

NTS Charging Methodology Forum (NTSCMF) Minutes Friday 08 July 2016

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

Attendees

Les Jenkins (Chair)	(LJ)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Amrik Bal	(AB)	Shell
Andrew Pearce	(AP)	BP Gas
Anna Shrigley	(AS)	Eni
Caroline Rossi	(CRo)	ExxonMobil
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
Julie Cox	(JCx)	Energy UK
Kieron Carroll	(KC)	PSE Kinsale Energy Ltd
Laura Johnson	(LJo)	National Grid NTS
Lucy Manning	(LM)	Gazprom
Marshall Hall	(MH)	Oil & Gas UK
Nahed Cherfa	(NC)	Statoil
Nick Wye	(NW)	Waters Wye Associates
Richard Fairholme	(RF)	Uniper
Richard Pomroy	(RP)	Wales & West Utilities
Sinead Obeng*	(SO)	South Hook Gas

* via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/ntscmf/080716>

1. Introduction and Status Review

1.1 Approval of Minutes (03 June 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 Waters Wye Associates NTS Charging Review Proposed Objectives/ToR presentation

By way of a response to outstanding action 0401, NW provided an overview of the 'NTS Charging Review Proposed Objectives / ToR' presentation.

Attention focused on the proposed objectives changes with NW explaining that the two new (20 years out) forward looking items (Security and Network efficiency) are additions to National Grid's original listing and are a consequence of discussions, by a selected group of participants, following the previous NTSCMF meeting.

NW then went on to justify deletion of the previous relevant objectives item citing that this is really 'covered off' by other items, although he did agree that it is possibly missing cost reflectivity aspects – at this point, DR indicated that Ofgem would be keen to see cost reflectivity considered somewhere during the development. He also suggested that a balance would be needed when assessing cost reflectivity against volatility interactions / relationships.

As the debate continued, parties noted that the psychology of an efficient market operation is important and that (re)consideration of the falling market statement and how the 'industry' should facilitate a healthy market is essential. It was also suggested that a better understanding of the impacts on the single market position of leaving the European Union (EU) would be needed in due course – LJ reminded those present that the timeline for the Gas Charging review (CGR) predates the UK exit from the EU, and as a consequence, any proposed changes to the regime need to be EU compliant and that trying to second guess the future at this time is extremely difficult. Referring back to the falling demand predictions, GJ suggested that the current capacity (LRMCs) markets and associated mechanisms have potentially 'distorted' the market demand view.

When asked, DR advised that the subject of potentially deviating from the 50:50 Tariff Code position has not been on Ofgem's radar up to this point.

Responding to the various comments, NW suggested that how quickly prices change, and to what value, is crucial and it is the predictability of these changes that is important – (in)stability plays a key role in a smooth as possible path to changes. CW added that in his opinion, each item would need to be measured against the current processes.

In considering the primary challenges facing the industry, it was noted that whilst a peak demand based model has served the industry for 20 years or more, it may not do so (effectively) for the next 20 years.

Concluding, NW agreed to consider all the points raised and provide a response at the August meeting.

3.2 NTS Optional Commodity Charge ("Shorthaul") Review Update

During a brief presentation by LJo and CW, discussions focused on the 'Plan and Next Steps – Making a change' slide.

When challenged, CW explained that it is not National Grid's (NG) intention to abolish the 'product' per se and that, in suggesting that the product is no longer fit for purpose, NG is looking closely at the design of the current processes with a view to improving these – a further clarification change would be provided following the meeting.

When some parties questioned why the forum is looking at "shorthaul" as part of the review, it was pointed out that this is consistent with previous discussions and approach, especially bearing in mind the forthcoming EU Tariff Code changes. In essence it is a 'placeholder' to indicate that the forum would expect to consider "shorthaul" at some point in the future.

Concluding, CW advised that National Grid would be looking to engage the wider industry in due course.

