

NTS Charging Methodology Forum (NTSCMF) Minutes

Monday 09 February 2015

31 Homer Road, Solihull B91 3LT

Attendees

Les Jenkins (Chair)	(LJ)	Joint Office
Helen Cuin (Secretary)	(HC)	Joint Office
Alena Fielding	(AF)	Ofgem
Charles Ruffell	(CR)	RWE
Colin Williams	(CW)	National Grid NTS
Debra Hawkin	(DH)	TPA Consultants
Francisco Gonçalves*	(FG)	Gazprom
Gerry Hoggan	(GH)	Scottish Power
Graham Jack*	(GJ)	British Gas
Isabelle-Agnes Magnes*	(IAM)	GDF Suez
James Thomson*	(JT)	Ofgem
Jeff Chandler	(JCh)	SSE
Joel Martin*	(JM)	SGN
John Costa	(JCo)	EDF Energy
Julie Cox	(JCx)	Energy UK
Laura Butterfield	(LB)	National Grid NTS
Nigel Sisman	(NS)	Energy Consultancy
Peter Bolitho	(PB)	Waters Wye Associates
Richard Fairholme	(RF)	E.ON
Richard Pomroy	(RP)	Wales and West Utilities
Sue Ellwood	(SE)	Gas Terra
Thomas Dangarembizi	(TD)	National Grid NTS

* via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/ntscmf/090215>

1. Introduction and Status Review

1.1 Minutes

The minutes from the previous meeting on 25 November 2014 were approved.

1.2 Actions

0902: *RRPs* – Review forecast charges information produced by the DNs and propose a similar approach for NTS.

Update: CW confirmed that work is ongoing and it is anticipated that National Grid NTS will either provide the information for the next meeting or via a formal notice prior to the next meeting. He confirmed that the revenue profile will be for at least 5 years and will be based on allowances and assumption adjustments over various years to provide an NTS base trend. **Carried Forward**

1101: National Grid NTS to evaluate the historical commodity rate increases since 1998 and compare to the RPI applied in the modelling.

Update: CW provided the information in the Optional Commodity Charge Shorthaul Presentation, provided under item 5.0. **Closed**

1102: National Grid NTS to strip out TO commodity charge and identify the impact of shorthaul in the context of replacing SO Commodity only.

Update: CW provided the information in the Optional Commodity Charge Shorthaul Presentation, provided under item 5.0. **Closed**

1103: National Grid NTS to articulate the problem shorthaul addresses and produce a high level impact of potential solutions.

Update: CW provided the information in the Optional Commodity Charge Shorthaul Presentation, provided under item 5.0. **Closed**

1.3 Pre-Modification discussions

None.

2. Workgroups

2.1 0517/0517A/0517B - Review of the Supply Matching Merit Order in Setting Capacity Charges

(Report to Panel 17 September 2015)

www.gasgovernance.co.uk/0517

3. Gas Transmission Charging Review (GTCR) Update (Ofgem)

AF advised that Ofgem had published a policy decision document on 12 December 2014 setting out the proposed changes they want to make to the GB gas transmission entry-charging regime, (<https://www.ofgem.gov.uk/gas/transmission-networks/gas-transmission-charging-review>). On the 30 January 2015 a further document had been published to provide the background to the GTCR along with an assessment of the potential impact of the proposals. VM advised that the consultation will close on 27 March 2015 and responses will be published on the Ofgem website unless marked confidential.

AF confirmed that Ofgem would be hosting an event on 25 February 2015 to talk through the documents published and for parties to ask any questions on the policy documents or impact assessments. The timing of this event will still provide enough time for parties to consider and respond by the closing date. To register for this event parties will need to email: Gas.TransmissionResponse@ofgem.gov.uk

JCx suggested at the next meeting the Workgroup may wish to review the consultation responses. AF confirmed that Ofgem would also be holding an event to discuss the results of the consultation with interested parties

4. EU Update – National Grid NTS

CW confirmed that there was no further update to that provided at the European Workgroup on 05 February 2015, due to the timing of meetings. For the latest information please refer to (<http://www.gasgovernance.co.uk/european/050215>).

5. Review of Shorthaul Principles

TD provided the [Optional Commodity Charge Shorthaul Presentation](#).

TD summarised the changes to the commodity rates and provided a comparison on the variances showing the % change. This was to illustrate the historical commodity rate increases since 1998 compared to the RPI applied in the modelling.

The historical RPI rates were compared to the commodity rates to establish if there were any trends between the RPI change and the commodity charge changes. The RPI rates were an average yearly rate. CW briefly explained the varying impacts to the commodity rates and concluded that there was no clear linkage between the RPI and the commodity rate.

DH suggested it would be worthwhile examining an average commodity charge rate against an average RPI.

TD went on to provide an explanation of the Shorthaul Rates and TO commodity charge in response to a request for National Grid NTS to strip out TO commodity charge and identify the impact of shorthaul in the context of replacing SO Commodity only.

LB clarified in the calculations provided National Grid NTS had removed volumes/revenues where shorthaul rates were above the relevant years SO rate. They had increased the volume, which would pay TO commodity rates by these shorthaul volumes, updated the commodity rates and compared these against the original rates based on the April commodity charges.

