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# NTS Charging Methodology Forum (NTSCMF) Minutes

## Friday 07 July 2017

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

#### Attendees

Rebecca Hailes (Chair)	(RH)	Joint Office
Helen Bennett (Secretary)	(HB)	Joint Office
Adam Bates	(AB)	National Grid NTS
Andrew Pearce	(AP)	BP
Anna Shrigley	(AS)	ENI UK
Charles Ruffell	(CR)	RWE Trading
Colin Williams	(CW)	National Grid NTS
Danishtah Parker	(DP)	Cadent
David Mitchell	(DM)	SGN
David Reilly*	(DR)	Ofgem
Debra Hawkin*	(DH)	TPA Solutions
Fraser Mathieson*	(FM)	Scotia Gas Networks
Gerry Hoggan	(GH)	Scottish Power
Graham Jack	(GJ)	Centrica
Henk Kreuze	(HK)	Vermilion Energy
Irina Oshchepkova	(IO)	ENTSOG
Jeff Chandler	(JCh)	SSE
John Costa	(JCo)	EDF Energy
Julie Cox	(JCx)	Energy UK
Karin Elmhirst*	(KE)	National Grid NTS
Kieron Carroll	(KC)	PSE Kinsale Energy
Laura Johnson	(LJ)	National Grid NTS
Mark Rixon*	(MR)	Engie
Nahed Cherfa	(NC)	Statoil
Nicky White	(NW <sub>h</sub> )	npower
Richard Fairholme*	(RF)	Uniper
Robert Wigginton	(RW)	Wales & West Utilities
Robin Cannings*	(RC)	Storengy UK Limited
Sinead Obeng	(SO)	South Hook Gas
Vladislav Zuevskiy	(VZ)	Northern Gas Networks

\* *via teleconference*

Copies of all meeting papers are available at:  
<https://www.gasgovernance.co.uk/ntscmf/070717>

#### 1. Introduction and Status Review

RH welcomed all to the meeting

##### 1.1 Approval of Minutes (05 June 2017)

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The minutes of the previous meeting were approved.

## 1.2 Pre-Modification discussion

Nothing to discuss at this meeting.

## 2. Workgroups

### 2.1 0621 – Amendments to Gas Transmission Charging Regime

During an onscreen review of the material provided for the Workgroup, CW advised which of the discussion points that would be covered during this workgroup meeting adding that the Timeline has been revisited and updated to include EU obligations as suggested through the most recent panel meeting.

#### EU Tariffs Code – Current outlook

CW advised that National Grid NTS gave an update at the Transmission Workgroup held on 06 July 2017 and pointed the workgroup to the slides used that are held on the Joint Office website here: <https://www.gasgovernance.co.uk/tx/060717>.

#### Non-Transmission Services Model

LJ took the workgroup through the slides advising that the model has been updated with the latest Long Term Revenue forecast data and the latest model was published in June 2017 adding that there are a number of changes that are still to be made, these are being developed and a plan of what will be available and when will be shared at future NTSCMF meetings.

## 3. Gas Charging Review

### 3.1 CWD Updated Model

#### Output from sub workgroup

There have been 3 subgroup meetings since 05 June 2017 covering:

- Revenue Reconciliation/Recovery mechanisms
- Multipliers (additional sub-group)
- Avoiding inefficient bypass of the NTS.

RH reminded the workgroup that material should ideally be submitted 5 days before each meeting. CW confirmed timescales will be quite short for final packs and it is likely that interim material will be issued followed by final material shortly before each meeting. This was agreed by all present.

CW reminded the workgroup that all documentation and outputs from each subgroup meeting will be either brought to the next NTSCMF meeting or published here: <https://www.gasgovernance.co.uk/ntscmf/subg>.

CW encouraged and requested questions or comments in advance of each meeting (subgroup or otherwise) and suggested the one-pager documents can also be used to frame the discussions.

Joining instructions for subgroup meetings can be obtained by contacting National Grid at: [box.transmissioncapacityandcharging@nationalgrid.com](mailto:box.transmissioncapacityandcharging@nationalgrid.com). Additionally, if you do not wish to

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receive updates for the subgroups please let the National Grid Charging team know.

