

NTS Charging Methodology Forum (NTSCMF) Minutes
Monday 23 June 2014
31 Homer Road, Solihull B91 3LT

Attendees

| | | |
|--------------------------|-------|---------------------------|
| Les Jenkins (Chair) | (LJ) | Joint Office |
| Lorna Dupont (Secretary) | (LD) | Joint Office |
| Alena Aliakseyeva | (AA) | Ofgem |
| Anna Shrigley | (AS) | Eni |
| Ben Tucker * | (BT) | EDF Energy |
| Charles Ruffell | (CR) | RWEst |
| Colin Hamilton | (CH) | National Grid NTS |
| Colin Williams | (CW1) | National Grid NTS |
| Debra Hawkin | (DH) | Consultant |
| Francisco Goncalves | (FG) | Gazprom |
| Gerry Hoggan | (GH) | ScottishPower |
| Graham Jack | (GJ) | Centrica |
| Isabelle-Agnes Magne* | (IM) | GDF Suez |
| John Costa* | (JCo) | EDF Energy |
| Julie Cox | (JCx) | Energy UK |
| Karin Elmhirst | (KE) | National Grid NTS |
| Laura Butterfield | (LB) | National Grid NTS |
| Nick Wye* | (NW) | Waters Wye Associates |
| Nigel Sisman | (NS) | sisman energy consultancy |
| Paul Jones | (PJ) | E.ON |

*via teleconference

Copies of all papers are available at: www.gasgovernance.co.uk/ntscmf/230614

1. Introduction

LJ welcomed participants to the meeting.

2. Review of Minutes and Actions from the previous meeting (19 May 2014)

2.1 Minutes

The minutes of the previous meeting were approved.

2.2 Actions

NTS0503: Allowed Revenues under RIIO-T1 - Confirm whether incentive costings are reconciled within year or lagging, and by how much.

Update: CW confirmed incentive costings are reconciled within year; values will be known later in the summer.

NS asked how could parties obtain a best estimate going forward. KE responded there would be a process to estimate but the details are not yet known.

DH commented that for incentive costings which are reconciled within year a forecast is already available at the 5 months stage. CW explained what was included. NS observed that his interest was with the longer term. JCx asked if there were any with a one year lag. LJ suggested waiting until the RRP's were

produced and to explain and provide an indication of where performance might be assumed to be. This could be reviewed at the next meeting (price control, new incentives, best guesses). **Closed**

NEW ACTION NTS0601: RRP's - Explain and provide an indication of where performance might be assumed to be.

NTS0504: Charging Volatility - Provide comparative demand data over a sample number of years.

Update: CW gave a brief presentation. Reviewing the results illustrated for 2012, CW explained the figures and how prices were affected in certain zones. There were not enough supplies to meet demand locally (compared to the previous year) and this resulted in price increase. CR asked how the model decides which sites to reduce, and KE gave an explanation.

The results for 2013 were reviewed. There were enough supplies to meet demand locally (compared to the previous year) and therefore no price change at zonal level. JCx queried the results and explained her view. CW confirmed the figures had been double checked, and there followed a brief discussion on the circumstances pertaining in this period and why prices did not change. Sources of information were explained. NW referred to the merit order and explained all the balancing would have come off LNG. Were the assumptions in the model based on there being no storage? KE explained some storage was assumed (40 GWhs). JCx gave some example scenarios of mothballing and these were briefly discussed. How did this feed into the demand forecast models? It was agreed that parties would pursue this discussion outside this meeting. **Closed**

NTS0505: Charging Information and Publications - a) Shippers to provide feedback on use to: box.transmissioncapacityandcharging@nationalgrid.com

b) National Grid NTS to summarise any feedback received for consideration at the next meeting.

Update: No Shipper feedback had been received. CW gave further encouragement to parties to provide feedback to National Grid NTS at any time. Any feedback provided would be considered and brought to this forum for further discussion if necessary.

