
NTS Charging Methodology Forum (NTSCMF) Minutes

Tuesday 05 September 2017

at Elexon, 350 Euston Road, London NW1 3AW

Attendees

Rebecca Hailes (Chair)	(RH)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Adam Bates	(AB)	National Grid NTS
Andrew Pearce	(AP)	BP
Anna Shrigley	(AS)	ENI
Benoit Enault	(BE)	Storengy UK Ltd
Charles Ruffell*	(CR)	RWE Trading
Colin Williams	(CW)	National Grid NTS
Craig Neilson*	(CN)	Cadent
David Cox*	(DC)	London Energy Consulting
David Mitchell*	(DM)	SGN
David Reilly	(DR)	Ofgem
Debra Hawkin*	(DH)	TPA Solutions
Gerry Hogan	(GH)	ScottishPower
Graham Jack	(GJ)	Centrica
Henk Kreuze*	(HK)	Vermillion Energy
Jeff Chandler	(JCh)	SSE
Joanne Parker	(JP)	SGN
John Costa	(JC)	EDF Energy
Julie Cox	(JCx)	Energy UK
Kieron Carroll*	(KC)	PSE Kinsale Energy
Kully Jones	(KJ)	Joint Office
Laura Johnson	(LJ)	National Grid NTS
Lee Burbank*	(LB)	Exxon Modil
Lucy Manning	(LM)	Gazprom
Malcolm Montgomery	(MM)	National Grid NTS
Nahed Cherfa*	(NC)	Statoil
Nick Wye	(NW)	Waters Wye Associates
Paul Youngman*	(PY)	Drax
Peter Biltoft-Jensen*	(PJ)	DONG Energy
Richard Fairholme*	(RF)	Uniper
Robert Wiggington	(RW)	Wales & West Utilities
Sinead Obeng	(SO)	South Hook Gas
Steve Pownall*	(SP)	Xoserve
Tim Walls*	(TW)	Isle of Grain
Vladislav Zuevskiy	(VZ)	Northern Gas Networks

* via teleconference

Copies of all meeting papers are available at: <https://www.gasgovernance.co.uk/ntscmf/050917>

1. Introduction and Status Review

RH welcomed all to the meeting and noted that some participants would be late arriving.

1.1 Approval of Minutes (23 August 2017)

The minutes of the previous meeting were approved.

1.2 Pre-Modification discussion

No modifications were provided for consideration at this meeting.

2. Workgroups

2.1 0621 – Amendments to Gas Transmission Charging Regime

RH noted that as we get closer to the end of the year there would be more work for the Workgroup to undertake, especially upon the impact assessment aspects.

When asked, CW explained that the aim is to provide an amended modification in time for consideration at the first of the October Workgroup meetings.

3. Gas Charging Review

During an onscreen review of the material provided for the Workgroup, CW focused attention on key areas of the presentation that have either been added or amended since the interim version was published. CW again noted the workgroup had previously agreed that with the increased meeting frequency the provision of an interim and then updated pack enables progress to be communicated whilst other work is ongoing.

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

EU Tariff Code Update – Current Outlook

CW pointed out that this links in to proposed capacity related discussions that will be undertaken at the forthcoming 07 September 2017 Transmission Workgroup meeting.

Output from sub workgroups

In advising that the timetable for the forthcoming three sub workgroups is available elsewhere in the presentation pack, CW also reminded the Workgroup that inputs in advance of the (sub workgroup) meetings are especially welcome. To receive joining instructions for the meetings (or to join a specific sub workgroup on a particular topic) please contact National Grid:

<mailto:box.transmissioncapacityandcharging@nationalgrid.com>

3.1 Existing Contracts (24.08.17 Sub-workgroup)

Discussions focused mainly on the three existing contracts slides (11, 12 and 13) whereupon CW explained that 'EIF' refers to the TAR Network Code **Entry Into Force** date.

It was observed that Article 35 makes reference to both no forcible changes and also to current storage exemption aspects. It was felt by some parties that the Long Run Marginal Capacity model (forecast contracted capacity) does not naturally align with the National Grid NTS proposals, and that further consideration of how best to protect (existing) fixed capacity contracts is needed.

In referring to her previous paper¹, AS reiterated her various concerns relating to the potential impacts of these new proposals on existing capacity contracts, especially during any transitional period. Reference was made to the Italian initiative whereby they are looking at potentially reshuffling capacity. It was also noted that 'user

¹ Post meeting note: a copy of the Eni paper has been published on the meeting page.

commitments' relating to the current contracts are not necessarily helpful either.

