NTS Charging Methodology Forum (NTSCMF) Minutes

Thursday 06 September 2012

ELEXON, 350 Euston Road, London NW1 3AW

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Antony Miller	(AM)	Centrica Storage
Bob Davey	(BD)	Ofgem
Brendan Murphy	(BM)	Wales & West Utilities
Chris Wright	(CW)	Centrica
Colin Williams	(CW1)	National Grid NTS
Debra Hawkin	(DH)	National Grid NTS
Graham Jack	(GJ)	Centrica
Harvey Beck	(HB)	Ofgem
Iain Morgan	(IM)	Ofgem
Jeff Chandler*	(JC)	SSE
Jens Martin	(JM)	E.ON UK
Joanna Campbell	(JC1)	Ofgem
Joel Martin	(JM1)	Scotia Gas Networks
John Edwards	(JE)	Wales & West Utilities
Julie Cox	(JCx)	Energy UK
Lewis Hodgart	(LH)	Ofgem
Mari Toda	(MT)	EDF Energy
Rekha Theaker	(RT)	Petronas Energy
Richard Fairholme	(RF)	E.ON UK
Richard Hounslea	(RH)	National Grid NTS
Shelley Rouse	(SR)	Statoil UK
Steve Armstrong*	(SA)	National Grid Distribution
Steven McKnight	(SMc)	GDF Suez
Will Guest	(WG)	Northern Gas Networks

**via teleconference*

Copies of all papers are available at: www.gasgovernance.co.uk/ntscmf/060912.

1. Introduction

TD welcomed attendees to the meeting.

2. Review of Minutes and Actions from the previous meeting (20 July 2012)

2.1 Minutes

The minutes of the previous meeting were approved.

2.2 Actions

NTS07/01: Provide visibility on indicative charges and the figures that sit behind, with caveats as appropriate.

Update: National Grid NTS has published "RIIO Scenario NTS Exit Capacity Charges", on the National Grid website. The spreadsheet is located on the "Tools & Supporting Information" section of National Grid's Charging page at http://www.nationalgrid.com/uk/Gas/Charges/Tools/, and can be found at the bottom of the page. **Closed**

NTS07/02: Forecast of the TO Entry Commodity Charge **-** check what is currently available and establish if anything further can be provided.

Update: DH suggested that a closer look be taken at data sources and that a briefing note be produced on how to locate and use. **Closed**

NTS07/03: *TO Exit Commodity Charge* - Establish assumptions for daily capacity revenues and provide information if possible.

Update: DH confirmed that no assumptions were made, and that just the bookings at the time were used. **Closed**

NTS07/04: *TO Exit Commodity Charge* - Check whether the proposed changes affect any part of UNC TPD Y to the extent that the development of a UNC modification would be required.

Update: DH reported that this was ongoing and it was recognised that changes to the UNC would be required. **Carried forward**

NTS07/05: *TO Exit Commodity Charge* – Identify any issues/impacts and offer alternative suggestions for solution.

Update: DH reported that one response had been received, and that this had been positive. It was not too late for others to provide comments if they wished to do so, and these would be most welcome. **Closed**

3. Ofgem Update

Ofgem gave a presentation on 'RIIO-T1 impact on allowed revenues and network charges'.

IM began the presentation by outlining the background and indicating that the focus would be on the specific RIIO impact set against the wider context and the ways that Ofgem and National Grid NTS can help manage the impact on charges. It would also detail the way that revenue will be recovered by National Grid NTS, including where it relates to a signal for extra capacity. Reminding that the consultation closes on 21 September 2012, IM encouraged parties to submit responses and to flag up any issues.

The context was revisited, and the differences between RIIO and the previous approach to setting transmission controls were highlighted.

The second part of the presentation, 'Our Consultation on Ways to Manage Charging Volatility" was then delivered by JC1. Thanking parties for their submissions, she reiterated the 5 options for mitigating volatility regarding which the consultation had sought views. An initial assessment of each was underway, and in Ofgem's view Options 1, 2 and 3 were likely to be beneficial, looking at which party was best placed to manage the risk.

Ofgem had looked at certain points in the application to gas transmission, and these were detailed and discussed in turn. GJ pointed out that large variations between indicative and actual charges undermines the value of indicatives. JC1 indicated that this was Ofgem's view also, and it was suggested that the notice period might be reduced from 150 to 120 days in order to improve accuracy. TD observed that previously more notice rather than less has always been requested by industry. However, indicatives are of no use if they are not reasonably accurate. DH agreed that it made no sense to use out-dated information. TD asked those present if they would like the final notice to be earlier, and received assent. TD then suggested issuing indicative charges earlier than now and then updating at landmark points. JCx expressed concern relating to how close/diverse the updates were to actuals at the end of the day, ie were they converging or diverging, or moving erratically.

