

NTS Charging Methodology Forum (NTSCMF) Minutes

Friday 20 July 2012

31 Homer Road, Solihull B91 3LT

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Antonio Ciavolella	(AC)	BP Gas
Antony Miller	(AM)	Centrica Storage
Brendan Murphy	(BM)	Waters Wye Associates
Charles Ruffell	(CR)	RWE Npower
Chris Wright	(CW)	Centrica
Colin Williams	(CW1)	National Grid NTS
Debra Hawkin	(DH)	National Grid NTS
Elaine Calvert	(EC)	National Grid NTS
Gerry Hoggan	(GH)	ScottishPower
James Thomson*	(JT)	Ofgem
Jeff Chandler*	(JC)	SSE
Jens Martin	(JM)	E.ON UK
Julie Cox	(JCx)	Energy UK
Lewis Hodgart*	(LH)	Ofgem
Richard Fairholme	(RF)	E.ON UK
Richard Hounslea	(RH)	National Grid NTS
Ricky Hill*	(RH1)	Centrica
Stefan Leedham*	(SL)	EDF Energy
Steven McKnight*	(SM)	GDFSuez

*via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/ntscmf/200712>.

1. Introduction

TD welcomed attendees to the meeting.

2. Review of Minutes and Actions from the previous meeting (02 February 2012)

2.1 Minutes

The minutes of the previous meeting were approved.

2.2 Actions

NTS 02/01: RIIO/Gas Charging – National Grid NTS (HC) to clarify differences between the National Grid gas and electricity capitalisation rates.

Update: DH gave the following update that had been provided by Habibur Choudhury: “In formulating our business plan submissions we sought to strike a balance between our ability to finance the business and minimising the impact on our customers. As the financing requirements are different between the National Grid Gas and Electricity businesses we were able to tailor the capitalisation rates to match the financing requirements.”

The table below summarises National Grid NTS’s proposed capitalisation rate:

Capitalisation Rate	Gas	Electricity
Baseline Capex	57%	87%
Incremental LR Capex	90%	100%

EC then pointed out that Ofgem had suggested different capitalisation rates:

Capitalisation Rate	Gas	Electricity
Baseline Capex	53%	85% single rate
Incremental LR Capex	90%	

The action was **Closed**.

3. Issues

3.1 Charging Volatility

Presentation 1 – Pricing Volatility

DH gave a presentation focusing on exit, the interaction of revenues and charges, and the causes of charging volatility. Stakeholder concerns regarding predictability, transparency and stability were acknowledged, and the various charges (the form, limit, and timeframe of recovery and responsibility) were recapped. The split between TO and SO allowed revenue was illustrated.

Focusing on TO charges, the factors that influenced changes to charges (and their impacts) were illustrated. SL questioned if the information was still correct, ie there was now some uncertainty in allowed revenue, and suggested that consideration should be given to the impact of the proposed uncertainty mechanisms and capitalisation rates.

The background to TO exit charge setting, the timescales and the actions to be taken to minimise potential under/over recovery were illustrated and a worked example provided. DH reiterated that the key National Grid NTS incentive was setting charges not to over-recover – slide 11 illustrated this in greater detail. CW asked if this suggested that aligning the charging and formula years might provide a solution or at least help to mitigate any negative effects. DH agreed this could reduce one source of volatility.

The causes of changes to TO Exit Capacity Prices were explained, with slides 14 and 15 demonstrating the impact (largely driven by movements in maximum allowed revenue). In response to a question from JC regarding the figures relating to SC1, RH gave an explanation of the charges. CW asked if, given the explanation of a minimum charge applying, negative charges should be allowed, and also questioned if consideration should be given to using a smoothing tool.

The recent discussions regarding biomethane on the Distribution side were referred to, and TD observed there were no proposals for a negative charge -

an offset to the standard charges has been proposed.