JCx suggested that a reminder as to the reason why it is necessary might be provided in instances where there is a step change in charges. **Closed**

NTS0506: Transportation Model format – Advise National Grid NTS if still using Excel 2003.

Update: CW confirmed no responses had been received. **Closed**

NTS0507: EU Tariff Code - forecasting – In consideration of refreshing what has been done before and adding other appropriate scenarios, produce a view of what can be done and by when, for circulation by email this week.

Update: CW introduced a presentation, providing an overview of the key assumptions and potential impacts, and a detailed analysis of 5 scenarios (Scenarios 1 and 2 were as described in December, Scenarios 3, 4 and 5 were additional).

A table itemising the scenarios under consideration was displayed, giving in each case an indication of the source on which the assumptions were made, the potential revenue recovery method for any shortfall, and the type of points from which any such recovery would be made. The intention was to give a brief

overview in each scenario to try and give a sense of the magnitude of revenue impact. The differences between each scenario were highlighted and briefly discussed with clarifications being given as appropriate.

LB then explained each scenario and the potential effects on charges in more detail.

Scenario 1- Apply EU FGs at CAM Points only

LB explained the outcomes of the analysis and the effects of this application.

Scenario 2- Apply EU FGs across all GB

LB explained the outcomes of the analysis and the effects of this application. CW responded to questions relating to the treatment of Shorthaul.

Scenario 3 - Apply EU DTC at all points with TO and SO split

LB explained the outcomes of the analysis and the effects of this application. It was confirmed that the additional amounts were a very small proportion of the total. The same adjustment methodology would be used across all points.

Scenario 4 - Apply EU DTC at all points with CAM and Non-CAM split

LB explained the outcomes of the analysis and the effects of this application.

Scenario 5 - Apply EU DTC at all points (mix of Capacity/Commodity)

LB explained the outcomes of the analysis and the effects of this application. The difference between entry/exit recovery values was queried, and CW gave an explanation (two different mechanisms to recover and this may be one way it could be done- there may be other ways to split out).

Summary

It was recognised there was a lot of revenue to be recovered in some way. Where considering floating charges, capacity charges could be subject to an additional adjustment to aim to recover target allowed revenues for the year (e.g. on top of any existing adjustments). This could include revenue uplift, inflation adjustments or other mechanisms. Options include revenue shortfall recovering based upon adjusting using baselines or obligated levels, or using forecast bookings.

If contemplating the application of any uplift then consideration would need to be given to the methodology to be applied in the Transportation Model, the application of discounts for short term capacity, and how any uplift or adjustment might be apportioned.

It was noted that the EU Draft Tariff Code gives some flexibility in the adoption of fixed or floating tariffs, and that Ofgem's workshops will be looking at this in greater detail. **Closed**

NTS0508: *GSOG Report* - Present a view on potential changes to the merit order, and identify any other appropriate options for consideration.

Update: Addressed under agenda item 6, below. Following discussions it was agreed that Action 0508 should be amended.

~~"GSOG Report - Present a view on potential changes to the merit order,~~
Review the report; commence review of merit order; consider further analysis required and present assumptions and approach to the next meeting for discussion/agreement, and identify any other appropriate options for consideration. **Carried forward**

3. New Issues

None raised.

4. Gas Transmission Charging Review (GTCR) Update – Ofgem

AA recapped on the current position, and reported that the Cambridge Economic Policy Associates (CEPA) had been appointed as consultants in association with TPA Solutions, to look at the National Grid Transportation Model and, adjusting it for certain factors, assess the quantitative impact of the various changes. As part of this project DH would be looking at the modelling required by Ofgem. The model would be innovated/expanded to take account of price changes and Shipper behaviours, ie a dynamic model, rather than one that just looked at the effects of increasing charges. Assumptions would be agreed, eg allowed revenue, over what period, supply/demand, etc. The cost allocation methodology would stay the same. Storage will be modelled as part of the overall system. The 50:50 exit split would stay the same. The traditional approach would be enhanced.

