NTS Charging Methodology Forum (NTSCMF) Minutes Monday 17 July 2017

at Elexon, Charles House, 5-11 Regent Street, London SW1Y 4LR

Attendees

Rebecca Hailes (Chair)	(RH)	Joint Office
Helen Bennett (Secretary)	(HB)	Joint Office
Amrik Bal*	(AB)	Shell
Andrew Pearce	(AP)	BP
Benoit Enault	(BE)	Storengy
Bridget Roberts	(BR)	E.ON
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
Graham Jack	(GJ)	Centrica
Henk Kreuze*	(HK)	Vermilion Energy
Jeff Chandler*	(JCh)	SSE
Jenny Philips	(JPh)	National Grid NTS
Joanne Parker	(JP)	Scotia Gas Networks
Julie Cox	(JCx)	Energy UK
Kieron Carroll	(KC)	PSE Kinsale Energy
Laura Johnson	(LJ)	National Grid NTS
Mark Rixon	(MR)	Engie
Nick Wye	(NW)	Waters Wye
Nicky White*	(NWh)	npower
Paul Youngman	(PY)	Drax Power
Pavanjit Dhesi	(PD)	Interconnector
Richard Fairholme	(RF)	Uniper
Robert Wigginton	(RW)	Wales & West Utilities
Sinead Obeng	(SO)	South Hook Gas
Vladislav Zuevskiy	(VZ)	Northern Gas Networks
* via teleconference		

Copies of all meeting papers are available at: http://www.gasgovernance.co.uk/ntscmf/170717

1. Introduction and Status Review

RH welcomed all to the meeting

1.1 Approval of Minutes (07 July 2017)

Approval for 07 July 2017 minutes will be sought at the next meeting on 02 August due to meetings being held very close together.

The draft Terms of Reference (TOR) have been published and RH confirmed that approval was now being sought. GJ highlighted that the TOR states that to be quorate at least 2 DNs must be present, RH showed the TOR onscreen and proceeded to check with the workgroup that the DNs were justly represented though the workgroup concluded only one transporter should be sufficient.

New Action 0706: RH to check TOR and confirm back to the group, to be quorate, how many DNs need to be present at the NTSCMF meetings. National Grid NTS presence is required, what do the modification rules say.

Action update: only 1 transporter is required. Panel reviewed the draft TOR on 20 July 2017 and approved them with the small amendment to 1 transporter being required.

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 discussion points would be covered during this workgroup meeting:

- EU Tariffs Code Current Outlook
 - No update from meeting on 07 July 2017
- Output from sub-workgroup
 - Summary of recent sub groups
 - Specific Capacity Discounts
- Reminder of previous sub-group topics
 - Forecasted Contracted Capacity (FCC)
 - Revenue Reconciliation/Recovery
 - Multipliers
 - Avoiding Inefficient bypass of the NTS
- Action 0602
 - o Removal of sites from the CWD Model (Action 0602)
- Plan and change process
 - o Overall timeline
 - o Overview of the future sub groups and NTSCMF meetings and their focus
- Next Steps

CW talked through an onscreen presentation starting with the output from the recent subworkgroup held on 11 July covering Specific Capacity Discount highlighting that the summary was published on Friday 14 July.

RH requested that one-pagers are to be updated as soon as possible after each subject is covered with all decisions that are made.

CW reminded the workgroup that any inputs in advance of the meetings are to be passed on to the National Grid Charging team on

box.transmissioncapacityandcharging@nationalgrid.com.

The timetable of discussion topics has been shared which should allow time for preparation and the submission of any material.

Any contributions are welcomed and most helpful, adding that the more contributions the better.

CW clarified that in order to get as broad a debate as possible, Users who say they are going to join a sub-workgroup should ensure that they do; out of 20 delegates expected at the last sub-workgroup only 10 joined.

In response, RW clarified that the absence of joining a sub-workgroup does not reflect a lack of desire, it is most likely a work load issue, when you have 1 meeting virtually every week it is difficult, with other work commitments, to attend.

3. Gas Charging Review

3.1 Specific Capacity Discounts

Output from sub workgroup

CW took the workgroup through the Objectives relating to Specific Capacity Discounts, highlighting a link to Article 9 of the EU Tariffs Code and the level of discounts which should be given.

Discussing the terminology for Specific Capacity Discounts, PD advised the workgroup that he was involved in the development of the Tariff Code with ENTSOG from an Interconnector point of view, adding that he was concerned about distortion for competition; constraints on tariff code and that Entry/Exit split can vary substantually. Across Europe, a number of Entry points do already have heavy discounts under their current rule. PD thinks that the workgroup should be focussing on the fact that there is nothing in the rules that forbids any other points from receiving a discount.