The key reasons driving charging volatility in respect of TO Exit (Flat) Capacity charges were summarised (slide 17).

Having completed the first part of the first presentation, attention was then focused on the second presentation, “*RIIO Charging Impact*”, given by EC.

Presentation 2 - RIIO Charging impact

EC outlined what had been published in Chapter 9 of the Finance Annex, ie forecasts of what the revenue would be over the RIIO period. An extract from the information included in the March 2012 Business Plan submission was displayed (a table containing the RAV and Revenue results) and EC explained the link between this information and the figures in the May 2012 charging notice, and how these figures were arrived at and how they linked with the numbers in the first presentation.

National Grid NTS had been asked to provide in its submission its view of incremental signals. The assumptions underpinning the revenue figures were explained, and a table was displayed illustrating a comparison of allowed revenues (excluding any future incremental signals). The implications for TO exit allowed revenues, using NGG Business Plan figures excluding incremental not yet signalled, were explained. The process of how the revenue is achieved will be part of RIIO.

JCx commented that there was still a big step change between periods; EC explained this was due to Licence changes and some one-off adjustments, plus some of the arrangements that were being unwound from the previous price control. The rationale was included in Chapter 9 of the Finance Annex, and EC strongly urged meeting participants to read this for more detail.

JCx questioned the differences between (14) and (54) on slide 5 and asked whether this was based on assuming new revenue drivers coming in in Y-5? And also reflecting allowed revenue arising prior to delivery of incremental capacity? EC said National Grid NTS was expecting to see incremental signals in the first years of the RIIO period, and gave a further explanation of what was proposed in the National Grid Business Plan. Nothing will go into SO allowed revenue, and commodity charges will be reduced. Some existing incentive revenue will run its course through the SO price control and will then feed into the TO allowed revenue. In contrast, the assumption with RIIO is there is no movement between the two price controls. If no signals happen, then those revenues will not be seen.

The ‘Comparison of Allowed Revenues’ under Ofgem’s initial proposals (IP) together with a table illustrating the implications for exit charges using Ofgem’s IP figures was displayed. These were in Ofgem’s headline document published this Monday and EC commented that it was not certain what had been allowed for in these figures, so the comparisons may be different. LH was also unable to offer any further detail. EC added that allowed revenue numbers are as yet unknown and, until it is understood what the figures represent, it would be difficult to offer any confirmation; they could be base revenues but still require further adjustment.

Focus then returned to Presentation 1, and DH proceeded to deliver the second part.

Presentation 1 – Pricing Volatility (continuation)

The TPCR4/RIIO-T1 impacts on charge changes, through the inclusion of

incremental and the setting of charges to align the formula with the gas year, were illustrated to show the effect on volatility. DH observed there was not an enormous change, but there was a benefit: if charges were to be set in April rather than in October, other things being equal a smoother path may be achieved.

SL questioned what assumptions had been made for capacity bookings. DH indicated that these were unchanged and so consistent across the scenarios; it was the change in prices to meet allowed revenues that set off a potential 'wave motion'. SL then referred to the price setting process in the DNs, where he felt the capacity booking process had produced volatility. DH pointed out that National Grid NTS was looking to reduce volatility and reducing the effect of variables where possible would be expected to help but not provide a complete solution. CW observed that volatility could be increased in future - parties 'fine tuning' their capacity holdings could in turn produce greater pricing volatility.

Responding to a question from TD, DH confirmed that the dampening of volatility by moving to an April pricing year would be seen at all exit points rather than at only at an aggregate level. SL commented that April-to-April is not aligned with many processes that follow the gas year, and questioned why allowed revenue could not be set from October to October. EC responded this might be an option that had not yet been considered. EC explained the restrictions in the Licence and the principal formulas. She added there might be something more concrete next week in the Initial Proposals document from Ofgem, with further detail available in late August.

