

Workgroup 0621 Summary of Outcomes Thursday 20 April 2018 at St Johns Hotel, 651 Warwick Road, Solihull, B91 1AT

| Attendees | |
|-------------------------|------------------------------|
| Penny Garner (Chair) | Joint Office |
| Kully Jones (Secretary) | Joint Office |
| Adam Bates | National Grid NTS |
| Andrew Pearce | BP |
| Chris Shanley | Joint Office |
| Colin Williams | National Grid NTS |
| Danishtah Parker | Cadent |
| David Cox* | London Energy Consulting Ltd |
| Debra Hawkin | TPA Solutions |
| Gerry Hoggan | Scottish Power |
| Graham Jack | Centrica |
| Joanne Parker* | SGN |
| Joshua Logan | Drax Power |
| Kay Riley | SouthHook Gas |
| Kirsty Ingham | ESB |
| Matthew Hatch | National Grid NTS |
| Paul Orsler | Xoserve |
| Penny Jackson | npower |
| Richard Fairholme | Uniper |
| Richard Miller | Ofgem |
| Richard Pomroy | WWU |
| Shiv Singh | Cadent |
| Steve Pownall | Xoserve |
| Will Webster | Oil & Gas UK |

Key Points/Decisions

1. Joint Office welcomed everyone to the meeting and advised there will be an increased Joint Office presence at the forthcoming meetings to support the increased workload resulting from the additional meetings.

Workgroup sought clarification on the submission of the letter to Ofgem seeking a View on the interaction between 0621 and 0632, expressing concern in the delay.

Penny Garner provided feedback from the 19 April 2018 Modification Panel meeting, stating that Ofgem have requested that the Workgroup discuss the interactions between Modification 0621 and 0636. JO proposed that this discussion is held on 30 April 2018 with the discussion on relevant objectives.

Workgroup requested that the view from Ofgem is still sought. Penny Garner is to send the request as soon as possible.

New Action: 200418 0401: Joint Office to send letter to Ofgem seeking a View.

2. The material provided for the meeting can be accessed here:
<https://www.gasgovernance.co.uk/0621/200418>
3. The Workgroup schedule was reviewed as Legal Text will not be available for 27 April 2018. Chris Shanley is going to provide Workgroup with a proposal for how the Workgroup Report is going to be drafted on 23 April 2018. It was also suggested that a discussion on Historical Contracts be included. It was agreed that the discussion on Relevant Objectives would be a thread that runs through every topic area and as such would be discussed as the Workgroup Report is progressed as well as the planned discussion on 30 April.
4. Joint Office acknowledged the amended alternative modifications that have been received to date. Joint Office provided an opportunity for pre-modification discussions. It was highlighted that if any new Alternative Modifications are received between now and completion of the Workgroup Report then the Modification Panel would need to provide approval for these to be sent to Workgroup. Joint Office advised that they would administer this process.
5. Adam Bates from National Grid provided a walkthrough of the analysis results for the following requests:

Analysis 3 RPM Sensitivity Analysis – CWD
Analysis 3 RPM Sensitivity Analysis – LRMC
Analysis 3 RPM Sensitivity Analysis – Postage Stamp

National Grid as part of 0621 analysis have refreshed the analysis to look at the sensitivity of changing the inputs of the Long Run Marginal Cost (LRMC), Capacity Weighted Distance (CWD) and Postage Stamp reference price methodologies, to assess the different methodologies against the charging and stakeholder objectives.

Discussion in relation to the merit order as it provides wider swings.

Results

In terms of Modification 0621, the results show that there is no change to the conclusions from the previous analysis/conclusions and that the LRMC model is no longer suitable and should not be a proposed Reference Price Methodology for this modification.

Therefore, an alternative Reference Price Methodology, such as Capacity Weighted Distance or Postage Stamp, is more relevant to the current state and use of the NTS.

