

NTS Charging Methodology Forum
Minutes
Tuesday 10 May 2011
Energy Networks Association

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Asma Jalal	(AJ)	Centrica
Debra Hawkin	(DH)	National Grid NTS
Eddie Blackburn	(EB)	National Grid NTS
Fiona Gowland	(FG)	Total E&P
Graham Jack	(GJ)	Centrica
Jacopo Vignola	(JV)	Centrica Storage Ltd
James Thomson	(JT)	Ofgem
Jeff Chandler*	(JC)	SSE
Julie Cox	(JCx)	AEP
Rekha Theaker	(RT)	Waters Wye Associates
Richard Fairholme	(RF)	E.ON UK
Richard Hounslea	(RH)	National Grid NTS
Stefan Leedham	(SL)	EDF Energy

**via teleconference*

1. Introduction

Copies of all papers are available at www.gasgovernance.co.uk/ntscmf/100511.

TD welcomed attendees to the meeting.

2. Review of Minutes and Actions from the previous meeting

2.1 Minutes

The minutes of the previous meeting were approved.

2.2 Actions

All actions were addressed at the Workgroup 0356 meeting held on 08 February 2011 and were agreed 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/0356/100511.

4. Issues

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

GJ and AJ gave a presentation on the impact of under recovery from the primary sale of capacity. Principles underpinning charges were suggested; TO charges recover capital costs and SO charges recover operational costs. Distortions were identified which would lead to inconsistencies with these principles.

It was noted that entry capacity auctions would not recover the exact allowed entry revenue and there was concern that this might also affect exit as well. SL also pointed out a further distortion between the long term capacity charges booked with a fixed charge whereas National Grid's allowed revenue changes year on year.

Comparisons between capacity sold and revenue received over 2007/08, 2008/09, and 2009/10 were illustrated, together with the pattern of under-recovery from 2007/08 through to 2012/13.

It was concluded that uncertainty and volatility were likely to increase still further on the introduction of a TO Exit Commodity Charge, and it was suggested that consideration be given as to how best to address the situation. A short discussion followed.

FG supported GJ's and AJ's view. She had discussed the position with Stuart Cook to better understand the reasons for vetoes and to see if Ofgem still saw benefit in long-term investment signals. Ofgem had confirmed they still valued long-term bookings but did not want to introduce artificially high, non-cost reflective, prices. GJ added that TO Commodity Charges are not based on short run marginal costs and are not targeted at the right parties.

SL would like to see how substitution affects the position – it is at very early stages yet, but may impact on capacity revenue next year, i.e. is it a risk booking short-term capacity? EB countered that substitution can be avoided by buying capacity in one quarter, and believed that the components driving the TO Commodity Charge should be looked at. Arguably half of the under-recovery is the Shipper's ability to profile and match flows. EB explained the discounts, which would only effect a 20% reduction if removed.

EB believed that Project TransMit was unlikely to cover the issue, but that a location/product specific commodity rate may be the answer after a lot of work to define the solution.

EB went on to describe European developments, which in effect seemed to be copying the GB model. There was a concern to ensure that revenue continues to be collected through capacity charging. Europe looks at fixed costs mostly being recovered through capacity charges. Capacity is sold in different ways in Europe and there appears to be no cost reflectivity; the key principle is to sell long-term capacity and then stop; then medium-term and stop, then short-term. SL commented that most TOs have a regulated tariff set by their Regulator – as opposed to the revenue control in GB. EB added that parties were incentivised to buy capacity when the need was first identified rather than waiting for changing circumstances.

GJ believed there should be a capacity based charge recovering the vast majority of the revenue. FG observed that the system as described by EB encourages long-term bookings; the current GB regime clearly was not doing this.

If forecasts rather than auction signals are driving National Grid's investment decisions, SL questioned whether the industry should be looking at the issue differently – for example, applying a flat rate charge. Different Shippers have different strategies and some are quite happy with the current situation. FG explained that Total booked a proportion of capacity long-term, but would expect to change its strategy in favour of short-term purchases if that remains incentivised by the regulatory arrangements – which is counter to the previously stated objective of encouraging long term signals. GJ suggested he was looking for a more cost reflective charging methodology - if the charging scheme were changed, then Shippers would be expected to change their strategies

accordingly. FG added that a postalised commodity charge is not demonstrably cost reflective.

