowed revenue; the purpose is to meet the allowed revenue/revenue recovery. For Entry Capacity (Payable Price) it presumes competition through the auctions, driving up the prices and getting to the allowed revenue (under recovery). Some prices and revenue recovery elements will be known, e.g. through QSEC and Daily auctions; it will be known where under/over recovery is most likely and to what degree. Half the capacity booked on the Entry side is through Daily (at a zero price).

It was suggested there was a need to understand how the current methodology drives Shipper behaviour; setting different parameters may exert different influences and force a change.

Moving on, CW explained why it was now necessary to consider an alternative reference price methodology for capacity charging. Currently GB uses Long Run Marginal Costs (LRMC), which is investment focused. Under EU TAR NC there is a requirement, irrespective of method chosen as a Reference Price Methodology (RPM), to compare it to a pure Capacity Weighted Distance (CWD) as a counterfactual, i.e. meaning the calculation followed exactly as given under the EU TAR NC. As reported by CH in 3, above, the proposed RPM is to be subject to an industry consultation. Therefore it is prudent to assess how CWD compares/differs to the current methodology used (LRMC plus adjustments).

CW outlined initial differences between the two approaches, and a 'core steps' comparison was illustrated across LRMC Entry and Exit and CWD.

4.4 Assumptions made for modelling comparison

LJo explained the high level assumptions made for modelling CWD compared to LRMC, and described the key requirements for the comparison modelling. LJo then explained the key assumptions made for modelling the two approaches in respect of capacity, network and revenue. Key terms and the meanings applied were also outlined.

LJo then clarified which prices were being shown in each chart (LMRC models, Entry and Exit, for 2014/15 and 2015/16), giving overview of how prices might change.

SL then gave a similar exposition for the information presented relating to CWD. For CWD, it was noted that the profiles remain the same; there was a slight difference in price due to an increase in allowed revenue; prices might be very slightly higher in most locations.

Both NS and DH commented that the relativity against the accumulative position over the year might be important, and explained their views in more detail. LJo observed that other adjustments may need to be applied (these figures did not contain certain elements).

4.5 Initial calculations and comparison made to current model

Various charts were then presented, comparing LRMC and CWD across Entry Capacity 2014/15 and 2015/16, Exit Capacity 2014/15 and 2015/16, and illustrating percentage variance in prices 2014/15 and 2015/16 (including/excluding Wales South zone). Specific Exit Point information had been provided on a separate spreadsheet, published alongside the presentation.

CW observed that these results appeared to indicate that CWD had the potential to be less volatile, however there were many questions and permutations to consider, before an appropriate approach and principles can be defined.

4.6 EU TAR NC Compliance and additional elements to consider

CW explained how the CWD approach had been modelled to produce annual prices as given in the EU TAR NC, and what else needed to be considered, including differing revenue recovery requirements.

The current GB Framework for revenues and recovery was illustrated, together with the current method used for over/under recovery ("K") relationships and how this filters into charges ("K" being the value of under/over recovery).

An example of setting charges was provided, and the assumptions made and how charges cascaded into the various streams were discussed. The Licence refers to an overall value but under the UNC Entry and Exit are treated differently; 50/50 is applied to forward charge setting and under/over recoveries do not use the default split.

The EU TAR NC general revenue reconciliation/recovery structure was illustrated. CH explained the difference between Transmission Services Revenue and Non Transmission Services Revenue as perceived under EU TAR NC. The current working assumption was that SO would be largely Non Transmission Services Revenue.

The potential differences in approach to under and over recovery adjusting charges in respect of the current method and the EU TAR NC were then illustrated.

4.7 Charging Workshop - March 2016

Participants at the recent workshop identified five main concerns and five main opportunities.

These were displayed; the itemised concerns were briefly discussed and then agreed for prioritisation in this review as:

1. Predictability
2. Stability of prices
3. Fairness of users.

4.8 Next Steps

DR asked if other alternatives were being considered, observing that the GTCR had proposed a floating capacity element. LJ suggested that a reminder of the output of the GTCR be produced and a comparison be made to explain why it should be discounted. MH noted that the GTCR had not recommended CWD, but there may be other alternatives or variants of other methods that could be considered and assessed. CW affirmed there was no restriction as to what could be considered, adapted and adopted, the input today being a starting point for discussions. DR noted that for cost reflectivity, capacity and distance are the drivers.