DH asked Ofgem if there were any principles to share at this point. LH believed them to be still under consideration. DH pointed out that the October change suggested by SL may not have been suggested before or consulted on. SL added that he believed that EDF had not raised it in its consultation response because the consultation had a wider electricity/gas focus. RIIO will have to rewrite most of the Licence Conditions etc, so would there be any difficulties in making this suggested change? He then explained how his suggested change might work.

LH pointed out that RIIO controls begin from April 2013 and that will be a revenue start point. Referring to the coming Licence drafting and initial proposals, EC thought that a relaxation of the principal formula could be suggested by EDF through responding to the consultation.

Attention was then drawn to Ofgem's recent consultation on charging volatility, which examined 5 possible options (plus combinations) to address volatility. A high level overview of the industry's responses to each option was presented, and it was noted that Options 1, 2 and 3 appeared to be most favoured. Ofgem would be providing some high level principles but, as yet, the details were unknown.

SL observed that, in its response, EDF had suggested a one/two year notice period for changes to charges. DH thought this might be difficult. EC believed the use of the financial model by Ofgem would preclude this. DH suggested that an earlier running of the model would help, but this would be reliant on the timing of any inputs. JCx was concerned that the proposed interaction and the financial modelling was not part of the RIIO framework, and therefore not done in parallel, and yet clearly there were significant impacts.

TD observed that prices could be set a year in advance just as SL had

suggested; the financial model runs would simply change the allowed revenues and consequently K. EC observed this would need to be factored into Ofgem's proposals.

DH then outlined some next steps for consideration. RH1 observed that revenues were only one part of the problem - there was also inherent volatility in the methodology, and gave some examples of large percentage changes. DH commented that the changes being considered will not alter the large percentage changes seen in relatively low charges. RH1 appreciated why it is happening and explained the issue from a User's perspective. DH explained the background to the methodology and that when a flat uplift is applied, this is bound to create a big percentage change for otherwise minimum charges. SL commented that the percentage changes seen have significant impacts on the decisions made by consumers, for example whether to keep sites open or to mothball them - changes to charges can undermine the economic case for operating some plant.

DH indicated that National Grid NTS would welcome alternative suggestions for the methodology.

Responding to a question from SL, EC confirmed there was potential to earn a small percentage (1% or 2%) of allowed revenue through customer satisfaction. SL then asked what National Grid NTS could do to help provide some transparency to customers; could it provide some figures to industry on the indicative charges and present some scenarios/models to help? DH confirmed that the latest figures that were issued on Monday had been included in the material for this meeting, and it was not yet known what the allowed revenues were going to be – a final document was due out from Ofgem at the end of the following week. It was appreciated that any visibility on indicative charges and the figures that sit behind the present ones would be welcomed, and National Grid NTS were concerned to give meaningful information, and indicated that any figures provided may have to carry caveats until further details are known.

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

DH then asked the group if there were any further suggestions for other items of information useful to them that might be provided. RH1 suggested forecasts of the TO Entry Commodity Charge might be welcomed. DH agreed to check what is currently available and will establish if anything further can be provided – 'further out' forecasts are, however, quite risky.

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

TO Exit Commodity Charge

Focus then moved to the TO Exit Commodity Charge. Some slides were presented outlining two options to provide a 12 months' view, and the effects of both were illustrated, DH adding that any potential charges/changes on exit capacity need to be taken into account when looking at this.

National Grid proposed to publish: the rate from 01 October 2012 to 31 March 2013 and the rate from 01 April 2013 to 30 September 2013 (based on forecast revenue for 2013/14 and current booking levels), and then in January 2013, review the rate for April (based on any new information in RIIO, and the latest

view of bookings).

A brief discussion followed. It was recognised that assumptions have to be made about the appropriate level of commodity charges. However, it is expected to be more stable and predictable for exit than entry. Entry requires over recovery mechanisms and some proposals were made for exit, but it was believed to be less of an issue for exit. The Licence Condition encourages National Grid NTS not to over recover by 4% in total – if it were to over recover beyond that it would contribute to charging volatility.