TD suggested that even if the Licence requires National Grid NTS to publish indicative charges no less than 120 days ahead of a change, nothing prevents National Grid doing this earlier or more than once. DH commented that allowed revenues were a heavy driver. Were small or large changes expected through the November model – the magnitude was important in terms of how much charges may be affected.

SA pointed out that from a Distribution Network point of view transmission figures were needed in advance of setting distribution charges, so Licence requirements should reflect this. Responding to a question from JC1, TD explained how this was achieved currently. DH observed that this year actuals were put out 150 days ahead rather than simply indicatives. WG commented that there was very little time in between for the DNs to get the figures out. DH added that indicatives were also used for setting user commitment amounts.

JC1 reported that many consultation responses had supported restricting changes to once a year, with April preferred. She was, however, conscious that there might be conflicts in timing. DH pointed out that there had only been discussions on capacity and not commodity, and no decisions had been reached. Implementation for April 2013 may not be possible due to shortage of time.

RF pointed out that October was a significant date marker for the gas industry, and asked if responses received had been from the gas or electricity side – he would be very surprised from a gas point of view because of the significance of October and potential associated contracting issues. A mid-contract price change would cause significant issues and he would have expected gas respondees to prefer October.

JC1 indicated that Ofgem did not want to impose anything that was not of benefit. RF responded that a single year change was what was required with the exact date requiring some thought.

Moving on to considering ‘lagging incentives’ and ‘lagging uncertainty mechanisms’, JC1 saw benefit that natural lag would apply and improve predictability. Consideration was being given to applying a lag but there was a potentially high cost in that the risks were too high, but a final conclusion had yet to be reached. RT pointed out the need to consider the costs/risks to industry of volatility, against which this needed to weighed, and decide who is best placed to carry the risks. JC1 indicated that it was very difficult to carry out a quantitative analysis. RT added that Interconnectors, Storage etc should be looked at, not only Suppliers - incremental impacts should be followed up along the chain to enable an appropriate evaluation.

JC1 then referred to ‘reopener windows’ which allow National Grid to make changes within certain periods. National Grid NTS has the ability to request funding for certain areas every year. Ofgem was considering proposing restricting this to perhaps twice in a number of years to help increase stability.

BD delivered the third part of the presentation, 'Setting Revenues', which considered the setting of revenue allowances for future years. The 2015/16 MOD term calculation was illustrated and explained. BD then moved on to outline where Ofgem had got to in its considerations and what this might mean for charges. A table illustrating the potential revenue impacts of a £50m project was displayed. This example indicated that it would impact allowed revenue and so charges, but this was seen to be much smoother than when compared to what would happen under TPCR4. It was believed that the first two proposals were of most benefit, where the allowed revenue most closely matches spend.

The figures were discussed in detail and various views were expressed and clarifications sought. DH then explained how this might feed into charge setting. JCx was concerned that implicit assumptions were being made that projects would go ahead. IM indicated that where a revenue driver was needed it would be calculated. DH added that clearly some adjustments would be required.

Responding to a question from JE on Iteration, IM confirmed that the first year in which the revenue model would be run would be financial year 2013/14. The model would be run in October 2013 with a view to adjusting allowed revenues for financial year 2014/15.

4. Issues

4.1 RIIO Issues and Charging Volatility

CW1 gave a presentation reviewing the last NTSCMF, and looking at 'One-off' change to charges in April (as opposed to permanent April annual charge setting) and potential timescales. National Grid NTS was seeking a view on whether or not any action should be taken in the short-term.

Three potential options for changing charge setting had been identified:

- Move to a permanent April annual charge setting;
- Incorporate a 'one-off' April change; or
- Retain the current process, whereby the Annual TO Exit Capacity Charges are set from 01 October for one year (continued alignment with 'Gas Year').

Option 1: Permanent April Annual Charge Setting

It was believed this would help to stabilise prices and reduce the inherent volatility caused by a step change in Allowed Revenue from April 2013. However to make this change permanent a UNC Modification would have to be raised and it was recognised that there might not be enough time to achieve implementation before April 2013.

JCx asked how would April charge setting fit in with other industry events, such as the availability of Ten Year Statement (TYS) information, etc. DH indicated that this would need further consideration if a regular April change was made, as would all other interactions within the UNC.