### 3.2 Revenue Reconciliation / Recovery

During an onscreen review, LJ explained to the workgroup that a high-level set of objectives have been agreed, these are:

- More stable charges
- Less volatile charges
- More predictable.

LJ advised the workgroup that there are two viable options under consideration for administering revenue recovery beyond the Capacity Weighted Distance calculation, these are:

- A capacity charge uplift
- A flow based charge.

When asked, LJ confirmed that if the flow based charge methodology is labelled as Capacity Revenue Recovery Charge (CRRC) then it cannot be applied at Interconnector Points.

DH suggested there is already a Flow Based Charge on transmission services, CW confirmed if it is called CRRC then a restriction may apply adding that a full legal text will be required to make sure this is correct

DR asked if the Flow based cost can be justified, and that there is a potential for confusion by leaving things open; there is a need to be as clear as possible.

When asked, CW confirmed that the Legal department have not yet given a definitive view and there are still a lot of questions left open.

**New Action 0701:** National Grid NTS to liaise with their Legal team as to which flow based charges can be levied for Transmission (with reference to Revenue Reconciliation / Recovery).

Moving on, it was confirmed that Non-Transmission can have a commodity charge which can be levied across all flows.

JCx added that for Non-Transmission, there is more flexibility on how the changes can be applied.

AS asked what charging period is envisaged, suggesting it might be 6-monthly or annual. LJ advised that capacity charges can only be changed once a year, as for other charges there is a question outstanding on whether they can be changed more frequently.

**New Action 0702:** National Grid (CW) to confirm with input from a legal point of view what the charging period for Revenue Reconciliation / Recovery is likely to be.

CW confirmed that tariff codes are set once a year, this will need looking at as far as this package is concerned, adding that charge setting occurs October to September and there is a need to see if there is flexibility with CRRC.

GJ added that it is a measure for the future; capacity could be significantly different. LJ advised that there is a possibility the methodology could change in future to bookings rather than flows.

Although a legal view has not been sought as yet, CW confirmed when CR asked, that they may be able to apply capacity charges on to existing contracts. He added that capacity and commodity are different denominators, but there is scope providing it is approved but

appreciates that others may have different views on that part of text in Article 35.

GJ suggested seeking a legal view might be the best way forward, JCh, AS, SO and JCx were in agreement with this approach.

LJ strongly advised the workgroup to put forward their views and the Subgroup meeting planned for 24 August could be used for discussion on this subject.

CW confirmed revenue adjustments, multipliers etc. would give a reserve prices just using forecasted capacity, then those reserve prices give the revenue. He wanted to make it clear that this is a separate charge in addition to the capacity charge which can be applied to existing contracts.

CW requested substantiated responses from the workgroup so they can be fed back and then discussed further with the National Grid legal team.

AS clarified her understanding for the reason why long term purchases have a fixed price, adding that this could prevent substitution and that long-term projects have a price that is fixed.

DR added that the long-term commitment is different on exit capacity to entry capacity. Long Term Exit capacity bookings using the PARCA process reserve the capacity and there would be no adjustment process in contracts that they have at the moment. Any enduring annual exit capacity can be reduced subject to User commitment, but entry capacity cannot.

CW added that if the distortion between long term and short term is examined, there is a question of whether it is a fair balance? This is something that needs to be considered.

LJ confirmed that the capacity regime is not being looked at; it is only the gas charging review being considered.

GJ confirmed his support of commodity based charges, JCx added that there will be a need to look to see if any of this meets the relevant objectives.

CR concluded that the workgroup could be looking at Flow Based charge at non IPs and a Capacity charge at IPs.

CW confirmed that a methodology for the Revenue Recovery approach is needed and that an approach with a Flow Based charge at non IPs and a Capacity charge at IPs was preferable.

LJ asked the workgroup if they have any ideas on the methodology approach to please feed them into the National Grid team.

## **Multipliers**

CW talked the workgroup through the findings from the recent subgroup meeting on 14 June.

RW commented that DNs have a requirement to deliver gas to all customers and that it is prudent that an operator would book capacity in advance. He added that the current licence may need amending to add in variances for bookings on a daily basis and this could have a detrimental effect on customers, from a security of supply point of view.

DH wondered if this could apply to short term capacity, assuming short term capacity is booked, to which JCx suggested that this is a very complicated regime and adding more layers on how capacity might be used adds additional and potentially unnecessary complexity.

