

NTS Charging Methodology Forum (NTSCMF) Minutes

Friday 13 October 2017

at St Johns Hotel

Attendees		
Rebecca Hailes (Chair)	(RH)	Joint Office
Helen Bennett (Secretary)	(HB)	Joint Office
Andrew Pearce	(AP)	BP
Anna Shrigley	(AS)	ENI
Benoit Enault	(BE)	Storengy UK Ltd
Colin Hamilton	(CH)	National Grid NTS
Colin Williams	(CW)	National Grid NTS
Danishtah Parker	(DP)	Cadent
David Mitchell*	(DM)	SGN
David Reilly	(DR)	Ofgem
Debra Hawkin	(DH)	TPA Solutions (on behalf of Vermillion)
Erik Rakhou*	(ER)	Baringa
Graham Jack	(GJ)	Centrica
Jeff Chandler	(JCh)	SSE
Jenny Phillips	(JPh)	National Grid NTS
Joanne Parker	(JP)	SGN
Julie Cox	(JCx)	Energy UK
Karin Elmhirst*	(KE)	National Grid NTS
Kay Riley*	(KR)	South Hook Gas
Kully Jones	(KJ)	Joint Office
Laura Johnson	(LJ)	National Grid NTS
Matt Hatch*	(MH)	National Grid NTS
Nahed Cherfa	(NC)	Statoil
Nick Wye	(NW)	Waters Wye Associates
Nigel Sisman	(NS)	Sisman Energy Consultancy
Paul Youngman	(PY)	Drax
Pavanjit Dhesi	(PD)	Interconnector
Penny Garner	(PG)	Joint Office
Phil Lucas	(PL)	National Grid NTS
Robert Wigginton	(RW)	Wales & West Utilities
Steve Pownall	(SP)	Xoserve
Vladislav Zuevskiy	(VZ)	Northern Gas Networks
* via teleconference		

Apologies:

Dymph Cooke

Richard Fairholme

Copies of all meeting papers are available at: <https://www.gasgovernance.co.uk/ntscmf/131017>

1. Introduction and Status Review

RH welcomed all to the meeting and introduced everyone to Penny Garner, recently appointed Chief Executive of The Joint Office of Gas Transporters.

1.1 Approval of Minutes (26 September 2017)

The minutes of the previous meeting were approved.

1.2 Pre-Modification discussion

1.2.1. 0636 – Updating the parameters for the NTS Optional Commodity Charge

DH took the workgroup through an onscreen review of the presentation that will be presented to UNC Panel on 19 October 2017, which covered:

- Why Change: highlighting the £146m estimated cross-subsidy
- Options: an update to UNC Section Y and Section B
- Solution: (i) replace the current formula with that proposed by National Grid in 2015 (Option 2) from Gas Charging Discussion Document 11 (GCD11) <http://www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Charging-methodology/Gas-Charging-Discussion-papers/> and (ii) adjust the assumed capacity of the alternative by-pass pipeline to be consistent with the underlying assumptions of the current formula
- Recommended Steps: (i) not subject to self-governance and (ii) timely workgroup assessment.

The presentation can be viewed here:

<https://www.gasgovernance.co.uk/ntscmf/131017>

SP informed the workgroup that there could be some central systems impact and that Xoserve will need to complete an impact assessment, a ROM will be required. The workgroup was also informed that UK Link Release 1.1 is due in November 2017, Release 2 is already locked down and planned for June 2018 and Release 3 is planned for November 2018.

DH requested assistance with these processes so that progress could be made and stressed she was seeking a practical solution where only parameters are changed and not systems.

RH confirmed that DH should put a proposal through to the DSC Change Management committee via Xoserve: <mailto:commercial.enquiries@xoserve.com>.

RW wondered why there are so many restrictions to change a charge parameter or value, considering this to be a relatively small change that should be possible.

GJ asked why there is no solution for IPs. DH advised that this proposal is intended to cover the interim period until Modification 0621 takes effect, adding that there is no intention not to have an optional commodity charge and that this proposal would continue to work at IPs as an alternative to the standard commodity charge(s) until superseded by Modification 0621.

