NTS Charging Methodology Forum (NTSCMF) Minutes
Thursday 02 February 2012
at Elexon, 350 Euston Road, London NW1 3AW

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Debra Hawkin	(DH)	National Grid NTS
Habibur Choudhury	(HC)	National Grid NTS
Helen Stack	(HS)	Centrica
Jacopo Vignola	(JV)	Centrica Storage
James Thomson	(JT)	Ofgem
Julie Cox	(JC)	AEP
Mike Wassell	(MW)	National Grid NTS
Rekha Theaker	(RT)	Waters Wye Associates
Richard Hounslea	(RH)	National Grid NTS
Stefan Leedham	(SL)	EDF Energy
Tom Wilson	(TW)	ExxonMobil

Copies of all papers are available at: http://www.gasgovernance.co.uk/ntscmf/020212.

1. Introduction

TD welcomed attendees to the meeting.

2. Review of Minutes and Actions from the previous meeting (14 October 2011)

2.1 Minutes

The minutes of the previous meeting were approved.

2.2 Actions

No actions outstanding.

3. Issues

3.1 RIIO Issues

DH & HC presented 'RIIO/Gas Charging'.

HC noted that whilst the five year rolling SO incentive worked well under the RPI –X regime, a different, TO only, approach is envisaged under RIIO:T1. Asked about potential changes to the shadow RAV concept, HC confirmed it is changing and as a consequence we would be going into the TO based regime with a supporting adjustment mechanism in place.

Looking at the 'TO Revenue – July Submission' graph, SL enquired how the assumptions compared with National Grid's electricity proposals. HC agreed to check this. HC then advised that the baseline data includes historical and new non incremental items. The 2017/18 increase reflected the migration from the SO to the TO regime but also CAPEX impacts. JC voiced concern about cost reflectivity and the presumption of which elements current customers would be funding going forward, despite investment benefiting future customers.

Reviewing the 'July 2011 Submission – differences in TO Revenues £m' slide, DH suggested that the data indicated considerable uncertainty. DH also agreed that this followed a similar concept to the current RAV style changes although it now includes additional elements such as capital and incremental expenditure. Asked if expenditure assumptions could change, DH advised that plan and scenarios are being re-assessed and so these figures could change.

Moving on to consider the capitalisation rate, DH advised that, as far as the TO is concerned, the 61% figure equates to the capitalisation rate – with the figure covering revenue driven expenditure rather than just baseline. The capitalisation rate including incremental elements is 72%.

In considering why a 90% capitalisation rate for TPCR4 on slide 18 would result in a lower peak revenue requirement, HC confirmed that, contrary to expectation, the figure reflected the fact that the larger the capitalisation rate, the slower the recovery of allowed revenue – the key was striking a balance between funding investment and meeting customer requirements.

Moving on to consider the 'Capitalisation rate – effect on incremental capacity funding (RIIO-T1 capex phasing)", HC suggested that this is preferable to the 20/80% approach as it spreads out the recovery of costs.

When asked if National Grid believe that RIIO is no worse than the RPI –X (revenue driver) approach, HC responded that this is the case – it is simply a different approach. Whilst acknowledging National Grid's need to effectively manage their business, JC remained concerned about the RIIO proposals, especially how CAPEX changes between TPCR4 and RIIO. HC pointed out that there are differences in the cost of capital between the two.

Regarding a split capitalisation rate, HC said this potentially reduces lumpiness and could reduce charge volatility. Whilst the profiles appear similar to those for a single capitalisation rate, these include more earlier recovery of costs within the baseline. When asked if this would result in price increases, HC agreed it could in the short term - reflecting investment requirements. The change in the baseline percentage reflects the need to attract investment. Asked about any potential impacts upon whether investment is regarded as efficiently incurred, HC believed there would be little or no impact. Efficiency considerations sit outside this area – basically if a project is assumed to cost £1m and in fact costs £1m to implement then there would be no review required. However, where a project was assumed to be £1m, but in reality cost £1.2m then an efficiency review could be undertaken with the proposed capitalisation split being applied.

Asked if they saw an attraction in greater pricing stability through adopting a variable capitalisation rate, the Shippers present suggested they would need more information and time to consider this. It was acknowledged that it is difficult to measure the extent of increased predictability as a result of adopting split capitalisation rates, although MW felt this tied in with the capacity related discussions undertaken at the 31 January Transmission Workgroup Issues meeting. Discussion then focused on potential concerns relating to Pre-Works Agreements, capacity signals and implications for project development. DH argued that a balance needs to be found between resource commitments, investment signals and alignment of revenue streams. HC suggested that any revenue collected from 3rd party developers could be offset in the RAV.

JC remained unclear as to how National Grid could legitimately commence charging customers before capacity is made available and wondered how revenue drivers fitted in with this suggested approach. HC responded that that revenue collection would take place from the start of the project delivery stage (broadly the final two years of a project) in the form of a project specific charge rather than a revenue driver. RT asked if in essence revenue drivers would subtly change to become a project specific charge, and if costs overrun any adjustments would be through an Ofgem process – which HC agreed.

DH added that it is anticipated that expenditure is recouped between t -2 and 1yr post project delivery. SL questioned the minimum scale of projects likely to be covered by these proposals. HC suggested that for the uncertainty elements, this could be several £m.

Discussions continued, with the following being raised:

- focusing on larger projects may make predicting charges easier;
- possible trade off between capitalisation rate and uncertainty levels;
- concerns around investment signal and charge timings – use of pre-works agreements may mean capacity signals can be delayed;
- concerns that t -2 charges may only be triggered by t -3 capacity signals;
    - some believe the process should be revenue driver in the 1st place, followed by investment signal – until revenue driver is known how can indicative charges be set?
    - some suggested publication of National Grids MAR values would help in modelling charge levels – together with publishing 5yr ahead plans showing potential variations and uncertainties;
    - transparency around the impact of changes in investment on user charges would aid predictability;
- some would like historic indicative models to help understand the issue
    - concerns remains with regard to confidentiality and site specific data;
- a worked example for incremental capacity comparing the current and proposed regime;
- further clarity around National Grid's gas and electricity capitalisation rate differences required.

MW noted that at the Transmission Workgroup Issues meeting, National Grid had stated that they see these matters as a two way process to help deliver more certainty about charges in the future – improved information from developers about projects would support National Grid providing more reliable information about the likely path of charges.

In concluding and thanking all for their contributions, DH noted that formal consultation is scheduled to commence soon and agreed to take the various points raised on board and consider how the proposals could be shaped in light of the issues.

Action NTS 02/01: National Grid NTS (HC) to clarify differences between the National Grid gas and electricity capitalisation rates

3.2 New Issues

None raised.

4. EU Developments

DH advised that this had been covered in the Transmission Workgroup and associated documents are available from the National Grid web site.

5. Any Other Business

Revised Transportation Charges

DH confirmed that Transportation Charges to apply from April 2012 had been published on the Joint Office web site.

6. Diary Planning

Details of planned meetings are available at: www.gasgovernance.co.uk/Diary

It was agreed that the next meeting of the NTSCMF would be arranged when more information is available.

NTS Charging Methodology Forum Action Log

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
NTS 02/01	02/02/12	3.1	Clarify differences between the National Grid gas and electricity capitalisation rates.	National Grid NTS (HC)	Update due at next meeting.