When asked how a preferred solution would be determined, CW explained that National Grid NTS would look to take into account industry feedback before making a decision on a preferred proposal / solution in due course.

When asked whether or not Ofgem would/could provide an 'up front view' on any (initial) proposal, DR responding by explaining that Ofgem would obviously look to consider industry views on this matter, but would only be able to comment once the formal proposal(s) are made available. Whilst this subject is similar to the previous UNC Modification 0501V 'Treatment of Existing Entry Capacity Rights at the Bacton ASEP to comply with EU Capacity Regulations', there are significant differences between the two sets of proposals, especially relating to the treatment of capacity aspects. DR noted that any decision around the 'hand back' aspects would hinge on provision of suitable justification.

When asked, CW confirmed that 'CWD' refers to Capacity Weighted Distance after which some parties reiterated previously stated (during the sub-group discussions) concerns relating to the auction price and bidding aspects. RH suggested that if any parties disagree with the proposed model that they provide feedback (to both National Grid NTS and/or the Workgroup) sooner, rather than later. When it was suggested that the presentation slides lack meaningful detail, CW responded by pointing out that the model has been available for parties to try out for quite some time now; it was agreed that any feedback around this matter should be provided to National Grid NTS offline after the meeting.

GJ reminded those in attendance that issuing of the auction notification letter does not form part of Code obligations. CW added that as there is no hard and fast rule, the recent auction notice reflected this fact. When asked, CW confirmed that modification 0621 is not looking to change the capacity mechanisms and also pointed out that he expects that QSEC 2019 would be the first time these new arrangements would be applied.

However, some parties remained concerned that the auction proposals remain vague and potentially impose a risk on users. Responding, MM advised that National Grid NTS is aware of these concerns and agrees that further consideration would be beneficial. In referring to the auction premiums and how long term or remaining capacity risks affect different parties, HK felt that utilising a premium based approach could/would help to reduce the risk exposure. Responding, LJ reminded everyone that auction premiums are NOT part of the 0621 proposals, whilst CW noted that this is really a process change matter related to determining the auction prices and is therefore definitely NOT part of this modification (in short, the capacity processes for domestic or IPs will not be amended by 0621 proposals).

When asked whether it is proposed that 0621 would 'cover' longer term arrangements for capacity going forwards, CW reiterated the 0621 proposals by explaining that QSEC 2018 falls under current arrangements, but did acknowledge that some retrospective aspects would need careful consideration in due course. NW suggested that there is nothing to worry about (in exposure terms at least) at this current time, although he does recognise that there could be tensions that come to light in due course depending upon the timing of 0621 (i.e. how any capacity would/could be hovered up etc.). At this point, DR provided a brief overview of the process timetable for development and introduction of the proposed changes.

Moving on to quickly review slide 15, CW noted that a summary of the WebEx discussions undertaken on 29 August would be provided at the 07 September 2017 Transmission Workgroup meeting. In considering whether capacity at different classification of entry point should be treated differently, CW suggested that this boils down to the link between the licence and existing contracts that in turn depend on the revenue approach to be adopted. RH pointed out that the matter would be raised under the pre-modification discussion agenda item at the Transmission Workgroup meeting, and as a consequence, would be limited to a 10 minute slot. In

acknowledgement of this fact and as part of its trial of the Rapid Modification Development, National Grid NTS will be hosting a brief post Transmission Workgroup offline session outside and at the end of the main meeting on that day.

3.2 Revenue Reconciliation / Recovery Mechanisms (31.08.17 Sub-group)

Attention focused on slide 20 'Revenue Reconciliation (2)' where it was noted that development of IP charging any equivalent reconciliation amount links in to Article 4 provisions.

When asked for a view of when the revenue reconciliation charge details would be available, CW indicated that hopefully these would be provided before the next NTSCMF meeting, although it should be noted that National Grid NTS has to identify the style of the approach to be adopted and establish whether this complies with TAR NC requirements in the first instance, so the release date could be later.

When asked whether the National Grid NTS forecast flows for IPs are based on a 'bottom up' or 'top down' approach for under recovery purposes (i.e. IPs versus aggregate flows basis), LJ explained that these type of consideration fall under the forecasting arena whilst CW highlighted that non existing contract aspects expose differing views. When NW offered an alternative model for calculating under recovery elements, CW advised that the notion of a dual regime has not been discounted, although he does harbour concerns around the basis for application of such a solution (i.e. on all booking etc.). AS pointed out that only long term IP capacity bookings are based on existing contracts and all of her previous bundled / unbundled capacity concerns still apply (i.e. unfair treatment aspects etc.).