No disagreement was expressed regarding the proposal put forward.

RF requested regular monthly updates be made as to progress so there would be no ‘surprises’. SL would like to understand the assumptions for daily capacity revenues; DH will establish this and provide information if possible.

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

DH observed there may be some issues in changing to an April price change and asked those present to give thought to this, and whether it should be brought in next April, 2013, or later. She would like feedback on what would be helpful to customers, bearing in mind the confines of what National Grid may be able to do.

JC commented that today’s meeting and discussions were a step in the right direction and SSE would be supportive of further work.

When questioned by TD, it was suggested that the only action needed to initiate the change from October to April would be a Licence direction from Ofgem, and an indication of what the allowed revenue streams should be.

SL questioned what the level of capacity booking volatility would be, believing there would be a need to understand what the impacts are before EDF could make a decision on supporting any changes. DH responded that the charges setting year and allowed revenue year not being aligned does contribute to volatility. SL referred to UNC TPD Y Annex Y3.8 where charges were to apply from October every year, and questioned if a UNC modification might be required. DH read out the wording at Y3.8. JCx suggested that it required further consideration - was all linked to the Gas Year? Network Models are also Gas Year based - was this also an issue?

Action 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.*

DH sought the group’s views on what they required and would be of benefit, and asked for a sharing of issues and concerns, emphasising she would be happy to discuss on an individual basis following the meeting.

TD asked LH and JT if Ofgem would need to initiate a consultation/require evidence, etc prior to issuing a licence direction. LH suggested the development by National Grid NTS of an informal consultation paper to engage the industry would be helpful.

DH requested that those present let National Grid NTS know if the suggested change would be useful or not. TD pointed out that timescales would be very

tight for April 2013, and it might be more realistic to target April 2014. DH believed that a consultation would provide sufficient indicative notice so perhaps it might be possible to implement in April 2013.

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

3.2 New Issues

None raised.

4. European Developments

DH gave a short presentation, providing an update on the Capacity Allocation Mechanisms (CAM). Various tariff related items had been considered not to be fully in line with the Framework Guidelines and were under further discussion.

Comitology was expected to start by December 2012, and ENTSOG analysis into impacts and options was under consideration.

ACER was drafting Framework Guidelines for Harmonised Tariff Structures and the responses to a scoping consultation were available on ACER's website. Results were being analysed and a supporting Expert Group has been set up. An Ofgem/DECC tariffs sub group continues to meet.

A Consultation on the Framework Guidelines is expected to commence early/mid September and all stakeholders are encouraged to participate.

ENTSOG expect to start drafting a Network Code in early 2013.

TD asked when potential tariff changes might be required. DH responded that clarity is still being sought as to whether the Framework Guidelines covered all entry and exit points. Changes were likely to be inevitable at interconnection points and DH thought that CAM would come first. Both products and charges could be different from what GB sees now.

5. Any Other Business

None raised.

6. Diary Planning

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

Following a brief discussion it was agreed that two further meetings of the NTSCMF would be arranged, one in early September and one in early/mid October. Details of the arrangements will be confirmed.

Action Log: NTS Charging Methodology Forum

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
NTS 02/01	02/02/12	3.1	<i>RIIO/Gas Charging</i> - Clarify differences between the National Grid gas and electricity capitalisation rates.	National Grid NTS (HC)	Closed
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)	
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)	
NTS 07/03	20/07/12	3.1	<i>TO Exit Commodity Charge</i> - Establish assumptions for daily capacity revenues and provide information if possible.	National Grid NTS (DH)	
NTS 07/04	20/07/12	3.1	<i>TO Exit Commodity Charge</i> - 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)	
NTS 07/05	20/07/12	3.1	<i>TO Exit Commodity Charge</i> – Identify any issues/impacts and offer alternative suggestions for solution.	ALL	