It was confirmed to the workgroup that the date for implementation of Modification 0621 is 01 October 2019.

CW explained that Modification 0621 will change whatever is in place at the time it is implemented, whether that is pre or post Modification 0636.

JCx suggested that if Modification 0636 goes ahead, then the formula will need to be looked at for clarification, adding that the spreadsheet should support the numbers in the Modification. DH asked CW for clarification that she had used the correct formula. CW confirmed that DH was using the numbers from Option 2 and that the spreadsheet supported the calculation method, it however used values different to those used to derive the formula highlighted as some of the values used in GCD11 Option 2 were not to be publicly available. JCx highlighted this could pose an issue on transparency of the values.

It was mentioned that the timescales of this Modification will most likely need to be re-visited as they appear to be optimistic.

NS said that the modelling of the formula needs to be updated but that it didn't need to be perfect as it will be improved in due course by Modification 0621. He also said the cross subsidy is worth more than £12 million per month and that this proposal should not be unnecessarily delayed as it will greatly reduce the problem.

DR added that the size of the cross subsidy was not brought to his attention when GCD11 was discussed in 2015 and that it now appears to be a significant number.

DH confirmed the figure is taken from National Grid figures. This Modification is about bringing something in prior to Modification 0621 implementation as a step in the right direction to reduce this cross-subsidy.

PD reminded the workgroup that there is also cross subsidisation elsewhere in the regime.

AS and GJ highlighted the risk of tackling only one aspect of the charging regime and that the whole package needs to be considered.

GJ said that the proposed interim solution will be detrimental to stability.

2. Workgroups

2.1 0621 – Amendments to Gas Transmission Charging Regime

RH put a suggestion forward that once a month the future workgroups should concentrate on regular business and the other, additional meeting looks at the Modification 0621. Participants agreed and confirmed that that the first meeting of each month will cover regular business including Modification 0621.

CW took the workgroup through an onscreen review of the material provided for the workgroup which covers the following agenda:

- UNC Modification 0621
 - Updated draft for UNC0621
 - Main objectives and deliverables for UNC0621
 - Compliance
 - Delivering for 2019 and beyond
 - Plan for updating and amending UNC0621
- Plan and GB/EU Consultation and change process
 - Running GB UNC change process and EU Consultation as a single process
 - Impact Assessment – what should be included?
- Charging models
 - Development of Transmission services CWD spreadsheet and Non-Transmission services spreadsheets alongside UNC0621 development
- Next Steps
 - Next steps for UNC0621

The presentation can be found here: <https://www.gasgovernance.co.uk/ntscmf/131017>.

The main discussion points are captured (by exception) as follows.

Compliance and Delivery, focussing on methodology, Modification 0621 will be compliant with the tariff code. The intention is that the end solution will be compliant and CW mentioned there may be some challenges on compliance to discuss further. It may be the case that some components may need to change as these are discussed further.

The framework is to have methodology in place that will drive prices from 2019 and the intention is to make sure the charging framework is not as static as it has been over the previous years.

CW reiterated that one consultation would be used for both Modification 0621 and the EU Requirements.

Looking at the simplified timeline, DR advised that it is always the draft that is consulted on and the intention is for a January consultation.

CW confirmed that one report that covers all alternates would be produced.

When asked, RH confirmed that it is Joint Office responsibility to produce the Draft Modification Report (DMR). PG explained that the licence obligations falls on licence holders.

It was mentioned that any relevant party can propose a Modification at any time which could delay the whole process.

It was confirmed that the Joint Office govern and manage the process and that the Joint Office are driven by the Modification Rules.

The workgroup was encouraged to submit any alternates to Modification 0621 as soon as possible. Although DH mentioned that Modification 0621 needs to be finalised as an amended Modification, before any alternates can be thought about.

CW added that if there are fundamental disagreements to the proposals, then the earlier this is raised the better, rather than going straight to an alternate. Development of the proposal is trying to manage alternates to enable them to be as easy to manage as possible if they are only likely to change small elements of the Modification. Earlier discussions in the process would be beneficial as it could drive or inform how the Modification could be written to better facilitate management of potential alternates.

