

NTS Charging Methodology Forum (NTSCMF) Minutes
Thursday 02 May 2013
ENA, 52 Horseferry Road, London SW1P 2AF

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Chris Hill	(CH)	Cornwall Energy
Chris Wright	(CW)	Centrica
Colin Williams	(CW1)	National Grid NTS
Debra Hawkin	(DH)	National Grid NTS
Jeff Chandler	(JC)	SSE
Joel Martin	(JM)	Scotia Gas Networks
Julie Cox	(JCx)	Energy UK
Laura Butterfield	(LB)	National Grid NTS
Lewis Hodgart*	(LH)	Ofgem
Mark Dalton	(MD)	BG Group
Nick Wye	(NW)	Waters Wye Associates
Richard Fairholme	(RF)	E.ON UK
Richard Hounslea	(RH)	National Grid NTS
Richard Lea	(RL)	Gazprom
Shelley Rouse	(SR)	Statoil
Steven McKnight*	(SM)	GDF Suez

**via teleconference*

Copies of all papers are available at: www.gasgovernance.co.uk/ntscmf/020513

1. Introduction

TD welcomed participants to the meeting.

2. Review of Minutes from the previous meeting (07 March 2013)

The minutes of the previous meeting were approved.

3. Issues

3.1 RIIO Issues

UNC Modifications to the NTS Charging Methodology as a result of RIIO

Covered in discussions below.

3.2 Revenue treatment and modelling of entry/exit capacity

Treatment of Entry/Exit capacity revenues under RIIO-T1 and NTS Charging Methodology impacts

RH gave a presentation highlighting key changes to Exit and Entry Capacity Charge setting required under RIIO-T1.

Commencing with Exit, flow diagrams illustrated and clarified the treatment of revenues in the TO control and SO control, and the changes to terminology in UNC TPD Section Y to reflect RIIO requirements. RH explained the components of the various terms. Formulae and other changes were also required. The differences between TPCR-4 and RIIO-T1 were highlighted; it was clarified that incremental signals received this July will be under RIIO and not affect charges until 2015.

Moving on to consider Entry, RH indicated this was similar to Exit, the only difference being the splitting out of Legacy Incremental Entry Capacity. Terminology changes would be required in UNC TPD Section Y (obligated level

column); from a numbers perspective, there is no change. For Entry there will be revenue allowances but this does not affect Entry prices.

Modification 0436S is facilitating some changes and will be implemented by October 2013. To fully align with RIIO-T1, National Grid NTS will raise a further modification to address required changes to the NTS Charging Methodology. It is expected this will be submitted to the June Modification Panel.

Calculation of 'K' under RIIO-T1 and NTS Charging Methodology Impacts

LB gave a presentation highlighting key changes required to the calculation of the "K" revenue adjustment factor and how these would be addressed. It was proposed to include a new table in UNC TPD Section Y Appendix A – Treatment of Under/Over Recovery K.

The new Penalty Interest Rate Adjustment and the new Licence calculation were illustrated and explained. A new middle banding would be applied under RIIO. It was confirmed that interest rates were set for the whole Price Control and were not expected to vary.

LB explained the calculation of 'K', summarising the differences in operation between TPCR-4 and RIIO-T1 and the different interest rates that will apply. Referring to the '2 year lag' NW asked if there was any other area of charging where this applied. It was suggested that National Grid NTS could clarify this at the next Workgroup meeting.

Action NTS0501: National Grid NTS to clarify lagging of allowed revenues under RIIO-T1.

To fully align with RIIO-T1, National Grid NTS will raise a modification to address required changes relating to Appendix B – Treatment of Under/Over Recovery 'K' – of the NTS Charging Methodology. It is expected this will be submitted to the June Modification Panel.

3.3 Over/under-recovery

Covered under 3.2.

3.4 Charging Volatility

CW1 gave a brief presentation. A 'one-off' April 2013 change to NTS Exit (Flat) Capacity charges aimed at reducing the volatility of charges in the short to medium term was implemented. The October 2013 Annual NTS Exit (Flat) Capacity charges and three subsequent years indicative charges were published on 01 May 2013, and in light of confirmation of the new charges it was now possible to reflect on how volatility had been affected. The graph illustrating a comparison of the effects on volatility was displayed, and CW1 observed that this showed that over the short to medium term a level of volatility has been taken out.

NW noted that the effect was not as previously suggested, and questioned whether this was due to a change in some of the assumptions in allowed revenue. JCX questioned the basis of the modelling and the underpinning supply demand scenario. CW clarified that Supply figures are published in the Ten Year Statement (TYS); demand figures are issued in mid May. Demand changes feed through into next year's models (the models use the TYS figures and internally produced figures) and the demand figures are about 18 months out of date by the time they feed into the process. DH will check how far out of date the figures are, what figures were actually used for establishing the published charges and where they are published. There are actual capacity charges, but the rest are indicative. JCx stated it is not very clear what is indicative and what is actual: more clarity was required.

Action NTS0502: *Charging Volatility* – Consider providing more clarity in respect of figures used in modelling, ie how far out of date the figures are, what figures are actually used for establishing these charges and where they are published.

JCx referred to the example of power stations mothballing/recommissioning, taking 18 months to perform either activity and thereby potentially skewing the figures even more either way. Timing issues were of concern. DH noted concerns and will pass these to the Demand Forecasting Team, together with any specific comments/suggestions that are forwarded to her.

Acknowledging that allowed revenue changes can be a key contributor to average volatility, TD commented that a question has always been whether volatility on average, or volatility relating to particular places was of most concern to parties. NW indicated that he would like a ‘process’ that gives more transparency and frequent updates to enable industry to gain a better understanding of the RIIO effects.

3.5 New Issues

None raised.

4. European Developments

Tariffs

DH reported that the Framework Guidelines had been delayed but should be completed by the end of November 2013. Cost allocation methodologies were currently being debated. A stakeholder Workshop was expected to take place in early July followed by a consultation in July/August and code drafting by ENTSOG, with a potential implementation date of October 2017.

Responding to questions, DH indicated that the EU was keen on ‘floating prices’, with final charges rather like GB’s Exit ones (6 months in advance). This was seen as better than GB’s way. MD observed that the experiences of Germany and Belgium had not been ones of stability, and questioned why a party could not hand back capacity in light of changed circumstances; why should a party not be able to respond to a price change? DH stated that she was not in favour of floating prices and has raised her concerns. However the Framework Guidelines are fairly fixed in some matters, and the cost allocation methodology is the main issue at present.

DH strongly encouraged all parties to present their views and raise concerns to the stakeholder workshops.

5. Any Other Business

None raised.

6. Diary Planning

The next NTSCMF meeting will take place on Thursday 04 July 2013, at the Energy Networks Association (ENA), 6th Floor, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF, following the Transmission Workgroup.

Date	Time	Venue
Thursday 04 July 2013	(After Transmission Workgroup)	Energy Networks Association (ENA), London SW1P 2AF

Action Log - NTS Charging Methodology Forum

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
NTS 0501	02/05/13	3.2	National Grid NTS to clarify lagging of allowed revenues under RIIO-T1.	National Grid NTS (DH/LB)	Pending
NTS 0502	02/05/13	3.4	<i>Charging Volatility</i> – Consider providing more clarity in respect of figures used in modelling, ie how far out of date the figures are, what figures are actually used for establishing these charges and where they are published.	National Grid NTS (DH/CW1)	Pending