3.3 Terms of Reference and Workplan (standing action)

During a brief discussion concerns were voiced and opinions remained divided over the proposed approach with some parties favouring focusing on the objectives in more detail before undertaking what appears to be a high level drill down exercise. One (alternative) option put forward, was to look to list target areas to focus attention on. Another alternative suggested was to pick the top 3 impacts and consider how best to mitigate these, although it was felt this could be tricky especially when taking into account TAR outputs.

It was also suggested that recently the EU Tariff Code has provided more flexibility that the GB market could look to possibly exploit in due course.

NW wondered whether or not a 'traffic light' style approach to identifying problem areas and how the forum might look to address current constraints, might be beneficial. DR added that perhaps the previous CDW scenario might also provide a suitable approach.

Responding to the discussion, CW questioned whether adopting a new approach would really add value, as he believes that it/they, may not tease out all impacting factors – in short, there are potentially multiple solutions to the problems !

Recognising the difficulties and complexities involved, and by means of a way forward, CW agreed to undertake offline discussions with interested parties and provide an update at the next meeting.

3.4 Development and Comparisons of Options

During a brief review of the various related topic slides contained within the main 'Gas Charging Review' presentation, CW and LJo focused attention on key matters for consideration.

Starting on slide 16, discussions centred around capacity and multiplier considerations with parties suggesting that interruptible capacity, CAM related changes along with short / long term behavioural patterns would all need to be considered. CW explained that the current proposals are only a teaser and acknowledged that a framework for taking into account industry behaviours may well prove beneficial. When it was suggested that the forum could consider adopting an ACER framework / methodology development style approach, CW reiterated that this is by no means the 'end game' and is simply a precursor to more detailed (packaged) considerations going forwards over the next 9 months (i.e. simply an initial sensitivity assessment). CW explained that he would be seeking views on capacity markers / values in due course.

When considering entry capacity (slide 18), LJo confirmed that this relates to booked capacity (i.e. what was sold) whilst CW accepted that this does not take into account utilisation, and therefore points to a need to focus attention on peak demand aspects. In recognising parties concerns, CW suggested that the industry is some way off being in a position to assess behavioural considerations at this time. DR believed that forecasting demand would be crucial going forward.

It was noted that how capacity and demand aligns with the proposed objectives would require further consideration.

Moving swiftly on to consider the 'Forecasted Contracted Capacity' slide (29), discussion focused on whether or not obligated capacity and seasonal factors should / could also be considered at this time. In accepting the various views expressed, CW reminded those present that the forum would need to look at ALL aspects rather than simply focusing on a narrow target area – in short, there would be an iterative process to investigate various options and associated methodologies.

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

3.5 Workgroups

CW explained that the summary points had been developed in order to focus the (sub) workgroups attention on important matters whilst minimising both individual parties and industries potential workload impacts.

In considering the role of the various sub-groups, it was noted that it might be difficult in practice, to 'narrow down' the attendance to these sub-workgroups. LJ pointed out that the proposal is consistent with previous suggestions and that the target should be to aim for a maximum of 5 – 6 individuals per sub-workgroup.

3.6 EU Tariffs Code - Current Outlook

CH gave an update on the current position.

In considering the 'EU Tariffs Code: Process Steps' slide, CH explained that the 1st comitology meeting was a confidential meeting, and therefore the information he can provide is limited. However, he was able to highlight that the text is largely unchanged, apart from the removal of one piece of redundant text (sparking the concern of one Member State), and that any highlighted text would now be reviewed at the final meeting in September.

CH then explained that questions have been raised around the use of English as the default text language even though it is the internationally recognised business language for such matters. The final version of the text is to be 'locked in' over the next few days in order that any translation is able to be undertaken in a suitably timely manner.

When asked whether or not the tight timescales proposed are achievable, CH suggested whilst a tough set of targets, they should be doable.

