

# NTS Charging Methodology Forum (NTSCMF) Minutes

## Tuesday 23 May 2017

### at Elexon, 350 Euston Road, London NW1 3AW

#### Attendees

|                             |       |                          |
|-----------------------------|-------|--------------------------|
| Rebecca Hailes (Chair)      | (RH)  | Joint Office             |
| Mike Berrisford (Secretary) | (MB)  | Joint Office             |
| Anna Shrigley               | (AS)  | Eni                      |
| Charles Ruffell             | (CR)  | RWE                      |
| Colin Hamilton              | (CH)  | National Grid NTS        |
| Colin Williams              | (CW)  | National Grid NTS        |
| Danishtah Parker            | (DP)  | Cadent                   |
| David Cox*                  | (DC)  | London Energy Consulting |
| David Reilly                | (DR)  | Ofgem                    |
| Debra Hawkin                | (DH)  | TPA Solutions            |
| Gerry Hoggan                | (GH)  | ScottishPower            |
| Henk Kreuze                 | (HK)  | Vermilion Energy         |
| Jeff Chandler               | (JCh) | SSE                      |
| Jenny Philips               | (JP)  | National Grid NTS        |
| John Costa*                 | (JC)  | EDF Energy               |
| Julie Cox                   | (JCx) | Energy UK                |
| Karen Elmhurst*             | (KE)  | National Grid NTS        |
| Kieron Carroll              | (KC)  | PSE Kinsale Energy       |
| Laura Johnson               | (LJ)  | National Grid NTS        |
| Lucy Manning                | (LM)  | Gazprom                  |
| Nahed Cherfa                | (NC)  | Statoil                  |
| Paul Youngman               | (PY)  | DRAX                     |
| Pavanjit Dhesi*             | (PD)  | Interconnector UK        |
| Peter Bilotto-Jensen*       | (PBJ) | DONG Energy              |
| Riccardo Rossi              | (RR)  | Centrica                 |
| Richard Fairholme*          | (RF)  | Uniper                   |
| Robert Cannings*            | (RC)  | Storengy UK Limited      |
| Nick Wye                    | (NW)  | Waters Wye Associates    |
| Vladislav Zuevskiy          | (VZ)  | Northern Gas Networks    |

\* via teleconference

Copies of all meeting papers are available at: <http://www.gasgovernance.co.uk/ntscmf/230517>

## 1. Introduction and Status Review

RH welcomed all to the meeting.

### 1.1 Approval of Minutes (08 May 2017)

The minutes of the previous meeting were approved.

### 1.2 Pre-Modification discussions

#### 1.2.1. Amendments to Gas Transmission Charging Regime

CW provided a detailed overview of the draft modification explaining that more detailed discussions are expected to be undertaken during the Workgroup development phase.

However, the main salient discussion points of today's meeting were captured (on a section by section basis) as follows:

#### Purpose of Modification

Whilst it was recognised that the modification seeks to address wider GB industry charging changes related requirements, it was suggested that a reference to the primary EU TAR changes (and GTCR) driving the modification might be helpful.

It was also noted that the modification reflects proposed 2019 changes and is not seeking to introduce a total solution, as what happens beyond 2019 will require further modifications to resolve.

RH provided a quick resume of how any potential alternate modifications should look to provide alternative solutions to this modification in order to seek a broadly similar aim. RF provided a quick explanation of how Panel look to make an informed decision on any new modifications placed before them, especially the views around alternates versus separate but related in nature modifications. In short there are three process options for a new modification – send to development (Review); send to a Workgroup and send direct to consultation (extremely rare).

Whilst some parties suggested that as currently written, the modification feels more like a Review Proposal rather than a UNC Modification per se, others disagreed and suggested that care would be needed in developing the solution before the Subgroup meetings have provided suitable and relevant feedback into the process. Ultimately the test is whether or not the modification is implementable.

CW advised that the 'skeleton' modification as written, depicts a good (default) starting point. When it was suggested that the inclusion of [ ]s for unresolved areas identified for further consideration would prove beneficial, CW agreed to consider including within the formal modification.

#### Timetable

CW explained that as proposed, the timetable reflects EU aspects and Subgroup and NTSCMF meeting schedules.

When asked when Ofgem might look to undertake an Impact Assessment for the modification, DR advised that normally the process is 'triggered' when the Final Modification Report is submitted to them, although this does not preclude initiating an IA earlier in the process. He clarified that Ofgem expects the Workgroup to have completed its own impact assessment which would be summarised in the Workgroup report (section 6 Impacts & Other Considerations) and suggested that any modifications would need suitable supporting analysis in order to enable Ofgem to make an informed IA.