When asked, CW confirmed that during the sub group whilst working through the statements on what Multipliers are for, attendees broadly agreed with lower cost short term access and were also broadly willing to pay higher short term top up charges.

There followed a discussion between JCx and DR with regards to the Impact Assessment for modification 0621 and the responsibilities that Ofgem have.

DR suggested that the impact on specific types of customers might be a useful part of the analysis.

JCx reiterated that Ofgem have a responsibility to provide an Impact Assessment and that an overview is needed that pulls it all together across all consumer groups.

DR added that Ofgem would welcome any proposals as to what stakeholders think should be analysed.

JCx suggested that Ofgem need to be more proactive in identifying what analysis needs to be completed in advance of the Modification going to Ofgem, so that any analysis which will need to be carried out upfront (probably by National Grid) can be done as part of the Modification assessment process.

GJ stated that analysis will be complicated in terms of the charges to be levied because the proposal could be quite different to the current regime and its effect might be hard to predict (behaviourally). He suggested it would be useful to know how does the modification proposal might improve on what we have at the moment. There is a question as to what we need to be compliant (with EU) vs the charging structure we have now.

RW mentioned to DR that this new regime may also impact security of supply which could ultimately end up costing consumer in terms of a higher cost, pence per therm.

In response DR suggested it might not be practical to go down to the level of each exit point, however analysis on effects on each category or geographical area is important as well as coverage of any change in how revenue is collected by National Grid, including short term discounts and impacts on customers.

JCx reminded the workgroup that it should be mindful that aggregate transmission charges do not impact the customer.

DR confirmed that modification 0621 about change to the cost allocation (for Transmission) mechanism, and reminded the workgroup that Ofgem's policy preference is to have a capacity based tariff and that commodity based charges should only be used as an exception.

JCx suggested that the Ofgem impact analysis should cover all the things that protect the interest of consumers, such as security of supply; principles of better regulation etc.

DR confirmed he will offer some ideas of what any required analysis should cover.

Moving on, KC suggested that with a multiplier of 1, this will mean there is a distance related cost.

As CW talked the group through the remaining points around what Multipliers are for, a number of questions and statements were made:

- HK asked if booking more capacity and flowing more gas where would that flow?
- DH suggested there is a need to be able to show there is an increase in demand.

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- DH asked that if there are higher capacity charges would this affect distributional charge?
  - DR stated that a higher commodity charge will not increase capacity booking.
  - RF stated that short term capacity should not be demonised, there is a good selection of products available at the moment.

JC added that from the PARCAs that have been made so far, when new stations come on to the NTS, substitutions are being made.

JCx stated that it is down to individual companies to determine their strategy of booking long term vs short term capacity. The fundamental economics that underlie this have not changed. EU TAR code is now in effect; a regime that works with this is now required.

RF questioned if there is no additional demand being created on the network, why would full price be paid?

DR suggested that short term discounts should not be ruled out, they need to be duly justified. TAR compliance must be looked at and that is what the starting point is. Currently discounts refer to a relatively small capacity fee for revenue that is recovered.

JCx clarified that the general agreement is that Capacity Weighted Difference (CWD) is the way to go, however there is a need to reflect on what TAR code is all about.

The next subgroup meeting on multipliers will be 25 July 2017.

### **3.3 Avoiding inefficient bypass of the NTS**

CW highlighted the fact that the current costing arrangements are taken from 1997 and that there is a need for costs to be brought up to date.

Debating the question of Transmission or Non-Transmission, HK suggested it should be Transmission because this is distance and capacity related.

CW stated that this is a commodity product not a capacity product, the alternative to commodity and capacity and where it best sits is part of this debate.

RW enquired about the £1m/km, the cost could be very different depending on where in the country it is, for example, 1 km of pipe in the centre of London will be very different to 1 km of pipe in rural countryside.

**Action 0703:** All to feed in to National Grid NTS – ideas for cost information for avoiding inefficient bypass

#### **Optional Commodity Charge (OCC)**

AB took the group through the OCC section and explained the difference in calculation between how Short Haul is currently calculated and how it would be calculated.

\* Currently there is a 1:2 influence of OCC flows and the impact on the demand used in the calculation total commodity rates when looking at the net impact of OCC in setting charges. A simple example was shown in the slides to illustrate this.