When asked, DR confirmed that Tariff Network Code gives 5 months after the end of the consultation for Ofgem to make a decision.

On the timescales, the January date is linked to current Panel dates. The March 2018 date is highlighted in the Ofgem Licence consultation about sending the workgroup report to Panel no later than March 2018 Panel. This consultation covers more than just this date and Ofgem confirmed that the deadline for responses to the current Ofgem Licence consultation is 01 November 2017. Workgroup participants are encouraged to familiarise themselves with and respond to this consultation:

https://www.ofgem.gov.uk/system/files/docs/2017/10/tar_nc_implementation_proposals.pdf

JCh asked if there is anything post October 2019 to stop further charging changes being raised and asked if that requires ACER sign off again? DR advised that his understanding is no, ACER will not be required to sign off again. The requirement will be to comply with the EU regulation.

Moving on to slide 11 CW advised that so far, there have been no responses for suggestions on what the Impact Assessment should cover.

RH reiterated that the workgroup is asked to give any suggestions on any issues which the impact assessment should cover.

CW took the workgroup through an onscreen review of the draft updated Modification 0621, the published track changes Modification can be found here:

<https://www.gasgovernance.co.uk/ntscmf/131017>.

The main discussion points are captured (by exception) as follows.

Section 1: Summary

CW confirmed that the changes to the charging framework will include updates to Section Y/B and EID section B.

Last paragraph added under the How section, looking to see what comes in in 2019 as part of the transitional approach.

Moving on to section 5 Solution:

CW confirmed there are no charges that interact between Transmission Services and Non-Transmission services; they are two separate entities.

Final Reference Prices

CW confirmed that reference prices cannot be zero.

JCx asked if using PARCA reserved quantities, if there were any, has been looked in to? CW advised that they would be using a booking/allocation value and questioned if this would conflict with using obligated. JCx mentioned the reservation quantity would be what is allocated eventually, which would turn in to obligated capacity.

It was agreed that CW will revisit, using PARCA reserved quantities.

Referring to not having prices at zero, JCx mentioned that the Licence says to have prices at zero. CW confirmed that any potential solutions will also involve an assessment on the Licence to determine aspects that may need to change or be addressed, adding that this particular change does impact their Licence and will be addressed. JCx asked when does the Licence change get underway? CW advised that National Grid will put forward their expectations of what needs to be changed in the Licence and the timescales, then Ofgem will consult on it.

Forecasted Contracted Capacity (FCC)

CW advised the workgroup that he is more than happy to receive views on how the FCC review process will be approached.

JCx advised that more stability and understanding on the charges would be beneficial and that it is important to make the move to Capacity Weighted Distance.

CW asked the workgroup if an ongoing review process or code updates would be preferable.

There then followed a discussion with GJ and PY agreeing that the approach that has been taken with Modification 0621 is a good one.

Reflecting on the discussions held earlier in the day with regards to short haul, JCx suggested that if the approach was to revise FCC annually, there would be no need for Modification 0636. RW added, within the DN network in section Y we have a very clear methodology to how an annual uplift takes place which then avoids hardcoded numbers.

JCh added that a governance process should be followed to provide transparency.

NS asked if this is compliant, adding that Capacity Weighted Distance being the main driver might not be the right way to go.

Specific Capacity Discounts

CW confirmed that a 50% discount will apply only to Storage Sites. This led to a lengthy discussion whereby PD challenged the decision as to only Storage Sites qualifying for Specific Capacity Discounts.

CH explained that it is important to be clear and there has to be consideration as to why a discount would be applied, looking at some of the key criteria with regards to infrastructure, such as an increase to security of supply and fulfilling the "for the purpose of ending

isolation” criterion. CW suggested it is not clear this is the case with GB’s interconnection assets.

Referring to Article 9 of the EU Tariff Code, CH advised that a discount can only be applied if Article 9(2) of regulation (EU) 2017/460 can be demonstrated. (<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017R0460>)

PD challenged and requested transparency of the decision as to why discount will only apply to Storage.