Workgroup Report Early Consideration

CWD and Postage stamp are considered to provide more predictable charges and over time will also provide more stability than LRMC. LRMC is forward looking cost reflective charging approach and CWD is a cost / revenue recovery approach and there are differences to “cost reflectivity” as it is a subjective term. When considering cost reflectivity there are outcomes from CWD that may be less cost reflective if compared under similar terms to LRMC.

As cost reflectivity is subjective it is more appropriate to say that, on balance, CWD is no worse on cost reflectivity than LRMC.

Improved stability through charges that vary less than under LRMC from year to year provide greater stability and therefore provide greater certainty of charges for users. Reduced variance between charges and improved certainty can help for competition and new entrants having more certainty on charges and help purchasing strategies.

Stability is important because of competition, analysis shows that LRMC is unstable which is why Workgroup have considered alternatives to LRMC and why across the modifications proposed the

options are CWD or Postage Stamp.

New Action: 200418 0402: National Grid to update the presentation material to provide a commentary explaining the impact on the Relevant Objectives.

Analysis 11 Assessment of Spare Capacity

This analysis provides an assessment of the level of spare capacity on the NTS and identifies any constrained areas on the network. It looks at the history of capacity bookings and utilisation to review the relationship between obligated, capacity bookings and flows across the Entry and Exit points on the network. The historical bookings and historical flows have been taken from Year +1 FCC (ie 2016/17 bookings).

Results

In terms of Modification 0621, the results show that except where there is no obligated level, bookings are generally lower than obligated, and flows lower still.

Based on this data, and the expectation that capacity bookings will be at these levels or lower from 2019, National Grid does not believe it is required to consider constraints at this time.

New Action 200418 0403: Number 11 Analysis: National Grid to add in peak flow to slide 6

New Action 200418 0404: Number 11 Analysis: National Grid to provide historic variance against K factor figures

New Action 200418 0405: Number 11 Analysis: Workgroup to make a statement in the Workgroup Report based on the figures from National Grid in Action 0404 that if there is volatility to link it, then back to the relevant objectives.

Workgroup Statement

Booking patterns will change and as a result the amount booked relative to obligated will vary. Shippers and GDNs have the opportunity to review their booking patterns.

A review of peak flows compared to average flows might be more appropriate to see.

The move from the transition to enduring under the proposals could have an impact on the relative proportion of 'K' that is fed back into future prices which one party wanted to confirm the materiality impacts on GDNs from a forecasting error on non-GDN offtakes.

Given the transition is similar in structure to the current method (use of commodity for revenue recovery), a review of historical 'K' values can help show the levels of under/over recovery seen and provide an order of magnitude.

Revenue application Formula Year vs Gas Year

National Grid provided an illustration on how the proposal might work to take into account the two revenue years for a single gas year.

Some concerns that this may potentially breach revenue recovery incentives and if these need to be looked at, or changes to charges were necessary then it may not be appropriate to introduce now. Certainty of prices for a tariff period was key for the Workgroup.

Workgroup agreed that it was useful to address this issue, but without confidence in the approach and any risk of other charging changes being needed to manage, it may be more appropriate to keep the same approach as current and review later and propose changes as needed.

New Action 200418 0406: National Grid (CW) to provide example for WG's review.

Framework for standardising analysis

National Grid provided a list of areas that the analysis will cover across Modification 0621 and all Alternatives.

The following additional areas were suggested:

- Provide any an analysis that fills gaps in the ACER template analysis required for the ACER (EU) consultation although this is not needed for the Workgroup report but is for the interim ACER consultation.

- Entry/Exit split of charges. IP/NON-IP charges
- A comparison of the counterfactual CWD model (“vanilla”) required under TAR NC would be helpful.
- Details on Existing Contracts beyond the dates provided in the current models currently provide including revenue values (assumptions needed for years beyond 2021).

6. National Grid provided a short walkthrough on the revised version of the full and simplified Comparison Table.

New Action 200418 0407: Proposers asked to check the table and confirm it is as expected. Please notify if there are any inaccuracies by close of play Monday 23 April.