#### 1 - Summary

In providing the rationale behind the 'What', 'Why' and 'How' elements, CW explained that the modification takes into account previous industry discussions around booking behaviours etc. and the information has been pitched at a broad average level as a starting point.

When it was suggested that the modification looks to try to change the charging methodology in order to provide National Grid NTS with a different set of modelling tools, LJ explained that this has been 'covered off' to some degree in the solution section.

CW agreed to look to incorporate EU TAR Code aspects in a future rendition

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of the modification and expand the purpose of the modification to include additional flexibility around any potential solutions.

When asked whether they actually know what problem the modification is looking to fix, CW warned against becoming too fixated on the details at the moment, as these aspects would be teased out during development of the modification in due course.

In response to feedback from parties around aspects such as consideration of the relevant objectives, customer stakeholder feedback and previous industry agreements (i.e. minimise volatility; improve security of supply) etc.<sup>1</sup>, CW indicated that he would look to amend this section in the next iteration of the modification.

When asked, RH pointed out that ALL points of view would be captured within development of the Workgroup Report in due course.

## 2 - Governance

In response to feedback from parties around aspects such as consideration of potential system operational impacts, whether or not the modification could be deemed suitable for self-governance status or not (consensus at this time being that it is not), and expansion of the payable capacity charges aspects etc., CW indicated that he would look to amend this section in the next iteration of the modification, though the modification is still expected to go forward for Authority decision.

## 3 - Why Change

In response to feedback from parties around providing an explanation around why the modification appears to not be in keeping with the objectives of the charging methodology, and a request to provide a more open view around the EU TAR Code drivers (it was noted that the TAR Code does not specify a particular methodology, but looks more towards cost reflectivity goals), along with consideration of potential LRMC impacts etc., CW indicated that he would look to amend this section in the next iteration of the modification.

## 4 - Code Specific Matters

When asked whether there are any potential Electricity market (TCRSO) related impacts, CW advised that there are none, as this modification will need to focus on the relevant objectives for the gas side only.

## 5 - Solution

During a detailed discussion on this area of the modification, LJ advised that the first statements represent a high-level overview of the possible change impacted areas.

It was suggested that it would be preferable to replace reference(s) to 'starting' to 'stating' and to also include a reference to the TAR Code within the statements.

In considering the opening paragraph on page 6, it was suggested that perhaps it might be better to 'pare back' the statement with a view to building a better and more detailed view during development of the modification.

When it was suggested that it looks like the solution is looking to replace the (current) long run approach with a CWD based one, LJ agreed that perhaps some of the statements would be better repositioned accordingly in order to improve clarity and understanding. It was also noted that clarification of the

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<sup>1</sup> A copy of previous presentation materials relating to the concerns raised are available to view and/or download from the Joint Office web site at: <http://www.gasgovernance.co.uk/ntscmf/060916>

utilisation of one RPM for calculation of capacity prices might be helpful.

When asked, LJ confirmed that whilst the charging model utilises an annual figure, this is then converted into a p/kWh/d value.

Parties then debated whether perhaps one option could be to look to tweak the LRMC, rather than simply opt for the CWD approach, with views remaining divided as to whether this is viable or not, especially bearing in mind when this matter was looked at previously it was felt that in order to 'fix' the inherent LRMC issues that create volatility and effect predictability, a CWD style solution might end up being the net result. Responding to the discussion, CW reminded everyone that the question of whether or not the LRMC approach suits individuals or their respective companies remains a question only they can answer.

As far as the 'Discounts' bullet is concerned, this could include specific storage aspects.

In briefly considering the 'Other adjustments' bullet point, it was noted that this could include new charges considerations and seasonal impacts etc. amongst other things. Additionally, it was also suggested that a cross check against the EU TAR Code requirement would / could prove beneficial to ensure all requirements have been considered.

Focusing on the 'Non Transmission Services Charging' aspects, DR confirmed that the DN Pensions are a specific arrangement that falls under this area whilst CW also explained how the legacy deficit costs associated with these are applied (regionally).

It was noted that the p/kWh/d reference might be incorrect in this instance.

CW went on to briefly outline the previous industry discussions relating to the commodity versus capacity approach which in his opinion will need further consideration – he will look to amend the statement (inc, enhanced clarification of storage aspects etc.) to indicate that this is just an initial starting point. Again this could take the form of a [ ] statement for further development.

During consideration of the 'Transmission Services Revenue' statement, LJ confirmed that there would still be a revenue adjustment option and that this could possibly take the form of a separate 'k' value for both Transmission and Non Transmission services revenue.