LJ suggested that National Grid NTS produce an assessment tool or model - a 'straw man' - where different methodology options can be considered and compared, and conclusions reached as to suitability for further development or for disregarding.

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

Concluding the presentation, CW drew attention to what also might be considered in the short term, particularly under what scenarios there may be a "dual regime" based on EU TAR NC, and the need to begin discussions on behavioural impacts and how to incorporate. There will be 'trade offs', and any implications and consequences need to be clearly understood. Appropriate assumptions need to be agreed and checked to see what flexibility there might be available, and there will need to be clear justifications for whatever is used.

Action 0402: National Grid NTS to produce draft principles/information on a "dual regime" for consideration.

LJ suggested issuing a communication to apprise the wider community of the work that was being developed within this forum. CW will provide this for circulation.

Action 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.

5. Issues

None raised for discussion.

6. Any Other Business

6.1 Changes to calculation of Large NDM Peak Load Factors

Implementation of Project Nexus requires some changes to the Load Factor formula used for Large NDM EUCs. FC outlined the background, why the model had been required in the first place and the reasons why it will no longer be required in the future in more detail. The planned change to the Peak Load Factor (PLF) calculation was approved by the Demand Estimation Sub Committee (DESC) and has been incorporated into the Spring Approach to NDM Algorithms for Gas Year 2016. Interested parties are being briefed.

The impacts and benefits of the change on Small and Large NDM EUCs were summarised. Further details on the current calculation and the proposed approach were provided in an Appendix to the presentation. A table illustrating estimated movements in Large NDM Load Factors for 2015/16 Gas Year comparing proposed and existing process was also provided.

LJ referred to a question from J Cox (submitted prior to this meeting) relating to the effect on '1-in-20' demand. FC referred to the Pricing Managers' estimates on slide 10, and suggested that J Cox's question might be referred to the Distribution Charging Methodology Forum for its consideration.

Concluding, FC indicated that the Load Factors would be published in early July. Communications will go out via the Joint Office and parties can submit responses through the same channel. Any responses received will be reviewed and discussed by the DESC.

7. Outstanding Action(s)

0201: All participants to provide ToR feedback directly to CW.

Update: Provided. **Closed**

0202: National Grid NTS (CW) to confirm the Workshop date and circulation criteria for attendees.

Update: Completed. **Closed.**

8. Diary Planning

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

Workgroup meetings will take place as follows:

Time/Date	Venue	Workgroup Programme
<p>10:00, Wednesday 04 May 2016</p>	<p>Energy UK, Charles House, 5-11 Regent Street, London SW1Y 4LR</p>	<p><i>To be confirmed</i></p>

10:00, Friday 03 June 2016,	Energy UK, Charles House, 5-11 Regent Street, London SW1Y 4LR	<i>To be confirmed</i>
10:00, Tuesday 05 July 2016	Consort House, Prince's Gate Buildings, 6 Homer Road, Solihull B91 3QQ	<i>To be confirmed</i>
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>

Action Table (06 April 2016)

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
0201	10/02/16	4.2	All participants to provide ToR feedback directly to CW for inclusion in the forthcoming National Grid Workshop.	All	Closed

0202	10/02/16	4.2	National Grid NTS (CW) to confirm the Workshop date and circulation criteria for attendees.	National Grid NTS (CW)	Closed
0401	06/04/16	4.8	National Grid NTS to produce an assessment tool or model - a 'straw man' - to enable different methodology options to be considered and compared.	National Grid NTS (CW)	<i>Due at 04 May 2016 meeting</i> Pending
0402	06/04/16	4.8	National Grid NTS to produce draft principles/information on a "dual regime" for consideration.	National Grid NTS (CW)	<i>Due at 04 May 2016 meeting</i> Pending
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)	<i>As soon as possible</i> Pending