KC asked for confirmation that if Short Haul charges were abolished, this would mean an increase to charges of around 3.5%?

CW stipulated that the focus should be on the calculation, what is in the current method, what promotes challenges?

AS added that it is about how to fine tune the tools available now to achieve the right balance. The problem is how the regime is designed to work and striking the right balance. How much revenue is reasonable to recover from capacity and commodity in their own rights and then to know how much can be recovered via Short Haul.

There is a 7-year lead time, it is expensive infrastructure, that is why entry on to the NTS is at a high cost; it is key to work out how to build that into the design.

When discussing the graph showing NTS Exit Points on OCC by Categorisation, HK mentioned there was an action from the last sub group meeting to show the Maximum NTS Exit Point Offtake Rate (MNEPOR) on this graph. A new action is to be recorded.

**New Action 0704:** National Grid to update the OCC by Categorisation graph to show MNEPOR.

**New Action 0705:** For next meeting, National Grid NTS to clarify the calculation for charging volume

Looking at the Commodity charges and Revenue collections slide, GJ stated that some parties may get an increase on one side or the other depending on how they operate. The discount rate depends on the site; for Short Haul the average is 80% discount.

#### 4. Review of Outstanding Actions

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

**Update:** This is being captured through the subgroup meeting 11 July (Specific Capacity Discounts) **Carry forward**

**0402:** *NTS CMF Terms of Reference* - RH and CW to draft a 'strawman' for discussion at the May/June meetings.

**Update:** This has been drafted, to be reviewed by exception at the next meeting on 17 July **Carry 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:** this is being completed, the Workgroup confirmed that the one-pagers that are being delivered out of the Subgroup meetings are very useful. **Carry forward**

**0501:** National Grid NTS (NR) to provide an example of how National Grid NTS forecasts 1:20 demand, especially the short-term aspects (i.e. up to 5 years out).

**Update:** **Carry forward**

**0504:** National Grid NTS (CW) to update the previous timeline and include a justification and suggested topic coverage for the modification workgroup programme.

**Update:** More information has been provided which puts the timelines into perspective, the timeline can be updated to include the EU steps beyond August 2017, the workgroup thought this would be beneficial, timeline will now include EU milestones and Green Licence Impacts. **Closed**

**0602:** NTS to review the models and determine ways of removing points in the models to allow the impacts of removing points to be assessed.

**Update:** **Carry forward**

**0603:** To prepare some analysis on current revenues from commodity and capacity charges from different types of point e.g. storage, generator, IP, LNG, domestic production, DN offtakes etc.

**Update:** **Carry forward**

## 5. Any Other Business

## 6. Diary Planning

Next meeting 17 July 2017 at ELEXON, 350 Euston Road, London NW1 3AW, where the following topics will be reviewed:

7.1. Specific Capacity Discounts

7.2. Non-Transmission Services Model

Further details of planned meetings are available at:

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

An updated meeting timetable with all NTSCMF and subgroup meetings was shown at the workgroup meeting:

Date	Meeting	Key topic to discuss <sup>#</sup>
30 May 13:00 – 15:00 (complete)	Sub Group	• Forecasted Contracted Capacity
5 June (complete)	NTSCMF	• Forecasted Contracted Capacity*
14 June 10:00 – 12:00 (complete)	Sub Group	• Revenue Reconciliation / Recovery (may also include some views on Multipliers)
29 June 10:00 – 12:00 (complete)	Sub Group	• Avoiding inefficient bypass of the NTS
7 July	NTSCMF	• CWD Updated Model • Revenue Reconciliation / Recovery* • Avoiding inefficient bypass of the NTS*
11 July 13:00 – 15:00	Sub Group	• Specific Capacity Discounts
17 July	NTSCMF	• Specific Capacity Discounts* • Non-Transmission Services Model*
25 July 13:00 – 15:00	Sub group	• Multipliers