When asked whether or not it is proposed to also have a different 'k' value to cover DN Pensions and St Fergus meter maintenance etc., LJ explained that this would not be the case as there are no changes to the current processes proposed under this modification.

Moving on to consider the 'Mapping of the TO revenue and SO revenue to Transmission Services revenue and Non-Transmission Services revenue proposals, CW explained the rationale behind National Grid NTS' thinking around potential bespoke charges and neutrality aspects. CW also reminded those present that the method by which National Grid's accounting addresses revenue is down to the company and the (previous) TO/SO considerations remain as they are. It was suggested that perhaps further clarification around this area (i.e. justification of which service is proposed / preferable) might prove beneficial.

When looking at the 'Specific Capacity Discounts', it was again suggested that reference(s) to 'starting' should be changed to 'stating'.

CW explained that as far as the proposed single GB approach was concerned, this is only an initial view and would be subject to development over time (i.e. not set in stone).

When asked why it is felt that it is necessary to define storage sites, JP acknowledged the point and indicated that it would be amended in the next iteration of the modification.

It was suggested that the modification should also recognise that the storage site aspects associated with Article 9 within the EU Tariff Code are not actually fixed and could change.

In noting that the storage discount statement could also be encased in [ ]s in the next iteration of the modification, CW advised that the Non Transmission charges would be in p/kWh/d. CW then noted that whilst the Transmission services are open, there are potential EU compliance measures involved.

LJ then provided a brief overview of the 'Multipliers' during which JCx suggested that it might be sensible to prune back the statements, at which point CW explained that the multipliers are only one of many tools that National Grid NTS deploys to reclaim revenue charges.

When asked whether or not National Grid NTS is proposing to provide a better explanation behind how the multipliers are set, JCx suggested that the default value of 1 is a good starting point on which to base further discussions. She went on to point out that different multiplier values for different Entry / Exit points might be the end result needed, and that would also potentially add further complexity. Furthermore, she believes that it would be beneficial to encase the elements that are not in the TAR Code in [ ]s to ensure that these are discussed in more detail in due course.

When National Grid NTS was asked to explain what is actually meant by a multiplier value of 1 and how power stations would / could be expected to book capacity over the various hours in a day, NW reminded everyone that the GB gas market functions on daily capacity and not hourly and suggested that the proposals remain consistent with Code requirements. CW pointed out that any existing obligations in this area remain as they are. When asked if this matter could be discussed within one of the Subgroup meetings, CW agreed that this would be added to the existing list after the current three key topic items (i.e. possibly a July Subgroup meeting topic).

When asked, CW agreed to include 'cost reflectivity' aspects within this section in the next iteration of the modification.

During a brief explanation of the 'Interruptible' proposal from LJ, it was suggested that consideration of the TAR Code Factor A aspects need adding.

LJ pointed out that as far as the methodology for determining the Forecasted Contracted Capacity (FCC) was concerned no concrete conclusions have been reached on this matter at this time.

Focusing attention on the 'Avoiding in-efficient bypass of the NTS' item, CW explained that no discussions have taken place to date and agreed to also add a reference to the proposed provision of the one-page (Subgroup discussion / output) topic summaries.

Moving on CW explained that the initial 'Existing Contracts' statement has been extracted from the TAR Code and agreed that this could also be expanded to include specific dates (i.e. entry in to force dates etc.), in the next iteration of the modification.

When asked where it originates from, CW agreed to consider deleting the '*Under article 35.....as an existing contract*' statement.

When asked whether or not the proposals suggest a world where dual contracts exist, CH confirmed that this is definitely NOT the case. In short, the reserve price is fixed whilst new contractual elements are not.

CH went on to point out that the proposals for buying capacity are no different to the existing mechanisms, before confirming that the function of the secondary market is not being touched by this modification. Parties noted that the market determines the price for capacity, which is based on ownership and not usage. CW suggested that there could / would be an option for an additional charge to be applied across the market.

When asked, LJ confirmed that where parties have booked capacity at a given price, then this is what they would have to pay. CW reminded those present that National Grid NTS has previously provided a statement relating to their legal view on existing contracts proposals.<sup>2</sup>

In referring to the final statement in this item that states '*As part of this modification it will be necessary to consider charges or adjustments or alternative charging arrangements that may be permissible to levy on Existing Contracts*', CW advised that this is based on Article 35 of Code and observed that previous discussions had suggested that we are not able to alter Gas Charges.

Moving on to consider the 'What not proposing to change (for now) (for information only):' item, LJ requested that should any party have anything they would like to see added to the current list, they should contact her to discuss.