Moving on to the second slide around terminology, CW confirmed that according to the EU Tariffs Code a discount for storage of at least 50% should be set.

When asked, DR confirmed that Ofgem expected security of supply to be a key consideration.

There then followed a discussion between PD and DR. From an Interconnector point of view, there is concern that there is nothing in the rules stopping a discount as long as there is a valid justification. DR confirmed that when Ofgem is eventually asked to make a decision, they will look across a wide spectrum of issues, asking what best facilitates the objectives of the UNC. NW clarified and DR confirmed that Ofgem has not made a judgement, adding that this is no different a situation than that for any other modification. As yet, there has been no alternative to this modification submitted.

PD suggested it would be of benefit to have some sort of consensus on what the workgroup have to prove, to which RF said that the workgroup should concentrate on the relevant objectives; transparency and licence obligations.

DR suggested that there may be some contradictions, everything in the licence would need to be looked at and license changes may need to be made.

When asked, DR confirmed to JCx that analysis will be determined on an ongoing basis. JCx confirmed that it is important to have a balance between relevant objectives and statutory obligations.

There may be a contradiction between the objectives and the obligations, adding that what

the workgroup don't want is a selection of modifications or alternatives that have a strong objective towards security of supply. GJ asked with regards to costing, what sort of weighting would be given to that by Ofgem to which DR said that Ofgem consider each proposal on its own merits.

AB stated that there is lots of discussion around this subject and that he is not sure any of the discussions refer to the impact on domestic entry points. The workgroup should consider security of supply as a justification for discounts, adding that as a producer, he would not be wanting to pay for somebody else's discounts.

PD asked that with the Entry/Exit split, does that have to be 50/50? CW proposed that was a RIIO T2 conversation. Generally, parties agreed with this.

Moving on, CW took the workgroup through the Article 9 – what discounts should apply information in the slide-pack, stating that this is about what levels of discounts should be applied under Article 9 of the EU Tariffs Code, suggesting that some further discussion is necessary around existing contracts.

The starting position for any discussions is 50% discount for storage and 0% discount for LNG or Interconnector Point.

When asked, CW confirmed that there would be a 0% discount for commodity charges and that the focus is only on capacity and not on commodity.

Carrying on through the presentation, CW took the workgroup through an onscreen review of what discounts should apply from an Article 9 point of view.

Highlighting that if Security of Supply comes in to this, given that Article 9 refers to discounts at NRA's, in terms of improving Security of Supply, how might that be considered?

CW wanted to make it clear that there is not yet any final decision but that the sub-group generally agreed with the following themes:

- As positions need to be proposed, the group generally agreed that a marker can be laid down for positions to comment on and propose alternatives to
 - 50% discount for Transmission Capacity charges for GB storage points Entry and Exit Capacity;
 - No discount proposed for LNG or Interconnection;
 - This is not necessarily a final position, and is subject to change to reflect proposals that may get adopted.
- Still need to discuss application of revenue recovery "top-up", whether there is any cross over of logic or positions presented related to its application and for Non-Transmission
 - Security of Supply is explicitly stated in Art 9 (and Recital 4) of the TAR
 Code. Any decision on a modification should consider how security of supply will be included.

Discussion turned to the two 2 papers submitted for this topic from Storengy and Waters Wye.

Storengy discussion paper on storage discount

Starting with Storengy, BE took the workgroup through the discussion paper submitted for this subject, which outlines why Storengy suggests that the level of discount should be at 100%.

The paper submitted covered the following areas:

- Context
- Scope: Storage capacity on the GB Gas Market
- Financial impact of the "Storage Discount" (Article 9 of EU Network Code TAR) in GB
- Charging Methodology: storage of gas is simply parking en-route to the end consumers
- Benefits to the system: avoided network investment, lower end user process, reduction of volatility and efficient balancing regime
- Conclusion

When taking the workgroup through the Financial impact section, BE stated that the 3rd bullet in the paper submitted is an important statement to make:

The demand for NTS capacity from storage users is highly elastic, and even a small increase in tariff would destroy a large part of the demand for NTS capacity. With the proposed storage discount of 50% in the Draft Mod 621, the cycling of Medium Range Storages (MRS) storages would dwindle as transaction costs become higher than the profit of short term spreads. The tariff of capacity booked on-a-pay-as-you-go basis will act as a barrier to trade gas for short term balancing, where unit profit margins are slim. The time spreads traded for short term balancing of the grid are typically in the range 0.5-1.5 p/th, with variable costs charged by storage operators around 0.5 p/th. This would entice MRS to adopt a single seasonal cycle.

In conclusion, BE suggested that the proposal from Storengy should be approved by the workgroup.

JK asked DR about user commitment and what it needs to be and would National Grid be funded for any incremental.