Attention was drawn to the Ofgem meeting planned for 08 July 2014, at which the Terms of Reference would be considered and the consultants would be introduced. There could be 4 meetings, held fortnightly, to discuss and refine the assumptions and the modelling approach, and the options for a TO/SO split. The aim was for the modelling to be as transparent as possible and to use the outcome to inform policy decisions.

AA suggested there would be a ‘capsule audience’ that would actively participate and contribute, but observers would be welcome. This would be discussed at the first meeting, the assumption being that after this meeting the attendance would naturally decline; all documents will be made accessible online. The capsule audience would need to be able to commit to and co-operatively produce a short report late August/early September.

The first step is to design a tool that can model the assumptions/scenarios and provide a view on impacts. The second step is for Ofgem to review and then consult on. Workshops for a wider audience will be planned to support this.

Fixed and Floating options will be considered and discussed and it is hoped to have something that will be flexible enough to meet requirements. The work should help all parties to understand the potential options under the FGs and the code and inform Comitology, bearing in mind that reassessment might also be necessary after that point.

The objective is to have reached a firm GB position by the time Comitology commences next year.

5. EU Update

5.1 EU Tariff Code (including initial thoughts on allocations of current charge categories to the categories defined by the Tariff code)

CH gave a presentation on the progress of the EU Tariff Code and its consultation process, and summarised the essence of EU parties’ views concerning certain issues; of particular concern were fixed price and a one-off reset of capacity. Various issues were to be discussed at a Stakeholder Workshop on 25 June 2014, with the expectation that some of the many options will be gradually filtered out. CH then gave a more detailed overview of some of these aspects.

Mitigating measures and one-off capacity reset option

CH expanded on some of the concerns. The Commission was now open to an exploration of the topics in an effort to better understand why parties were objecting, and evidence was being looked for to inform discussions.

Transmission services definition

This was a complex area but from a GB perspective not so much of an issue, however greater clarity was always welcome. The treatment of Shorthaul was discussed; it was confirmed that this was a dedicated service that appears in the code but that was not defined in the code. It was noted that 'vagueness' was not necessarily comforting.

JCx commented that she had recently come to a better understanding of ACER's position that charges are set at the outset to minimise under/over recovery; cross-subsidies are a secondary issue. JCx believed that sub-division of the regulatory account and reporting on it should be mandatory.

Cost allocation approach - with capacity, commodity and complementary ReRe charge

This was found to be confusing. Revenue recovery and revenue reconciliation will be distinct. There was a brief discussion on ex post and ex ante and what fitted where.

Multipliers

CH indicated this was a big issue for TSOs who were concerned that they may not be able to recover their allowed revenue if multipliers were not higher than 1.5. NS gave a short summation of the French and German positions, and asked how the reference prices were derived/calculated (capacity measures?) – how often were we likely to envisage under-recovery? CH explained the GB regime. CH added that it was part of the debate on whether to incentivise long term or short term bookings. AA pointed out the conflict apparent between two objectives of revenue recovery and the maximum use of capacity (pays for the asset) and that a compromise position was needed.

It was questioned who should pay, and when a point in GB might be reached when charges/allowed revenue begin to come down because the network is sufficiently depreciated? Should new investment be depreciated faster (carbon reduction?)

Fixed price mechanisms

CH outlined 4 suggested mechanisms, indicating that no landing had been reached as yet, and described each in a little more detail. Risk premiums/effects were briefly discussed. It was observed that the wording in the FGs, consultation document and the network code needed to be clearer. It was in most parties' interest to retain a degree of flexibility in this area. Option 1 could be a sensible and flexible way forward.

In conclusion CH hoped that, following this discussion, parties would now be better able to respond to the consultation.