NW said that going forward National Grid needs to be able to confirm why certain decisions have been made and why some suggestions have not gone forward in to the Modification.

JCx suggested it might be beneficial to produce a separate document that clarifies why decisions have been made and RH suggested referring to the one-pagers that came out of the sub- groups.

GJ added that with regards to security of supply, part of the consultation might want to think of what the impact might be, however this this would likely be covered under the Ofgem Impact Assessment.

Multipliers

CW advised that the proposal is a single approach and that there would be no difference between treatment of IPs and non-IPs.

PD asked what its purpose would be. CW mentioned that for most members that use multipliers, they use for the purpose of revenue recovery. This works against the principles of having stable and predictable prices as revenue recovery driven multipliers can result in volatile prices. They could be used to help facilitate behaviours on the NTS. JCx asked what the process is of coming up with numbers that are not 1? CW mentioned the value of 1 neither favours long or short term capacity and therefore places the choice of when to book on the shipper and places no deliberate emphasis as to booking long term or short term.

AS in relation to multipliers not managing granular recovery, asked for clarification of how this is going to be handled in the future. CW advised that the proposal puts in place a revenue recovery charge rather than using multipliers as a way to manage revenue under or over recovery. As CWD evolves and the FCC is updated this reduces the need for the revenue recovery charge naturally.

Neither will permit a zero price for either – everyone contributes to revenue recovery in some way.

CW encouraged the workgroup to submit their views.

There followed discussion about the issue that the numbers for multipliers is not yet known and that this will cause a problem when this Modification goes out to consultation as for some it may make it difficult to provide informed responses without understanding the complete package.

DR mentioned that the expectation will be that it should be known in the Modification what the multiplier levels will be, even if they are updated later and that the final Modification cannot have square brackets in for the multiplier.

There were some discussions about processes and how to manage the processes for determining multipliers and interruptible. GJ mentioned that the process National Grid has followed to date has been a successful one. This has had a high level of engagement and energy from stakeholders and has worked well to date for the development of Modification 0621 on key topics and added this might be something to use in future.

JCx reflections on TAR code is that it should have a mechanistic process that sits behind it.

CW explained that the requirement in the TAR code is that the reference price is consulted on at least every 5 years. There is a price control coming up quite soon and confirmed there will be a requirement for multipliers and interruptible to be consulted each year.

It was agreed that more thought is needed on how some of the processes might work.

Arbitrary numbers are being used at the moment, going forward, there needs more thought applied to them if they are arbitrary or stated as such if this is the method of derivation. If not to be arbitrary then the Modification should address the method of derivation.

Interruptible

CW advised both multipliers and interruptible adjustments will be subject to consultation and both will most likely be addressed in one consultation document.

Avoiding in-efficient bypass of the NTS (AIBoNTS)

CW confirmed that this needs more work.

JCh queried the distance limit over which the AIBoNTS can be attained which is quoted in the draft amended Modification as [50] km. CW confirmed it roughly equated to the limit at the time of introduction even though it was designed for much shorter distances. It is not the intention for any cap to have parties “just miss out” so the cap should consider this.

JCh asked for the distance limit to be changed to 59km as there are two sites where shorthaul ‘works’ at 59km, SSE will build alternative pipelines at these two sites without shorthaul. If it is not changed there will be an alternate Modification seeking that.

GJ sought clarification that discount will not be available to non-Transmission Services. CW confirmed this is correct. GJ believes this is a significant departure from the current process. CW mentioned that the current charge was never meant to exempt from so many charges. This proposal looks at what should be paid or discounted to make the charge more appropriate and in-keeping with its objectives of being “short” and not overly influence other charges.

During discussion of Modification 0636 and Modification 0621, it was clarified that Modification 0621 will supersede Modification 0636’s proposal, if implemented, and there is the possibility of the two Modifications discussing the same thing at the same time.

Modification 0636 could change the timeframe of Modification 0621.

Modification 0621 can only refer to whatever is in the Uniform Network Code now, and not what it might say if/when Modification 0636 goes through. Modification 0621, if 0636 was approved, would need to be updated to reflect the UNC text that is being changed.