Date	Meeting	Key topic to discuss <sup>#</sup>
2 August	NTSCMF	• Multipliers* • Avoiding inefficient bypass of the NTS
8 August 13:00 – 15:00	Sub Group	• Interruptible
23 August	NTSCMF	• Interruptible*
24 August 10:00 – 12:00	Sub Group	• Existing Contracts
5 September	NTSCMF	• Existing Contracts*
8 September 10:00 – 12:00	Sub Group	• Forecasted Contracted Capacity
12 September 10:00 – 12:00	Sub Group	• Avoiding inefficient bypass of the NTS
19 September 13:00 – 15:00	Sub Group	• Multipliers / Interruptible
26 September	NTSCMF	• Forecasted Contracted Capacity • Avoiding inefficient bypass of the NTS • Multipliers / Interruptible
28 September 10:00 – 12:00	Sub Group	• To be confirmed

(Further details about the sub groups including joining instructions can be obtained by messaging [box.transmissioncapacityandcharging@nationalgrid.com](mailto:box.transmissioncapacityandcharging@nationalgrid.com) )

Details of NTSCMF meetings are given below:



<b>Time/Date</b>	<b>Venue</b>	<b>Workgroup Programme</b>
10:00, Monday 17 July 2017	Pink Room, ELEXON, 350 Euston Road, London NW1 3AW	Specific Capacity Discounts Non-Transmission Services Model
10:00, Wednesday 02 August 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	Multipliers Avoiding inefficient bypass of the NTS
10:00, Wednesday 23 August 2017	Pink Room, ELEXON, 350 Euston Road, London NW1 3AW	Interruptible
10:00, Tuesday 05 September 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	Existing Contracts
10:00, Tuesday 26 September 2017	Pink Room, ELEXON, 350 Euston Road, London NW1 3AW	Forecasted Contracted Capacity Avoiding inefficient bypass of the NTS Multipliers / Interruptible
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	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	<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 (as at 05 June 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
0402	24/04/17	3.2	NTS CMF Terms of Reference - RH and CW to draft a 'strawman' for discussion at the May/June meetings.	Joint Office (RH) and 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
0501	08/05/17	2.1	National Grid NTS (NR) to provide an example of how National Grid NTS forecasts 1:20 demand, especially the short-term aspects (i.e. up to 5 years out).	National Grid NTS (NR)	Carried Forward
0502	08/05/17	3.4	Reference separate Entry and Exit reconciliation proposals - National Grid NTS (CW) and Ofgem (DR) to liaise and discuss the matter in order to provide a consolidated view at the next NTSCMF meeting.	National Grid NTS (CW) & Ofgem (DR)	Closed
0503	08/05/17	3.5	Reference Gas Charging Review – Areas where changes are / are not being proposed - National Grid NTS (CW) to look to provide examples of future discussion topics in relation to the definitive work plan.	National Grid NTS (CW)	Closed
0504	08/05/17	3.5	To update the previous timeline and include a justification and suggested topic coverage for the modification workgroup programme.	National Grid NTS (CW)	Closed
0505	08/05/17	3.5	To confirm whether or not, the Joint Office can provide sufficient resources to match the proposed meeting schedule.	Joint Office (RH)	Closed
0601	05/06/17	1.2	Joint Office to add all meeting dates to the Events Calendar	Joint Office (HB)	Closed
0602	05/06/17		NTS to review the models and determine ways of removing points in the models to allow the impacts of removing points to be assessed.	National Grid NTS (CW/LJ)	Carried Forward

0603	05/06/17		To prepare some analysis on current revenues from commodity and capacity charges from different types of point. EG storage, generator, IP, LNG, domestic production, DN offtakes etc.	National Grid NTS (CW/LJ)	<b>Carried Forward</b>
0701	07/07/17	3.2	National Grid NTS to liaise with their Legal team as to which flow based charges can be levied for Transmission (with reference to Revenue Reconciliation / Recovery).	National Grid NTS (CW)	<b>Pending</b>
0702	07/07/17	3.2	National Grid (CW) to confirm with input from a legal point of view what the charging period for Revenue Reconciliation / Recovery is likely to be.	National Grid NTS (CW)	<b>Pending</b>
0703	07/07/17		All to feed in to National Grid NTS – ideas for cost information for avoiding inefficient bypass.	All	<b>Pending</b>
0704	07/07/17		National Grid to update the OCC by Categorisation graph to show MNEPOR.	National Grid NTS (CW)	<b>Pending</b>
0705	07/07/17		For next meeting, 17 July 2017, National Grid NTS to clarify the calculation for charging volume	National Grid NTS (CW)	<b>Pending</b>