7. Joint Office confirmed that the 19 April 2018 Modification Panel meeting have agreed the extension to the deadline for the Workgroup Report from **3 May to 9 May**. Three additional meetings have been added to the Workgroup schedule for **3, 4 and 8 May**. An updated Workgroup schedule is provided below.

8. Cadent Gas presented a brief presentation on Interruptible Capacity charging, suggesting that Modification 0621 results in National Grid recovering revenues twice for the same capacity. National Grid confirmed that this was not the case and that the revenue received would be for two products and the same one sold twice.

Cadent put forward 3 options to address the issue, option 1 & 2 were dismissed by National Grid leaving Option 3 which would require Cadent would need to raise a new modification.

9. Workgroup requested that the meeting start time remains at 9:30 but meetings finish at 4:00 to enable Workgroup participants to review material and reflect on discussions before the next day.

Critical Actions

New Action: 200418 0401: Joint Office to send letter to Ofgem seeking a View

New Action: 200418 0402: National Grid to update the presentation material to provide a commentary explaining the impact on the Relevant Objectives.

New Action 200418 0403: Number 11 Analysis: National Grid to add in peak flow to slide 6.

New Action 200418 0404: Number 11 Analysis: National Grid to provide historic variance against K factor figures.

New Action 200418 0405: Number 11 Analysis: Workgroup to make a statement in the Workgroup Report based on the figures from National Grid in Action 0404 If there is volatility to link it back to the relevant objectives.

New Action 200418 0406: National Grid (CW) to provide example for WG’s review.

New Action 200418 0407: Proposers asked to check the table and confirm it is as expected. Please notify if there are any inaccuracies by close of play Monday 23 April.

Review Outstanding Actions

Actions 0401 to 0408 are carried forward for discussion on 25 April 2018.

Action 0409 carried forward for discussion on 26 April 2018.

The following actions are updates as follows:

Action 0410 Closed

Action 0411 Carried forward

Action 0412 Carried forward

Action 0413 Carried forward

Action 0414 Carried forward

Action 0415 Chris Shanley to liaise with Julie Cox for Workgroup Report input carried forward

Action 0416 Carried forward to 26 April for discussion on DN Impacts
 Action 0417 Carried forward to 23 April.

The next meeting will be held on Monday 23 April 2018 at St Johns Hotel, Solihull, B91 1AT. Please note that the meeting will start at 9:30am and finish at 4pm. Agenda and papers can be found on the website <https://www.gasgovernance.co.uk/0621/230418>

Workgroup Schedule

| | 9:30 - 13:00 | 13:30 - 16:00 |
|--------|---|---|
| 23-Apr | Capacity Reference Price | Forecasted Contracted Capacity |
| 24-Apr | Revenue Recovery Charge (Transition) | Revenue Recovery Charge (Enduring) including historical contracts |
| 25-Apr | Legal Text (0621) | <ul style="list-style-type: none"> • Legal Text (0621) • Non-Transmission Service Charges • Publication of variables |
| 26-Apr | <ul style="list-style-type: none"> • Reserve Price - Specific Capacity Discounts • DN Impacts | NTS Optional Charge |
| 27-Apr | Legal Text (0621 Alternatives) Topic TBC | Legal Text (0621 Alternatives) Topic TBC |
| 30-Apr | Relevant Objectives | Relevant Objectives |
| 01-May | NTSCMF (including 0621 Workgroup) Finalise Workgroup Report Legal Text (0621 Alternatives) | NTSCMF (including 0621 Workgroup) Finalise Workgroup Report Legal Text (0621 Alternatives) |
| 02-May | Finalise Workgroup Report | Finalise Workgroup Report |
| 03-May | Relevant Objectives (TBC – if TWG can be moved/cancelled) | Relevant Objectives (TBC – if TWG can be moved/cancelled) |
| 04-May | Relevant Objectives and/or Finalise Workgroup Report | Relevant Objectives and/or Finalise Workgroup Report |
| 08-May | Finalise Workgroup Report | Finalise Workgroup Report |
| 09-May | | Submit Workgroup Report to Panel (no meeting – JO admin activity) |