NTS Charging Methodology Forum (NTSCMF) Minutes
Tuesday 05 November 2024
via Microsoft Teams

Attendees		
Eric Fowler (Chair)	(EF)	Joint Office
Aaliya Khan (Secretary)	(AK)	Joint Office
Katie McGuiness (Observer)	(KM)	Joint Office
Adaeze Okafor	(AO)	Equinor
Adam Bates	(AB)	SEFE Marketing & Trading
Alex Barnes	(ABa)	Alex Barnes & Associates
Alex Nield	(AN)	Storengy UK
Amy Howarth (from 11.45)	(AH)	Storengy UK
Anna Shrigley	(AS)	ENI
Ash Adams	(AA)	National Gas Transmission
Carlos Aguirre (from 11.30)	(CA)	Pavilion Energy
Christiane Sykes	(CS)	Shell Energy
Chris Wright	(CWr)	Exxon Mobil
Colin Williams	(CWi)	National Gas Transmission
David Bayliss	(DB)	National Gas Transmission
Donald Lam	(DL)	Ofgem
Isaac Hale	(IH)	EDF Energy
Jeff Chandler	(JC)	SSE
Jonathan Balls	(JB)	Ofgem
Joseph Leggett	(JL)	Interconnector
Josie Lewis	(JLe)	Xoserve
Julie Cox	(JCo)	Energy UK
Kieran McGoldrick	(KMc)	National Gas Transmission
Kirsty Appleby	(KA)	National Gas Transmission
Lauren Jauss	(LJ)	RWE
Mariachiara Zennaro	(MZ)	Centrica
Marion Joste	(MJ)	ENI
Nick Wye	(NW)	Waters Wye Association
Nigel Sisman	(NS)	Sisman Energy Consultancy Limited
Paul Bass	(PB)	Ofgem
Paul Ocholla	(PO)	National Grid
Philip Lucas	(PL)	National Gas Transmission
Richard Fairholme	(RF)	Uniper
Ritchard Hewitt	(RH)	Hewitt Home and Energy
Tim Gwinnell	(TG)	South Hook Gas

NTSCMF meetings will be quorate where there are at least six participants attending, of which at least two shall be Shipper Users and one NTS Transporter is in attendance.

Please note these minutes do not replicate detailed content provided within the presentation slides, therefore it is recommended that the published presentation material is reviewed in conjunction with these minutes. Copies of these are available at: https://www.gasgovernance.co.uk/NTSCMF/051124.

1.0 Introduction and Status Review

Eric Fowler (EF) welcomed all parties to the meeting and confirmed that the meeting was quorate.

1.1. Approval of minutes (01 October 2024)

EF advised there were some amendments made to Agenda item 1.4 of the minutes for the previous meeting and a marked-up version has been published on the Joint Office website. The minutes of the previous meeting were approved.

1.2. Approval of Late Papers

As requested, EF highlighted the concern about late papers to the Modification Panel. EF noted an exception with the Capacity and Revenue Reporting information for which this Workgroup has a standing agreement to accept as it can only be prepared at the end of the previous month. (Agenda item 4.0).

1.3. Review of Outstanding Actions

1001: NGT (CWi) to provide a breakdown of how UM Values feed into historic and future price control revenue allowances in the next update.
Update: This is due for reporting in the January 2025 meeting. Colin Williams (CWi) advised there was no update until National Gas had put their submission in. **Carried Forward.**

1002: NGT (AA) to consider what the GB prices would be if there were no existing contracts.
Update: Ash Adams (AA) signposted the Workgroup to Slide 40 of the following slide pack https://www.nationalgas.com/sites/default/files/documents/Charging%20Update%20Webinar%20Oct%2024%20charges%2025%2006%202024.pdf which contains a graph showing the impact of existing contracts on energy prices. AA advised there was a big disparity in the current year between the published price and price as it would be if there was no existing contract and in 2028/29, this disparity decreases as the existing contracts start to fall away. **Closed**

1003: NGT (CWi) to bring back an informal proposal with a single end-to-end option taking into account the discussions so far for a focused conversation.
Update: CWi informed the Workgroup that this Action would be covered under Agenda item 3.0. **Closed.**

1.4. Modifications with Ofgem

Donald Lam (DL) advised there was no update for today's meeting.

EF informed the Workgroup that there was a revised layout of the Modifications on the Ofgem website with separate tables of codes, (UNC Modifications towards the bottom of the page) (https://www.ofgem.gov.uk/energy-policy-and-regulation/industry-codes-and-standards).

2. Pre-Modification Discussions

EF advised there were no pre-Modifications.

3. Transmission Services Review

CWi referred to discussions that started in January 2024 about what the implications would be if there were changes made to the Entry/Exit mechanism for Transmission Charging. The discussions centred around adjusting the split, but also around using an objective where it may deliver a different split, such as using a fixed percentage to adjust the split, and a singular price for Entry/Exit capacity which delivers a variable split as an output.

CWi introduced a single option that reflected on all the component parts discussed as a Workgroup to date with a view to shaping this as a potential change proposal.

AA provided a summary of the proposal, outlining that NTS Entry tariffs are high when compared to both historical averages and Exit tariffs, and this is expected to remain the case for the foreseeable future due to a number of drivers applying upward pressure.

AA referred to tariff volatility and highlighted that a reduction in the Entry tariff (and an increase in the Exit tariff) would reduce the overall combined tariff for a unit of gas Entering, utilising and Exiting the NTS. AA highlighted that a benefit of the proposed change would be that GB Entry Tariffs are more comparable to those in other European markets.

AA proposed introducing a dynamic split which has the objective of equalising Entry and Exit tariffs.