When asked whether 'transparency' should be added to the listing, CH advised that this is already being considered under the Transmission Workgroup banner. He went on to explain that other (TAR Code) items that come into play in due course would be published in due course, and as a consequence, are outside the scope of this modification.

#### 6 – Impacts & Other Considerations

During a brief review by LJ there were no adverse comments raised, although LJ did agree to ascertain whether or not the 'Cross Code Impacts' are restricted to just the gas codes arena.

#### 7 – Relevant Objectives

During a brief discussion, DR suggested that a) might be positive whilst JCx suggested that b) might not be appropriate and indicated that she believes c) might be preferable.

It was noted that these would be teased out during formal Workgroup discussions and development of the modification.

#### 8 – Implementation

LJ noted that currently this only refers to the modification specific aspects and she would look to expand this to take better account of Price setting schedules.

#### 9 – Legal Text

It was noted that the legal text and supporting commentary would be provided by National Grid NTS in due course.

#### 10 – Recommendations

During a brief review by LJ there were no adverse comments raised.

## **2. Workgroups**

RH advised that there was no specific Workgroup business for consideration.

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<sup>2</sup> Please refer to the National Grid NTS presentation provided at the 05 April 2017 meeting for more details: <http://www.gasgovernance.co.uk/ntscmf/050417>

### 3. Gas Charging Review

In providing a brief outline of the proposed programme for the meeting, CW apologised for the late provision of the draft 'Amendments to Gas Transmission Charging Regime' modification.

#### 3.1 EU Tariffs Code – Current Outlook Update

CH provided an outline of the presentation before focusing attention on the main aims of UNC Modification 0611 'Amendments to the firm capacity payable price at Interconnection Points'.

When asked how much of the Bacton Entry Gas is 'protected', CH explained that whilst he is unsure of the actual proportion, he is able to confirm that the matter relates to long term QSEC and that more information is / would be available within the Transition Document and that the related aspects are currently being considered within the Transmission Workgroup arena.

In looking at the proposed publication timeline (last bullet point) on slide 7, CH asked those present to note that not all documents exist at this time, whilst those that do, would be published when appropriate (in short - what is relevant now).

In considering the 'UNC Modification for Capacity Treatment at Combined ASEPs' slide(s), CH advised that this modification is additional to the Amendments to Gas Transmission Charging Regime' modification which is the basis of the meeting's pre-mod discussion. He went on to explain that this additional modification should not be perceived as a sequel to the previous Bacton split 0501??? "Treatment of Existing Entry Capacity Rights at the Bacton ASEP to comply with EU Capacity Regulations, including a restricted capacity return option modification of 2014.

When asked whether or not NTSCMF members broadly supported the proposal for the modification 0611 to progress within the Transmission Workgroup arena, those in attendance indicated their support. To this end, CH would now seek to table the draft modification as a pre-modification discussion item at the forthcoming Transmission Workgroup meeting 01 June 2017. It was noted that FCC aspects would need to be considered during development of the modification and that other EU States maybe looking at various aspects that relate specifically to them.

When it was suggested that some form of progress feedback to the NTSCMF might prove beneficial, CH agreed to provide an update in due course.

#### 3.2 Review of Subgroup Meeting Output

CW briefly outlined the proposed Subgroup meeting schedule and provided a quick summary review of the outputs from the 16 May 2017 meeting.

In explaining that it is anticipated that there would be no formal minutes produced for the Subgroups meetings, CW advised that non-confidential materials would be made available.

When CW explained that the aim is to look to host four (4) Charging meetings per month, split into two (2) main NTSCMF and two (2) Subgroup meetings, some parties suggested that this implies that industry participants would need to attend the Subgroup meetings on the grounds that feedback to the NTSCMF would be at a high level only. The consensus of those present was that as long as there are clear (traceable) outputs from the Subgroup meetings, the proposed approach could / would work. It was also noted that industry parties and not just National Grid NTS should be allowed to provide the high-level output updates to NTSCMF. This was welcomed.

In quickly reviewing the 'Sub workgroup – future development' meeting schedule table on slide 16, LJ confirmed that single page summary papers would be generated (ahead of the meetings themselves) to accompany each topic discussion as a means of triggering discussions. CW noted that some of the key topic areas might well

rollover into a subsequent meeting if all aspects are not bottomed out at the initial meeting.

### 3.3 Plan and Change Process

During a quick review of the 'Gas Charging Review: UNC modification – Timeline update' slide 18, CW focused attention on the emboldened entry for today's meeting and RH highlighted to National Grid NTS (CW) that whilst the 02 June 2017 date for submitting the formal UNC Modification to the June 2017 Panel meeting, is the last possible day, earlier submission is an option that National Grid NTS might like to consider.