GJ thought about how is this going to be funded and what the correct balance is, would it be 50% discount for new capacity?

DR reminded participants that UNC611 proposed the introduction of a "Mandatory Minimum Premium" to deal with user commitment issues for incremental capacity at interconnection points

DR mentioned that anyone can put forward a discount request. There is an obligation to conduct a charging review at least every 5 years.

The workgroup thanked BE for his paper.

Waters Wye report on setting a tariff discount for storage

NW then went through the paper submitted for the workgroup from Waters Wye which covered the following areas:

- Introduction
- NTS Capacity Charges at Storage Points
 - Current arrangements
 - o NTS Charging Review application of the CWD model
 - Alternative treatment of storage
 - CWD modelling assumptions
 - Analysis to test cost reflectivity of NTS capacity charges at storage points using unit costs
- Additional arguments to support further reductions in transmission charges for storage users
 - o Behaviour of storage and capacity assumptions within the CWD model
 - Storage as a parking service
 - Contribution to security of supply

- o Transmission System Benefits
- Concluding remarks

RF asked, instead of making distortions via the charges, could the group look at the size of benefit, making payment based on the size of the system, to which NW agreed.

NW advised there is quite a body of evidence to suggest a discount greater than 50% should be applied and that it is actually looking more towards 100% across all charges - not just capacity.

PD made observations that Bacton IP is a bi-directional point and stated that Bacton charges could jump up substantially in the future, adding that he intends to submit a paper to the workgroup in the near future.

RF put to the workgroup that Storage not paying commodity charges might be a way of moving this forward.

RW expressed his thanks to NW for the submission of the paper and expressed it was easy to follow, the workgroup agreed.

DR confirmed Ofgem would look only at the Final Modification Report for the final arguments.

PD asked DR if Ofgem would agree informally to offer feedback on the papers that are submitted.

Further workgroup discussion on storage discounts

When asked, in terms of what happens next, CW clarified as part of National Grid considerations, as various options are put forward, these papers will be considered. It is key to understand how it works from an overall point of view, discussions throughout the development of the workgroup report will be considered. They might not necessarily go in to the modification, but they will be used as evidence to consider.

Discussion moved to the economic test which Ofgem will need to apply.

Forecasted Contracted Capacity

Moving on and back to the National Grid NTS presentation, LJ took the workgroup through a reminder of what has previously been discussed around Forecasted Contracted Capacity (FCC). Advising of the two options that are currently being considered:

- Use Obligated levels
- Use Obligated levels adjusted by a methodology to get to an alternative set of numbers

When asked it was confirmed that obligated capacity is whatever is shown in the table in the licence.

DR advised the workgroup that in the previous price control, National Grid are obliged to show figures, this has not changed in a number of years.

CW confirmed that FCC is required by Entry and Exit point for the capacity charge calculations. For the purposes of revenue reconciliation any postalised charge, if used, would be over an aggregate value (not necessarily FCC) and disaggregated to be point specific.

The next slide the workgroup considered was based around using existing contracts. KC expressed his view using capacity bookings rather than FCC including existing contracts would be a better way of calculating.

JCx agrees the need to understand the Capacity Weighted Distance (CWD) calculation better.

New Action 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.

RF would like a guide as to how to manipulate the CWD model, if not using 100% what should it be? CW advised that it might be a good start to look at historical trends to see if there is anything that could inform what the percentage could be and to take interruptible in to consideration. CW then confirmed that there is not yet any feel for what the percentage should be.

When asked, CW confirmed to the workgroup that he thinks using Aggregate Demand would be too extreme.

CW stressed to the workgroup that he is keen for this not to be labelled as the National Grid way, encouraging users to put any suggestions forward rather than waiting for National Grid to come up with them.

JCx stated that the challenge is that it is hard to come up with something robust that doesn't relate to history; she agreed that using aggregated demand is probably too extreme.

Discussions at subgroup seem to indicate that users are not too concerned about postalised charges. At some point, National Grid will land on a modification to take forward. JCx advised that she is not hearing anything other than "obligated" and stressed that the workgroup need to put forward suggestions.

DR encouraged the workgroup that they need to get to a point where there is a best option to take forward. FCC needs to be a number that is there until the next price control period.

It was stated that If Ofgem disagree with the workgroup, it would be good for them to say before the modification gets too far down the road.

JCx encouraged the workgroup that they need to be mindful of getting to something that achieves compliance.

RH asked the workgroup if there is any headway being made, and asked if 100% discount was given would everybody be happy with that? HK would not be happy with that.

JCx reminded the workgroup that this first modification belongs to National Grid and there will most likely be alternatives.