DH advised that the intention of Modification 0636 is not to delay Modification 0621.

When asked, CW clarified that inefficient bypass methods, multipliers and interruptible would all most likely be updated at the same time of year; May/June. There is work to complete that will lay out all the charges, the timing of the auctions and relevant processes to fully assess. May/June would be time to be available for Annual Yearly auctions at IPs and also in time for the Exit July window. These items would be set ex-ante for the forthcoming year and the exact timings will be further assessed but the timings would feature in the final Modification 0621.

Seasonal Factors

CW confirmed Seasonal Factors are not proposed to be used. DR highlighted that there is a requirement to consult every year. CW mentioned this may require some changes to accommodate, even if they are not intending to use it.

Transmission services Revenue Recovery Charges

Preserving avoidance of double counting.

PD questioned that multipliers are not going to be used for revenue recovery. CW advised that with Commodity charges, over time the forecasting gets better for the FCC under the CWD approach, the commodity charge would naturally reduce.

DR mentioned that Ofgem have concerns as to whether this approach of having commodity charges is compliant.

CW mentioned that at IPs there remain some issues and challenges to address with

regards to Article 35 and Article 4. There appears to be tension between the two articles and what charges may apply. Some materiality assessments need to be carried out.

Another element is new bookings at IPs, relating to if a revenue recovery charge is used and all bookings post 2019 and existing contracts. Further analysis is required.

Section 7 Relevant Objectives

It was agreed that the timeline needs the addition of when testing of the systems development needs to start. It was agreed this is sensible but should be added in when more is known about the specific solutions / dates needed.

JP/CH confirmed that National Grid has already engaged Xoserve with respect to the potential impacts on systems and processes of the potential changes.

It was commented that it is not very transparent on how long this will take with regards to system changes.

RH encouraged SP to check the Xoserve Bubbling Under Report (used at the DSC Change Management Committee) and ensure that Modification 0621 is on this report.

New Action 1001: SP to give an overview at the next meeting of what system changes there might be, and the process that is being followed to give some certainty of what is being addressed with this Modification and how.

New Action 1002: SP to check the Xoserve Bubbling Under Report and ensure that Modification 0621 is on this report.

Post meeting update: Apologies for any misunderstanding caused. There are two Change proposals relating to (amongst other items) Modification 0621; the current change proposal (ref XRN 4376) was raised on 21 September 2017 “GB Charging & Incremental (IP PARCA) Capacity Allocation Change Delivery (2019)”:

<https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2017-09/XRN4376.pdf>

There was also a previous change proposal: XRN4262 “EU/GB Charging 18/19 Gas Regulatory Change Feasibility and Analysis Study” which prefaced the work for XRN4376: https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2017-06/CP4262_BER.pdf

This means that the DSC Change Management Committee has already had sight of the two change proposals, and the documents confirm work is well underway in relation to system changes required for Modification 0621.

RH advised the Workgroup that anyone considering raising an Alternate should talk to Xoserve and National Grid as soon as possible.

3. Gas Charging Review

During an onscreen review of the material provided for the Workgroup, CW advised which discussion points would be covered on the Gas Charging review elements not concerning Modification 0621, see slides for details.

The main discussion points are captured (by exception) as follows.

4. Review of Outstanding Actions

0301: National Grid NTS (CW) to articulate and capture the Storage Review concerns within the NTSCMF Issue Register.

Update: Carried forward

0404: ‘Avoiding Inefficient Bypass of the NTS’ (one-pager) - CW and the Subgroup to revisit/re-word the final paragraph to add clarity, and republish.

Update: Carried forward

0707: CW/LJ to check the calculations of CWD to better understand when to include the existing contracts, clarifying the influence on entry vs exit impact in the CWD model of existing contracts. This will be illustrated at future workgroup.

Action extension: CW/LJ to give a view on materiality and analysis is required to see if the calculations cancel each other out.

Update: Carried forward

0901: RH; DR and CW to provide further clarification on ACER consultation plus the UNC consultation at the next meeting.