The Workgroup reviewed and discussed the tabled results and concluded those with high shorthaul rates wouldn't choose shorthaul unless the SO charges would be lower.

The illustration suggested that stripping out the TO commodity charge would have very little benefit to the industry as it would have very little impact. PB enquired what was the logic for treating TO charges separately? DH believed that at some point there was a suggestion that there could be an impact.

TD also provided in the presentation a summary of the impacts of updating the Investment Costs. These were based on levels at the time of shorthaul implementation and the comparison made used the latest commodity rates. When comparing against the rate of the Combined Commodity (TO and SO) for October 2014, TD confirmed that the shorthaul would only be viable over distances of around 50km.

TD summarised what the shorthaul high-level principles were, providing a table of the cost reflectively intent and reason for change. RP suggested it would be worthwhile understanding why the principles have been applied / established.

AF asked about the relationship between shorthaul rates and commodity rates, and if shorthaul rates were low the allowed revenue would pick up the difference. It was noted that the presentation suggested that shorthaul is subsidising wider tariffs, but this appeared to be the wrong way around. The error was noted and National Grid NTS agreed the presentation needed to be corrected and republished.

SE believed it was difficult assessing the likelihood of investment when it is difficult understanding the accessibility of the product.

The Workgroup considered the potential solution and consequences of reviewing the shorthaul formula and including this within the UNC, against the other solution options.

CW confirmed that National Grid NTS intend proposing a modification to review and develop the key aspects of shorthaul. He explained the modification would focus on the objectives and their relevance, access and use of the product and the shorthaul formula. He was keen to develop potential solutions with the industry and look at the GTCR focus on entry.

JCx expressed a concern about the complexity and the drop in commodity charges. She was concerned about overlapping the need to review exit capacity products and charges on top of other industry changes/challenges. NS suggested it might be more efficient to consider an adjustment to the investment constants, which was a relatively easy change, as an interim and then see if the adjustment to prices had a natural self-selecting effect ahead of potential changes to commodity charges as a result of GTCR.

DH enquired what were the interactions with the GTCR. AF highlighted that shorthaul is a product outside of the scope of GTCR. She therefore suggested it would be prudent to

consider the required changes to shorthaul separate to the GTCR. AF suggested although the industry may not be able to look at the detail they may wish to look at the objectives and what would be accessible.

SE believed there would be risks associated with changing the charging regime and making decisions when the GTCR objectives are still being established. The Workgroup suggested there might be a viable alternative shortcut.

AF highlighted the need for cost reflectivity and facilitating fair competition. It was also noted that National Grid has certain licence obligations to achieve.

RF believed there was too much interaction with GTCR to explore the investment costs at this stage. GJ suggested the industry could look at the cost reflectivity of the shorthaul charge but they can't just assume cost reflectively.

CW confirmed his intention to raise a modification taking on board all the concerns raised today in relation to the drivers and aimed to submit a modification request to the March or April UNC Panel. He suggested the Workgroup would need a couple of months to assess the modification to bring the formula up to date and aim to conclude a Workgroup Report in the autumn.

LJ challenged what the modification would be doing. It was suggested that further discussions with the NTSCMF could assist with developing a modification through pre-modification discussions, which ultimately would require less time assessing it. The Workgroup considered the ability to articulate the solution and whether it would be more beneficial to continue debates through the NTSCMF before formally raising a modification.

NS was concerned, given that the GTCR and the European Code are still unsettled, that any modification would only become stuck in the assessment process until matters had been concluded or become much more settled.

DH asked if a short-term fix could be considered to ensure parties are paying a fair amount of shorthaul, as the underline feeling is that parties are not paying enough, as this would be a positive move forward for the interim.

6. Issues

No new issues raised.

7. Any Other Business

None raised.

8. Diary Planning

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

Workgroup meetings will take place as follows:

Time/Date	Venue	Workgroup Programme
10:30 Wednesday 04 March 2015	31 Homer Road, Solihull B91 3LT	Workgroup 0517
10:30 Wednesday 01 April 2015	31 Homer Road, Solihull B91 3LT	Workgroup 0517
10:30 Wednesday 06 May 2015	Elaxon, 4th Floor, 350 Euston Road, London, NW1 3AW	NTSCMF and Workgroup 0517
10:30 Wednesday 03 June 2015	31 Homer Road, Solihull B91 3LT	Workgroup 0517

Action Table

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
0902	15/09/14	1.2	<i>RRPs</i> - Review forecast charges information produced by the DNs and propose a similar approach for NTS.	National Grid NTS (CW)	Carried Forward
1101	25/11/14	5.0	National Grid NTS to evaluate the historical commodity rate increases since 1998 and compare to the RPI applied in the modelling.	National Grid NTS	Closed
1102	25/11/14	5.0	National Grid NTS to strip out TO commodity charge and identify the impact of shorthaul in the context of replacing SO Commodity only.	National Grid NTS	Closed
1103	25/11/14	5.0	National Grid NTS to articulate the problem shorthaul addresses and produce a high level impact of potential solutions.	National Grid NTS	Closed