Moving on to consider slide 21 'Revenue Recovery / Reconciliation Mechanisms', CW confirmed that the IP multipliers are consulted on, on a yearly basis. When asked if he had a view on the timeframes involved, CW indicated that at this time he did not, although whilst he did believe that an end of year review mechanism might be required, there is the possibility that the initial position may involve a review at the end of the first two years, or possibly some other longer timeframe (i.e. every 5 years etc.). He asked parties to note that there are many influencing factors that could change this view. When DR advised that the TAR NC only specifies consultation on the Article 26 factors, it does require annual consultation on Article 28 aspects, JC pointed out that the industry could always raise a new modification to trigger the reviews.

Some parties believe that the Workgroup needs to think about defining what are, or are not seen as 'significant changes' in order to ensure that a suitably transparent change process is developed. It was noted that different multipliers apply for IPs.

When asked whether Ofgem believes that the Article 28 consultation should be separate or part of UNC modification 0621 proposals, DR indicated that Ofgem would prefer it to be 'covered' under 0621 developments in order to ensure that all aspects and issues are considered. In recognising that this is possible, some parties suggested that this could end up being a very complex approach especially as and when alternative modifications (to modification 0621) come to light.

When RW advised that Wales and West Utilities do not favour the commodity (flow based) recovery change suggestion (due to entry capacity based concerns), a brief debate around the merits (or not) of the previous UNC Modification 0517 'Review of the Supply Matching Merit Order in Setting Capacity Charges' ensued. Ultimately views remained divided on whether the WWU alternative proposals were a better option than the current proposal. CW reminded everyone that these slides are simply trying to informally summarise industry (sub-workgroup) views and are certainly not meant as a formal view.

Plan and change process

Opening LJ explained that slide 33 information is similar to that provided in previous Workgroup presentations on this matter and that the discussion timeline items on the

following slide have now been completed.

In focusing on the second discussion timeline slide 35, LJ highlighted the three September sub-group meetings (Forecasted Contracted Capacity; Avoiding inefficient bypass of the NTS; Multipliers / Interruptible) before advising that National Grid NTS intends to provide a list of accompanying questions ahead of these meetings.

When RH made reference to the 'Inefficient Bypass of the NTS – information only' paper kindly provided by PSE Kinsale Energy Limited ahead of this meeting, those in attendance agreed to defer consideration until the respective sub-workgroup meeting scheduled for 12 September 2017.

Attention then focused on the 'Timeline (simplified) – in parallel' slide 38, at which point CW explained that the subtly revised timeline proposals aim to speed up the process, whereupon DR confirmed that Ofgem has considered the most appropriate approach for their Impact Assessment and conclude that it should form part of their overall decision, and not necessarily at the consultation phase(s), as the later timing allows Ofgem to take into account industry responses. DR then observed that in essence the EU and UNC consultations are similar, although both are subject to other NRA agreements.

When asked whether or not the proposals cover off governance routes and system aspects, LJ explained that dialogue between National Grid NTS and Xoserve on such matters remains ongoing, especially with regard to system aspects. MM advised that feasibility and analysis is looking at a range of possibilities from a system perspective and referenced Xoserve Change Proposal XRN4260 which is already 'in flight' (see: <https://www.gasgovernance.co.uk/Change-Proposals>)

When it was asked what could possibly happen should there be any guidance changes forthcoming from ACER (i.e. would a new UNC modification be required, or would 0621 require subsequent (process related) amendments), CW suggested that whilst theoretically possible, it seems extremely unlikely that this would happen. DR explained that Ofgem recognises that it will have to take any ACER recommendations / comments (i.e. compliance aspects etc.) into consideration when making their decision. However, at this time the Brexit question is hard to assess in terms of any potential compliance impacts.

When asked whether there is any view on when the TSO / ACER publications would be forthcoming, CW suggested that he expects some information would need to be provided before the end of 2017, and certainly before this modification (0621) has run its full course. He added that the expectation is that the suite of information would expand year on year thereafter. DR highlighted that December 2017 is one date being discussed and should the industry be able to stick to the proposed timeline, GB could well be the first market to feed into the ACER process, although it remains slightly unclear at this time.

(Further details about the sub workgroups including joining instructions can be obtained by messaging box.transmissioncapacityandcharging@nationalgrid.com)

Charging Models – Development of Transmission Services CWD spreadsheet

Following a brief discussion, it was agreed that this item should be covered separately as a separate offline meeting (not administered by Joint Office) following completion of the main NTSCMF meeting. When asked when the charging model is likely to be released, CW indicated that this could possibly be next week, subject to the assimilation of the feedback provided at today's later meeting.