Revenue Reconciliation/Recovery

Moving on to the Revenue Reconciliation/recovery, LJ reminded the workgroup that there are two main options being considered for administering revenue recovery beyond CWD calculation, these are:

- A capacity charge uplift
- A flow based charge.

LJ then advised that both options would have a denominator based on aggregate bookings or flows.

LJ reminded the workgroup that the next Sub-group meeting is scheduled for 25 July 2017 where Multipliers will be the topic for discussion.

CW urged the workgroup to please re-visit the material provided for the 07 July workgroup for a reminder so that at the next workgroup progress can be made without going over previous discussions.

When asked if Interruptible is an option for Multipliers, CW reminded that Interruptible has its own sub-group.

A comment was made that it might be better to split Entry and Exit capacity, LJ offered to do this going forward.

Discussion moved to Inefficient bypass of the NTS, LJ took the workgroup through a diagram which shows how the calculations could be processed, the workgroup agreed that it is now clearer to see how the calculation is made.

When asked for clarification of how the Maximum NTS Exit Point Offtake Rate (MNEPOR) for a site was determined, JCx confirmed it is the physical limit for the pipework.

4. Review of Outstanding Actions

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

Update: National Grid will make sure the one-pager reflects the discussions that have been held. It was decided to keep this as an open action and that the one-pager will be updated after 23 August sub-group. **Carried 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 02 August. **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 will be updated after 02 August meeting. 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: This will be presented and updated at the 02 August meeting. Carry forward

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: Overview for this was given at today's meeting and can be found on slide 33 of the presentation submitted by National Grid. Because if there is zero capacity at a site, it is not used to calculate the charges, it was asked if points that have a capacity value should be removed from the model, it was agreed that Theddlethorpe will be removed from the CWD model to see what the impact will be. **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: This is ongoing. Carry forward

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). **Update:** This has been shown at today's workgroup meeting. **Closed**

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.

Update: CW to reword the action - there is debate on who this action lies with. Carry

forward

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

Update: KC and HK have fed in some useful information. Leave open until 02 August. **Carry forward**

0704: National Grid to update the OCC by Categorisation graph to show MNEPOR. **Update**: This has been shown at today's workgroup meeting. **Closed**

0705: For next meeting, 17 July 2017, National Grid NTS to clarify the calculation for charging volume.

Update: This has been shown at today's workgroup meeting. Closed

5. Any Other Business

6. Diary Planning

Next meeting 02 August 2017 at ELEXON, 350 Euston Road, London NW1 3AW, where the following topics will be reviewed:

- 6.1. Multipliers
- 6.2. Avoiding inefficient bypass of the NTS

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:

Details of NTSCMF meetings are given below:

Date	Meeting	Key topic to discuss#
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 (complete)	NTSCMF	 CWD Updated Model Revenue Reconciliation / Recovery* Avoiding inefficient bypass of the NTS*
11 July 13:00 – 15:00 (complete)	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#
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 $\underline{box.transmissioncapacityandcharging@nationalgrid.com}$)

Time/Date	Venue	Workgroup Programme	
40.00 M/s do sada	O TO BOOK FLEVON 050	Multipliers	
10:00, Wednesday 02 August 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	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	
		Forecasted Contracted Capacity	
10:00, Tuesday 26 September 2017	Pink Room, ELEXON, 350 Euston Road, London NW1 3AW	Avoiding inefficient bypass of the NTS	
		Multipliers / Interruptible	
10:00, Wednesday 04 October 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	To be confirmed	
10:00, Monday 06 November 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	To be confirmed	
10:00, Wednesday 06 December 2017	Orange Room, ELEXON, 350 Euston Road, London NW1 3AW	To be confirmed	

Action Table (as at 17 July 2017)

Action Ref	Meeting Date(s)	Minut e 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)	Carried Forward
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)	Closed
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)	Pending
0703	07/07/17		All to feed in to National Grid NTS – ideas for cost information for avoiding inefficient bypass.	All	Pending
0704	07/07/17		National Grid to update the OCC by Categorisation graph to show MNEPOR.	National Grid NTS (CW)	Closed
0705	07/07/17		For next meeting, 17 July 2017, National Grid NTS to clarify the calculation for charging volume	National Grid NTS (CW)	Closed
0706	17/07/17	2.1	Terms of Reference: RH to check TOR and confirm back to the group, to be quorate, how many DNs need to be present at the NTSCMF meetings. National Grid NTS presence is required, what do the modification rules say.	Joint Office (RH)	Closed
0707	17/07/17	3.1	CWD Calculation: CW/LJ to check the calculations of CWD to better understand when to include the existing contracts. "Influence on entry vs exit impact in the CWD model of existing contract". To illustrate at future workgroup	National Grid (CW/LJ)	Pending