Update: Carried forward

0902: Joint Office to request views from those that don't attend the workgroups

Update: Carried forward

0903: All to respond to the comments made in the presentation regarding Impact Assessment, specifically slide 61.

Update: Carried forward

5. Any Other Business

5.1 Commodity Capacity Splits

RW took the workgroup through a short presentation relating to a challenge on the wording at a previous NTSCMF meeting. The presentation can be found here:

<https://www.gasgovernance.co.uk/ntscmf/131017>.

On Slide 8 JCx and NW challenged and suggested that it was more complex on the NTS to address issues such as cost reflectivity, efficient use of the NTS, different users have different needs on the NTS compared to the DNs.

Underlying calculations were thought about as to what charges should be set.

The group welcomed RW's analysis and confirmed it provided food for thought.

5.2 LJ highlighted that National Grid is in the process of changing its website; the old website is still available and a new "beta" website is online and accessible. The new website will be implemented and confirmed the two websites are running in parallel. There are routes to provide feedback and the group was encouraged to look and review and provide comments via that website.

5.3 CW confirmed that Laura Johnson will be going on maternity leave; the group wished her good luck and thanked her for her input. Phil Lucas has joined the team working on Modification 0621.

6. Diary Planning

Next meeting will be on 25 October 2017 at ELEXON, 350 Euston Road, London NW1 3AW, where the focus will solely be on Modification 0621. The following topics will be reviewed:

- Focus TBC

Further details of planned meetings are available at:

<http://www.gasgovernance.co.uk/Diary>

Time/Date	Venue	Workgroup Programme
10:00, Wednesday 25 October 2017	Pink Room, ELEXON, 350 Euston Road, London NW1 3AW	Focus only on Modification 0621
10:00, Monday 06 November 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	All standard agenda aspects of NTSCMF plus modifications
10:00, Wednesday 22 November 2017	LG8, Energy UK Charles House, 5-11 Regent Street, London SW1Y 4LR	Focus only on Modification 0621
10:00, Wednesday 06 December 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	All standard agenda aspects of NTSCMF plus modifications

Action Table (as at 26 September 2017)

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
0301	06/03/17 (amended 05/04/17)	3.0	National Grid NTS (CW) to articulate and capture Storage Review concerns within the Storage discussion document.	National Grid NTS (CW)	Carried Forward
0404	24/04/17	4.1	'Avoiding Inefficient Bypass of the NTS' (one-pager) - CW and the Subgroup to revisit/re-word the final paragraph to add clarity, and re-publish.	National Grid NTS (CW)	Carried Forward
0707	17/07/17	3.1	CW/LJ to check the calculations of CWD to better understand when to include the existing contracts, clarifying the influence on entry vs exit impact in the CWD model of existing contracts. This will be illustrated at future workgroup. Action extension: CW/LJo to give a view on materiality and analysis is required to see if the calculations cancel each other out. Action extension 05/09/17: CW to re-examine the principles behind the charging model and provides justification as to how NTS undertook the charging modelling.	National Grid (CW/LJ)	Carried Forward
0901	26/09/17		<i>Plan and Change process:</i> RH; DR and CW to provide morning information on ACER consultation plus the UNC consultation at the next meeting.	RH; DR; CW	Carried Forward
0902	26/09/17		<i>Plan and Change process:</i> Joint Office to request views from those that don't attend the workgroups	Joint Office (RH)	Carried Forward

0903	26/09/17		<i>Plan and Change process:</i> All to respond to the comments made in the presentation regarding the Impact Assessment, specifically slide 61.	All	Carried Forward
1001	13/10/17		<i>Review of Draft Amended Modification 0621 (Section 7 Relevant Objectives)</i> SP to give an overview at the next meeting of what system changes there might be, and the process that is being followed to give some certainty of what is being addressed with this Modification and how.	Xoserve (SP)	Pending
1002	13/10/17		<i>Review of Draft Amended Modification 0621 (Section 7 Relevant Objectives)</i> SP to check the Xoserve Bubbling Under Report and ensure that Modification 0621 is on this report.	Xoserve (SP)	Pending