6. A study into the benefits which storage facilities may provide to the UK gas transmission system

Merit order

CW believed there would be merit in extending the analysis by a year, and in quantifying the benefit/contribution that Storage has made. From an NTS perspective a review was timely; scenarios could be reviewed in detail (to see if anything different might be done? Do they cover enough? Should there be more scenarios?)

NW apologised for the delay in the publication of the report and confirmed this was expected shortly; it would include the detailed analysis and the wider impacts. NW explained why the last two years had been chosen; he would be happy to look at prior periods, but with some caution (reference was made to the upsurge in Asian markets, peak periods in UK winters). He believed that such a review should be an ongoing process because of faster, significant and dramatic changes in the markets. The Supply stack should be regularly re-examined to see if it continued to be representative of the market in operation.

NW believed that the report had made the case for a review of the merit order by National Grid NTS. CW agreed to do this. Once the report had been reviewed, CW will bring back more details to this group, setting out the assumptions and the analysis planned for discussion/agreement by the forum. It was agreed that Action 0508 should be amended to reflect this (see 2.2, above).

Other considerations

NW indicated there were two primary areas for consideration – one was the merit order as previously discussed, the other being the transmission charges made to storage facilities. He believed that there was reasonable justification to look at the charges specific to storage facilities going forward (potentially a complete removal of all charges at storage points – the report concluded that storage facilities were overpaying). He suggested there would be benefit in a general discussion of the charges incurred by storage users.

The forum considered the best route to take this forward and, assuming that GSOG gave its approval, it was agreed that NW would present the report's findings/conclusions and any suggested options in more detail.

7. Any Other Business

None raised.

8. Diary Planning

NTSCMF meetings will take place as follows:

| Date | Venue | Programme |
|--------------------------------|---------------------------------|------------------------|
| 10:30 Monday 15 September 2014 | 31 Homer Road, Solihull B91 3LT | <i>To be confirmed</i> |

Action Log – NTS Charging Methodology Forum (23 June 2014)

| Action Ref | Meeting Date(s) | Minute Ref | Action | Owner | Status Update |
|-------------------|--|-----------------------|--|--|--|
| NTS 0503 | 19/05/14 | 2.2 | <i>Allowed Revenues under RIIO-T1</i> - Confirm whether incentive costings are reconciled within year or lagging, and by how much. | National Grid NTS (CW) | Closed |
| NTS 0504 | 19/05/14 | 2.2 | <i>Charging Volatility</i> - provide comparative demand data over a sample number of years. | National Grid NTS (CW) | Closed |
| NTS 0505 | 19/05/14 | 3.0 | <i>Charging Information and Publications</i> - a) Shippers to provide feedback on use to: box.transmissioncapacityandcharging@nationalgrid.com b) National Grid NTS to summarise any feedback received for consideration at the next meeting. | a) Shippers b) National Grid NTS (CW) | Closed |
| NTS 0506 | 19/05/14 | 3.0 | <i>Transportation Model format</i> – Advise National Grid NTS if still using Excel 2003. | Shippers | Closed |
| NTS 0507 | 19/05/14 | 3.1 | <i>EU Tariff Code - forecasting</i> – In consideration of refreshing what has been done before and adding other appropriate scenarios, produce a view of what can be done and by when, for circulation by email this week. | National Grid NTS (CW) | Closed |
| NTS 0508 | 19/05/14 amended 23/06/14 | 5.0 2.2 | GSOG Report - Present a view on potential changes to the merit order, <u>Review the report; commence review of merit order; consider further analysis required and present assumptions and approach to the next meeting for discussion/agreement, and identify any other appropriate options for consideration.</u> | National Grid NTS (CW) | Action amended Carried forward |

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| NTS 0601 | 23/0614 | 2.2 | <i>RRPs</i> - Explain and provide an indication of where performance might be assumed to be. | National Grid NTS (CW) | Pending |
|---------------------|---------|-----|--|------------------------|----------------|