

NTS Charging Methodology Forum (NTSCMF)

Minutes

Thursday 07 July 2011

Elexon, 350 Euston Road, London NW1 3AW

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Andrew Pearce	(AP)	BP Gas
Asma Jalal	(AJ)	Centrica
Chris Wright	(CW)	Centrica
Debra Hawkin	(DH)	National Grid NTS
Eddie Blackburn	(EB)	National Grid NTS
Fiona Gowland*	(FG)	Total E&P
Fiona Strachan	(FS)	Gazprom
Jacopo Vignola	(JV)	Centrica Storage Ltd
John Costa	(JC)	EDF Energy
Julie Cox	(JCx)	AEP
Lewis Hodgart	(LH)	Ofgem
Nick Wye	(NW)	Waters Wye Associates
Paul O'Donovan	(POD)	Ofgem
Richard Fairholme	(RF)	E.ON UK
Richard Hounslea	(RH)	National Grid NTS
Rob Cameron-Higgs	(RCH)	Wales & West Utilities

*via teleconference

1. Introduction

Copies of all papers are available at www.gasgovernance.co.uk/ntscmf/070711.

TD welcomed attendees to the meeting.

2. Review of Minutes and Actions from the previous meeting (10 May 2011)

2.1 Minutes

The minutes of the previous meeting were approved.

2.2 Actions

NTS0501: GCM019 - Arrange for Ofgem representative to attend next NTSCMF to clarify 'direction of travel' in respect of new solutions.

Update: See 4.1, below. **Closed**

3. Workgroups

The Workgroup 0356 (Demand Data for the NTS Exit (Flat) Capacity Charging Methodology) meeting took place.

Minutes are available at: www.gasgovernance.co.uk/0356/070711.

4. Issues

4.1 Methodology for collecting Allowed Revenue – options in light of decision to veto GCM19

Responding to Action NTS0501, LH gave a presentation clarifying Ofgem's view on what should be borne in mind when developing a solution post GCM19. He stressed that any proposal must be very clear on what issue(s) it is seeking to address and the benefits that can be expected.

LH then recapped on GCM19 and the reasons for the Authority's rejection. Responding to a question from EB, POD explained that, given that exit substitution had yet to be implemented, there was no way to predict the impacts and the risks had to be taken into account; it was not an implied criticism of the analysis that had been done. After a few years' experience it may be easier to predict any trends; until then everything should proceed as normal.

CW observed that only Ofgem and National Grid were able to change baseline levels in the Licence, not the Workgroup. Although the greatest issue for some Shippers appeared to be one of volatility, other Shippers expressed a view that the level of the commodity charge was of greater concern. EB commented that TO commodity was recovering far more than previously and was creating cross subsidies. There was also an element of short term versus long term volatility; the commodity charge was the second highest price on the system now. LH agreed that volatility and size were important dimensions to address, and was aware that issues and concerns remained. The question was, what was the key cost driver? Whether a solution should be capacity based was open to debate.

NW believed that Ofgem had addressed the questions when entry auctions were developed in 1999 and questioned whether there was anything new that might justify reopening the issue. NW suggested the established position meant any consideration should be cost driven, ie charges should reflect costs. EB clarified that the licence obligations regarding cost reflectivity do not apply where charges are set by auction. It is, however, difficult to make charges cost reflective when they are the balancing item after auction revenue has been taken into account.

Returning to the presentation (slide 7) LH indicated that GCM19 was one option but it would not have solved the difficulties. EB clarified that GCM19 had been put forward as a first step. Subsequent options were introducing multipliers, looking at releases, etc. His understanding was that Users had wanted experience of a regime without discounts before developing an approach for setting multipliers which might go further towards addressing the perceived problem.

JCx questioned if European developments were moving in the same direction of travel that Ofgem had identified? POD responded that tariffs had not yet been discussed in any great detail. EB added that framework guidelines were being developed, and had yet to be issued by ENTSOG. JCx expressed concern that the UK will have to comply with the EU approach eventually, and that the industry did not want to be continually changing in the meantime. EB referred again to the EU's desire for appropriate harmonisation and the aim to avoid cross subsidies. He suggested the way forward involved key decisions around SRMC and LRMC and building capacity. Based on an interpretation that LRMCs cover the cost of capital including investment, and that SRMCs cover all costs excluding investment, the SRMC of providing entry capacity is zero or very close to zero – bearing in mind that SO utilisation costs are recovered through SO commodity charges.