UNC Modification

LJ explained that slide 42 contains the same information as provided at the previous Workgroup meeting.

Next Steps

CW highlighted the proposed next steps highlighted on slide 44.

RH suggested that following the 26 September 2017 NTSCMF meeting, an amended 0621

modification should be provided by National Grid NTS to ensure the programme stays on track. When asked, CW indicated that it is highly unlikely that any amended modification would contain the legal text at that point. He highlighted the proximity of the last September sub-workgroup and discussion ensued as to the appropriate date for the first workgroup meeting in October.

4. Review of Outstanding Actions

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

Update: In pointing out that the update for this action had been covered within the main presentation, CW noted that he now expects to review the matter again before providing a further update at the next Workgroup meeting. **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: CW noted that he expects to review the matter again before providing a further update at the next Workgroup meeting. **Carried 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: CW explained that work remains ongoing with a view to providing an update at the next Workgroup meeting. **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: In referring to slides 22 to 29 in the main presentation pack, CW pointed out that slides 27 and 28 focus mainly on the mechanism aspects.

During a brief overview of the slides, attention quickly settled on discussing the detail behind slide 29 'Accommodating Existing Contracts'. When asked, CW explained that in respect of the gross capacity at each point and entry target revenue excluding ECs was concerned, the analysis carried out on the 2016/17 data by National Grid NTS reveals a 24% lower entry capacity price which resulted in an additional £12m under recovery. In response to a direct question, CW went on to explain that existing contract revenues would be taken off at the end of the process in the 'grossing option', whereas the current model removes this element at the beginning. In favouring removal of existing contract revenues at the end of the process, some parties believe this prevents potential artificial skewing of results and thereby also minimising potential price and step change related impacts, whilst also providing more stability. When asked, CW also confirmed that the actual percentage spread observed ranged only from 24% through to 26%.

When it was suggested that in line with slide 25 information, the expectation would be that the gross impact percentages would all be the same for all entry points, CW concurred, before advising that the observed differences largely relate to the use of rounding off factors.

The consensus was to once again expand this action:

Action extension: National Grid NTS (CW) re-examines the principles behind the charging model and provides justification as to how NTS undertook the charging modelling. **Carried Forward**

0803: National Grid NTS (CW/LJ) to show in a diagrammatic representation where there are potential discounts in the process and where the consequences of those discounts are picked up.

Update: In once again referring to the main presentation pack and specifically slides 30 and 31, CW provided a brief overview of the information and explained that it links in to a

previous question earlier in the meeting posed by AS.

Focusing on the red multiplier text, CW explained that the application and use of the multipliers is reflected in the green boxes.

When asked, AS indicated that whilst this information addresses some of her concerns, she would once again like to point out how other (European) regimes potentially treat discounts (i.e. the 50% storage discounts for instance). When asked whether the 50% storage discounts would apply to capacity, LJ explained that the 50% discount only applies to the reserve price and that this diagram reflects Article 9 requirements. Some parties believe that a better understanding behind what components the storage discount would apply to is essential. Responding, CW acknowledged that the treatment of ECs has been missed off the diagram, but went on to explain that the current model excludes ECs at a net level in order to establish a baseline under which any bookings and forecasts apply. **Closed**

5. Any Other Business

None.

6. Diary Planning

A brief discussion took place regarding whether or not to defer the date of the 04 October meeting with the conclusion being to look to reschedule the meeting to Friday 13 October 2017 even if this results in it being based in Solihull area.

Next meeting 26 September 2017 at ELEXON, 350 Euston Road, London NW1 3AW, where the following topics will be reviewed:

- Forecasted Contracted Capacity;
- Avoiding inefficient bypass of the NTS, and
- Multipliers / Interruptible.

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

Time/Date	Venue	Workgroup Programme
10:00, Tuesday 26 September 2017	Pink Room, ELEXON, 350 Euston Road, London NW1 3AW	Standard agenda plus <ul style="list-style-type: none"> • Forecasted Contracted Capacity • Avoiding inefficient bypass of the NTS • Multipliers/Interruptible
10:00, Friday 13 October 2017	<i>To be confirmed</i>	<i>To be confirmed</i>
10:00, Wednesday 25 October 2017	Pink 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 22 November 2017	LG8, Energy UK Charles House, 5-11 Regent Street, London SW1Y 4LR	<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 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
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
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
0803	23/08/17	3.2	National Grid NTS to show in a diagrammatic representation where there are potential discounts in the process and where the consequences of those discounts are picked up.	National Grid (CW/LJ)	Update provided Closed