Attention was then drawn to a graph illustrating the impact of permanent April charge setting on TO Exit Capacity Prices. With an October price change, this demonstrated a classic over recovery in the first 6 months, and charges will then be 'wrong' in the next 6 months. Other things being equal, April will give a smoother picture. Ofgem was considering widening the band in which it is acceptable to over or under recover in recognition of changes being restricted to one per year.

Referring to the TYS, JCx commented that changes to supply/demand forecasts had caused charges to jump around. DH observed that there were a number of issues to work through; but the allowed revenue focus being the major one, while others were marginal. JCx responded that this may be correct at aggregate level but not for an individual supply point.

JE indicated that he would see benefit in a permanent change in April, and explained how the current regime affected the Distribution Networks (DNs). It would suit the DNs if NTS Exit charges were applied from 01 April. SA added that this would help the DNs' and Shippers' stability of charges.

Option 2: April 2013 'One-off' change

This would propose a 'one-off' change in TO Exit Capacity charges with effect from 01 April 2013 for six months in response to RIIO-T1 values. The smoothing effect was demonstrated in the graphs for 2013 and 2014. It was noted that rather than for April 2013 this could be achieved for April 2014. The proposal would be to continue with annual TO Exit Capacity Charges set from 01 October 2013 (giving continued alignment with 'Gas Year').

Using the March RIIO-T1 submission and Ofgem's RIIO-T1 initial proposals, the impacts of incorporating an April one off change in 2013 or 2014 were then illustrated with graphs.

TD asked if those present thought it was too late for 2013; did they want to wait a year? After a brief discussion it was concluded that there would be more certainty in January once the outcome of RIIO was known. Actual charges could be set on 01 February. RF observed that there might be difficulty in passing costs through in terms of customer contracts. AM indicated that a smaller change and a flatter profile would be appreciated, and queried if there was a timing issue.

TD suggested that Ofgem could amend the licence on the basis that there should be one price change per year leaving the industry to fix the date; or Ofgem could specify April. JC1 commented that Ofgem was unlikely to put in an April date in the coming Licence changes. RF suggested that, because of the complexities involved, the production of an open letter by National Grid NTS that sets out the options and implications might be the best way forward.

GJ observed that there was significant volatility at many exit points – how could this be reduced, and how much residual would there be if one of these options were be taken up. DH responded that this would be delivered largely through allowed revenue; changes to RIIO have made this issue rather more urgent.

DH concluded that the next steps put forward by National Grid NTS had suggested issuing a discussion paper, and they would now prepare and issue this – meeting RF's suggestion of an open letter. Any views on what that should contain would be welcome and DH will consider the practicality of issuing a draft for comment in light of the necessary timetable to achieve the change.

4.2 New Issues

None raised.

5. European Developments

Tariffs

DH reported that the draft Framework Guidelines were due out this week and encouraged parties to read them. A stakeholder workshop was being held in Ljubljana (Slovenia) on 18 September 2012 and attendees would be welcome to participate.

6. Any Other Business

6.1 Update of UNC TPD Section Y to suit Exit Reform arrangements

RH reported that a modification was under development to tidy up UNC TPD Section Y following Exit Reform, and it was intended to submit this to the October UNC Modification Panel.

7. Diary Planning

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

It was agreed that a meeting to discuss the proposed discussion paper will be arranged if appropriate, depending on its content and recommendations. This may be by teleconference; details of the arrangements will be confirmed.

A further meeting to look at revenue implications will be arranged for December 2012, following publication of Ofgem's RIIO Final Proposals; details will be confirmed nearer the time.

NTS Charging Methodology Forum – Action Log

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
NTS 07/01	20/07/12	3.1	Provide visibility on indicative charges and the figures that sit behind the present ones, with caveats as appropriate.	National Grid NTS (DH)	**Closed**
NTS 07/02	20/07/12	3.1	Forecast of the TO Entry Commodity Charge - check what is currently available and establish if anything further can be provided.	National Grid NTS (DH)	**Closed**
NTS 07/03	20/07/12	3.1	*TO Exit Commodity Charge* - Establish assumptions for daily capacity revenues and provide information if possible.	National Grid NTS (DH)	**Closed**
NTS 07/04	20/07/12	3.1	*TO Exit Commodity Charge* - Check whether the proposed changes affect any part of UNC TPD Y to the extent that the development of a UNC modification would be required.	National Grid NTS (DH)	**Carried forward**
NTS 07/05	20/07/12	3.1	*TO Exit Commodity Charge* – Identify any issues/impacts and offer alternative suggestions for solution.	ALL	**Closed**