CW pointed out a couple of issues: firstly, the TO commodity charge – National Grid NTS never sells to baseline; secondly, some Shippers buy capacity at zero price. Under recovery could be targeted towards this, ie targeting additional under-recovery to those causing it by buying at zero.

EB observed that historic prices, profiling and zero capacity on the day are the main factors. CW commented that he did not think that a perfect solution could be achieved. NW added that an acceptable level of transparency was required in a regime where you could actually gain a good idea of what you might eventually pay to use the network. DH added that if every party was prepared to say what they were going to buy, there could be more certainty. NW observed that we have moved to a commoditisation of capacity and that passing cost on after the event is effectively setting a reserve price retrospectively.

POD acknowledged that everyone recognises a need for change to be considered, but stressed that it must be *proved* that there is a problem, and then that the problem could be solved in a positive way. CW believed a broad overview was necessary rather than looking at options in silos.

EB agreed with Ofgem that all alternative options for managing entry capacity auction under recovery should be reviewed, including variations to the application of the TO entry commodity charge and alternative capacity based options. RF felt that, rather than review all possibilities once more, it may be better for interested parties to raise a modification if they wished to see a different approach adopted. EB indicated that National Grid NTS would be happy to assist and provide analysis if required to support development of a modification.

In terms of the underlying objectives, FG questioned whether long term capacity bookings are still valued? Was this a driver for behaviour? Is long term investment still a necessary part of the approach? LH responded that if National Grid NTS perceive a benefit from long term bookings, there may be a case for that benefit being reflected in a User's commodity charges. FG asked, did Ofgem want to see long term booking in the GB system? LH suggested that it was essential to identify where investment is required and that long term bookings support this. EB added that National Grid would only invest where there was a clear signal from the QSEC auction/User Commitment, but expressed concern that the attractiveness of short-term prices could lead to investment signals being missed through lack of long-term bookings which could lead to constraints and volatility. This led JC to question whether the long term mechanism should be changed.

Returning to the presentation, and acknowledging that some parties continued to harbour concerns regarding the current arrangements, LH indicated that consideration might be given to an exploration of the purpose of the TO entry charges and whether National Grid's current flow modelling assumptions produce the appropriate capacity reserve prices. LH also posed further questions for consideration when assessing the areas of volatility/predictability of commodity charges and cost reflectivity.

LH reiterated some key points to address when considering any changes, eg fundamental objectives of charging methodology, clear identification of the problem being addressed, and a parallel awareness of EU developments. POD added that timescales for EU developments may be some years away, but that should not constrain any work that needed to be done now.

JC suggested that perhaps 'EU Developments' should be a standing agenda item. Shippers voiced concerns regarding the EU position:

- if CAM was implemented, what would GB have to do?

- there is a lack of transparency and detail about what the EU approach means for the UK market in general, and Shippers in particular.

EB indicated that there was a good summary in the Appendix of the CAM. The GB model has been the subject of much discussion; different arrangements may well be accepted with certain parameters, and no cross subsidies.

Action NTS0701: National Grid to provide analysis regarding how two-tier TO Entry Commodity charge arrangements might be defined.

5. Any Other Business

5.1 Updated Charges – MSEC auctions

EB drew attention to updated charges relating to MSEC auctions.

National Grid has published updated NTS Entry Capacity Reserve Prices ahead of the next NTS Entry Capacity auction for gas year 2011/12; and the RMTTSEC auction for October 2011 capacity which is held in September 2011. The updated prices are issued prior to 01 July to give two months' notice ahead of the September auction. A slide pack to explain the reserve prices changes has been published at: www.nationalgrid.com/NR/rdonlyres/6BC0C4CD-388B-42A3-A75B-33399C1D2FEE/47587/RMSEC2011Extv1.pdf

5.2 Modification 0348

EB confirmed that the implementation date was set for 01 April 2012.

5.3 Consent to Modify 042 (CTM042)

RH asked if there was any prospect of a decision in the near future. POD believed that this might be issued within the next couple of weeks.

5.4 Training Days

EB reported that the training day held on 01 July 2011 had been very well attended, and that the day planned for 16 September 2011 was now fully booked.

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 will be arranged for mid-late October and details will be advised nearer the time.

NTS Charging Methodology Forum Action Log: 07 July 2011

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
NTS 0501	10/05/11	4.2	GCM019 - Arrange for Ofgem representative to attend next NTSCMF to clarify 'direction of travel' in respect of new solutions.	Ofgem (JT)	Closed
NTS 0701	07/07/11	4.1	Provide analysis regarding how two-tier TO Entry Commodity charge arrangements might be defined.	National Grid NTS (EB/RH)	