Moving on to consider the 'EU Tariffs Code – update' slide and the various articles, CH provided a brief set of reports (recorded by exception), as follows:

Article 3: "alternative transmission tariffs" – referring to the commission's view that "short-haul" in the GB market should not be prohibited, CH noted that there is nothing in writing appertaining to this fact and that some work on the matter remains ongoing. DR observed that so far the EU has not provided a clear guidance on the matter and that whatever proposals the GB puts forward would need to pass a 'compliance test';

Article 5: some re-wording proposed to aid clarity, although these are not material in nature;

Article 10: questions remain around the proposed 50% storage discounts and how these would / could be established and the NTSCMF would need to consider in due course;

Article 13: Level of Multipliers and seasonal factors – some challenges relating to this being a UK initiative, and how this is now affected by the UK exit from the EU have been voiced;

Article 16: Interruptible capacity (IPs only) – questions remains on how in realistic terms you would set the adjustment factor 'A'.

The view that daily interruptible can only be offered if firm sold out day-ahead (CAM Art. 28) is now in jeopardy;

Article 38: ACER Guidance Document obligation – now removed, but retained as an article for transparency purposes only and is due to be renumbered in due course;

Article 39: this is currently being tweaked to aid clarity, although the intent of the article remains unaltered;

Article 40: ENTSOG are not 100% happy with their proposed and potentially challenging role going forwards;

Article 41: currently highlighted for further review, and finally

Article 42: Delivery Dates (including impacts of aligning to CAM) – whilst text may be amended, the original intent of the article will remain the same.

Closing, DR noted that there is no clear indication as yet, as to when the text would be available.

3.7 Single and Dual Regime Discussions

Opening discussions, CW advised that the information follows on from previous NTSCMF meetings.

The bulk of discussions focused around the single regime table on slide 43.

When asked, LJo confirmed that the single methodology for RPM at all points is leading to a common set of capacity prices.

CW remains unsure at this time as to whether or not there will be a set of generic multipliers (especially for IPs), due to the fact that it is not explicitly stated in the Tariff Code. DR suggested that Ofgem would be keen to see appropriate justification of any key elements (i.e. multipliers, possible discriminatory aspects and considerations etc.). LJ noted that where possible, if the forum could look to justify matters as being in the consumer's best interests, it would make Ofgem's decision easier.

It was suggested that the CRRC for Non IPs would also apply to storage, as there is no discretion possible.

CW reminded those present that commodity is *carte blanche*, whereas capacity needs to be aligned to appropriate elements (i.e. balancing etc.).

3.8 Next Steps

Closing, CW indicated that he would be looking to further refine the presentation including finding a better balance between educational versus practical aspects, and to this end, would be liaising more closely with NW and LM to refine requirements.

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

- *Continued development of detailed workplan*
- *Production of analysis to support options*
- *Establishment and planning of sub-workgroups to support the Charging Review*
- *Production of examples of integrating multiple, interacting elements into charging framework options*

4. Issues

None raised for discussion.

5. Any Other Business

5.1 Updated Revenue Forecast

CW explained that an updated revenue forecast had recently been published on the Joint Office web site. He went on to advise that the update involves minor revenue step changes with the next (full) iteration of the report due in October 2016.

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: CW suggested that whilst this action has been mostly completed, there remains some additional refinement, therefore the action is to be continued. **Carried Forward**

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: CW explained that this action remains under development. **Carried Forward**

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

Update: During a brief discussion within which MH reiterated his views around whether or not the GB market should (still) be looking to achieve 100% compliance with the EU Tariff Code changes, LJ provided a brief resume of what is actually meant by the term 'compliance statement' before reminding those present that the EU Tariff Code is the law and we cannot simply ignore this fact. **Closed**

0601: *Single Regime* - National Grid NTS (CW/LJo) to produce analysis to clarify what a single regime might look like.

Update: It was agreed that this action had been completed. **Closed**

7. Diary Planning

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

Following a brief discussion it was agreed to leave the Transmission Workgroup and NTSCMF meeting schedule 'as-is' for the time being (i.e. on adjacent days) and review on an ongoing basis.

Workgroup meetings will take place as follows:

Time/Date	Venue	Workgroup Programme
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>

Action Table (08 July 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)	Carried Forward
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)	Carried Forward
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)	Update provided. Closed
0601	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)	Update provided. Closed
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)	Pending