### 3.4 Draft UNC Modification

CW provided a brief high-level summary overview of the proposed UNC Modification structure. *Please refer to item 1.2 above for a more detailed summary of the discussions on this item.*

### 3.5 Next Steps

In briefly reviewing the 'Next Steps' slide, CW focused attention on the 02 June 2017 emboldened entry.

## 4. Issues

### 4.1 Issues Register - Review

Not reviewed at this meeting.

## 5. Review of Outstanding Actions

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

**Update:** In advising that Storage would be added to the Subgroup topics for consideration list, CW advised that work remains ongoing. **Carried Forward**

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

**Update:** RH and CW advised that consideration remains ongoing. **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:** In noting that the next Subgroup meeting is scheduled for the end of June 2017, CW advised that work remains ongoing. **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 advised that work remains ongoing. **Carried Forward**

**0502:** *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.

**Update:** DR explained that Ofgem view the National Grid NTS proposals as outlined within the draft 'Amendments to Gas Transmission Charging Regime' modification as being a sensible approach and something that Ofgem feels able to work with and able to make a decision on in due course. **Closed**

**0503:** *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 workplan.

**Update:** CW advised that work remains ongoing. **Carried 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:** CW noted that this relates to the Subgroup topics list before advising that work remains ongoing. Topics have been allocated to the first three subgroup meetings:

| Sub Group             | Key topic to discuss                   |
|-----------------------|--|
| 30 May 11:00 -13:00   | Forecasted Contracted Capacity         |
| 14 June 10:00 – 12:00 | Revenue Reconciliation / Recovery      |
| 29 June 10:00 – 12:00 | Avoiding inefficient bypass of the NTS |

Further meetings and their topics and topics to be discussed in the main NTSCMF meetings will be updated at the next meeting. **Carried Forward**

**0505:** Joint Office (RH) to confirm whether or not, the Joint Office can provide sufficient resources to match the proposed meeting schedule.

**Update:** Further to National Grid NTS' slide 14 summarising future meeting frequency and content, RH suggested, and those in attendance agreed, that this action had been completed. **Closed**

## 6. Any Other Business

None.

## 7. Diary Planning

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

| Time/Date                         | Venue  | Workgroup Programme                                       |
|-----------------------------------|--|---|
| 10:00, Monday 05 June 2017        | PINK Room, ELEXON, 350 Euston Road, London NW1 3AW   | UNC Modification - final review prior to panel submission |
| 10:00, Friday 07 July 2017        | Orange Room, ELEXON, 350 Euston Road, London NW1 3AW | <i>To be confirmed</i>                                    |
| 10:00, Wednesday 02 August 2017   | Orange Room, ELEXON, 350 Euston Road, London NW1 3AW | <i>To be confirmed</i>                                    |
| 10:00, Tuesday 05 September 2017  | Orange Room, ELEXON, 350 Euston Road, London NW1 3AW | <i>To be confirmed</i>                                    |
| 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 23 May 2017)**

| <b>Action Ref</b> | <b>Meeting Date(s)</b>         | <b>Minute Ref</b> | <b>Action</b>  | <b>Owner</b>                                 | <b>Status Update</b>              |
|-------------------|--------------------------------|-------------------|--|--|-----------------------------------|
| 0301              | 06/03/17<br>(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)                       | <b>Carried Forward</b>            |
| 0402              | 24/04/17                       | 3.2               | <i>NTS CMF Terms of Reference</i> - RH and CW to draft a 'strawman' for discussion at the May/June meetings.   | Joint Office (RH) and National Grid NTS (CW) | <b>Carried Forward</b>            |
| 0404              | 24/04/17                       | 4.1               | <i>'Avoiding Inefficient Bypass of the NTS' (one-pager)</i> - CW and the Subgroup to revisit/re-word the final paragraph to add clarity, and re-publish.   | National Grid NTS (CW)                       | <b>Carried Forward</b>            |
| 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).   |  | <b>Carried Forward</b>            |
| 0502              | 08/05/17                       | 3.4               | <i>Reference separate Entry and Exit reconciliation proposals</i> - 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)          | Update provided.<br><b>Closed</b> |
| 0503              | 08/05/17                       | 3.5               | <i>Reference Gas Charging Review</i> – 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 workplan. | National Grid NTS (CW)                       | <b>Carried Forward</b>            |
| 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)                       | <b>Carried Forward</b>            |
| 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)                            | Update provided.<br><b>Closed</b> |