Following reference made by RT to the Ofgem decision letter, JT confirmed that National Grid's proposals were vetoed because they did not solve the issues identified.

JCx referred to European developments, and asked if it was proposed to have one set of arrangements for European Interconnection points and another set for GB only entry and exit points. EB pointed out the key European concern was that there should be no cross subsidies. The GB entry model is being looked at and may be adopted. The charging methodology should ensure that costs are allocated to each point so there is no cross subsidy; it cannot be applied to exit or must be ring fenced to ensure no cross subsidy of interconnectors by domestic users.

4.2 European Developments – potential impact on the NTS Charging Methodology

EB gave a presentation highlighting the European work and issues, and there was a brief discussion on “pancaking”. Responding to RT, EB confirmed that it was the aim of the European Commission for all issues to be resolved by 2014.

SL commented that any over recovery would be used to reduce constraints. The GB market may view many issues and the proposals as a backward step, as would be anything that reduces the liquidity of the GB market. However, he believed that drawing any conclusions at this point would not be appropriate and could be counter productive.

Recognising that resurrecting GCM019 would be fruitless, GJ and RT suggested discussions should be resumed to consider alternative options or new solutions that might be consistent with the Ofgem decision letter. FG indicated that when meeting Stuart Cook, Ofgem had been prepared to set a ‘direction of travel’ and suggested that Ofgem be invited to expound on this. GJ agreed that a clear steer would be helpful before going any further. JT agreed to discuss internally and feedback to the Workgroup.

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

JT added that discussions were continuing internally relating to Europe, and it was very difficult to draw conclusions at this stage. Jcx believed there might be a clearer view on the European Tariff Framework in the next 6-9 months, and this will better inform the view on what would be the most appropriate solution to develop.

4.3 NTS Optional (“Short-haul”) rate calculation

DH gave a brief presentation, updating the group on progress of the review.

Recognising that there had been conflicting views on whether to update the existing methodology (10 years old and in need of review), or to introduce an SO (and possibly TO) cost allocation methodology, DH sought views on appropriate next steps. The simplest step would be to update the cost base underlying the existing methodology.

RF suggested, as the methodology was not broken, just updating. DH commented that prices had gone up and it would be appropriate to better reflect actual costs. There may also be issues with the standard commodity charge and interactions between the two.

EB suggested that National Grid could do more work internally, and then report back. This should be a marginal charge, affecting a small number of sites, a potential solution could be developed and a way forward could then be discussed.

5. Any Other Business

5.1 01 May Indicatives for July NTS Exit (Flat) Capacity application window

EB confirmed that indicative charges had been published and invited any questions. He also clarified that 2014/15 charges had been based on the prevailing methodology in the UNC.

5.2 150 Day Notice for 01 October 2011 and quarterly Charge Setting Reports

EB pointed out that the key change was in regard to treatment of a measurement error; measurement error invoices/payments that had been expected to be paid in 2010/11 formula year were now included in the 2011/12 formula year.

5.3 Training

EB reported that a number of requests had been received for training in various areas and that a training session will be set up in London to address this. Interested parties wishing to attend should contact National Grid.

6. Diary Planning

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

The next meeting of the NTSCMF is expected to take place on Thursday 07 July 2011, at ELEXON, 350 Euston Road, London NW1 3AW, following the meeting of the Transmission Workgroup.

NTS Charging Methodology Forum Action Log: 10 May 2011

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
NTS 0101	06/01/11	2.1	Confirm that the exit capacity release obligations in the UNC operate as intended.	National Grid (NTS) (EB)	Closed
NTS 0102	06/01/11	2.1	Explain (in regard to exit capacity charging) why the Irish Regulator's number for demand offtake at Moffat is not being used for exit capacity charge setting.	National Grid (NTS) (EB)	Closed
NTS 0103	06/01/11	2.1	The analysis to be repeated using the 2010 Ten Year Statement forecast demands for Direct Connects.	National Grid (NTS) (EB)	Closed
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)	