Nigel Sisman (NS) queried the second paragraph on Slide 8 which said 'the decrease in the Entry tariff would be greater than the increase in the Exit tariff resulting in a reduction in the overall Capacity tariff for Entering and Exiting the NTS.' NS agreed that it was clear this produced a reduction in the headline overall tariff but this led to a greater cost burden on Exit due to their proportion of unused capacity. NS expressed that it may be disingenuous to present this as a reduction of the overall capacity tariff as it just meant the costs reside with different actors and downstream users of GDNs. CWi advised that GDNs book capacity to their licensing obligations, if they booked less, the tariff would need to be eigher to compensate. NS agreed but said it was the difference in the booking behaviours which was creating the distribution of revenue recovery. CWi challenged that even with unused capacity on the distribution side, if that capacity was utilised, the value would be lower and there would be a higher tariff to compensate. This would not detract from the fact that a shift would still reduce the Entry. NS countered that someone still has to pay for any un-utilised capacity particularly as there are licence obligations that seem to be driving the booking behaviour being seen. CWi said he felt it was wrong to say it was disingenuous to miss it as National Gas are accommodating on an 'all else being equal' approach and if there is an aspiration around that, it is a discussion to be had with GDNs. NS said it was likely to be a discussion with end users who are not in any of the Forums.

Adam Bates (AB) challenged if it was just GDNs, as power stations are booking more capacity than they need vs Entry so it is not just GDNs. CWi agreed but stated it was probably not to the same extent as GDNs as they are a 1 in 20 level.

Ritchard Hewitt (RH) commented that the statement was factual, not wrong, and for those customers that are connected directly to the NTS, it is an important statement because if the overall cost of using the NTS in and out is reduced, then additional utilisation of the assets is encouraged and it underpins greater efficiency of the NTS.

Julie Cox (JCo) pointed out there were different strategies employed by different Shippers on behalf of power stations so sweeping statements cannot be made about that. JCo added that some were linked to what was going on in the market and some are linked to booking rules, with the challenge being that if it is being said that overall costs are less, it is only less if a reduced NBP price appears which is hard to demonstrate.

AA outlined the Drivers of issues including: Lower Entry Capacity denominator, expected continued declining demand for Entry Capacity, Allowed Revenues and Existing Contracts for NTS Entry Capacity. AA advised that changes to the charging methodologies can mitigate the impacts these drivers have on the tariffs.

JCo referred to Clean Power 2030 (CP30) and commented that with less gas usage and more of the cost being put on end users, particularly domestic consumers, and the peak likely remaining the same in line with the 1 in 20 calculation, whether this risk ends up escalating the cost on domestic customers on a p/kWh or standing charge basis as use declines. JCo noted it was a complex area and if charges go up, it will drive more people off gas. JCo queried what happens for those that are still connected as the network is not smaller, everyone remaining on gas is just paying more. DL agreed to query migration and the potential implications on price controls with his Ofgem colleagues and bring the information to the next Workgroup.

RH highlighted that retirement of assets is a Government policy question and it being beyond this Modification to solve that issue. EF stated that by changing the regime in a certain way, it may exacerbate a broader issue. JCo added that she agreed but was unsure if it was beyond this Modification as this would make it a bigger issue, regardless of what the baseline is. Jeff Chandler (JC) noted it was important to quantify this and get a worked example e.g. if half of the domestic customers were to go, what that does for the tariff.

Richard Fairholme (RF) highlighted that he had reviewed the slide pack and the idea appears negative for cost reflectivity as it is currently an arbitrary split and the change would make the entry charges even less cost reflective.

AA presented visual tables and charts demonstrating the points made about Current and Indicative Entry Tariffs. AA summarised the key takeaways: the GB Entry reserve prices are higher on average than most of the other European markets and GB Exit prices are lower on average than most European markets, that combined GB Exit tariff is more comparable with most of the other European markets and there is the absence of any incentives to book longer term Capacity which provides users with more flexibility and should result in capacity bookings more closely aligned with flows.

AB commented that the graph was useful but did not represent the cost of bringing Gas to the UK and the element of booking is missing and the denominator to those bookings. AB was not convinced that this on its own indicated an issue as National Gas' allowed revenue is higher than other PSOs in the continent and entry bookings are a lot lower than other countries in the continent so there is much more going on than just the tariff. AA agreed and advised this was a high-level comparison and if the Modification develops, he will look at what else can be done. RF agreed and highlighted another issue which is potentially all three interconnectors being bi-directional and as the UK is instrumental in importing to Europe, the impact of increasing the Exit charge is that the UK may end up exporting less gas. RF added that there are structural things to consider such as people bringing in LNG cargos to be immediately exported to Europe, the role that had played in setting up continental European storage, it may become unattractive to export and there will be a low utilisation of interconnectors on the Exit side which may push up charges even further as it is difficult to forecast what the utilisation would be in terms of Exit for export. RH countered that if the aggregate charge to move gas across the NTS is lower and you are trying to enter LNG into either the UK or European market, looking at the NTS and interconnector tariffs, it may be cheaper to run gas through the UK and out through interconnectors so this could easily lead to increased throughput to NTS and interconnectors. RF commented in relation to that scenario, where gas is being bought at the NBP, it pushes up costs for those users so it cannot be said that it is good all round as it is still the same amount of money being recovered and the impact in that potentially credible scenario is lower utilisation.

CWi highlighted that this information was included following discussions held over the Summer regarding comparisons with the European market and wanting to illustrate where the UK sits in terms of price comparisons. CWi noted this is not the only cost that users bear and if it is more expensive on Exit as a result and cheaper on Entry, it allows parties to reflect on what that would mean for them. CWi commented that different stakeholders with different ways they utilise the network, and National Gas is seeking views to be shared and exploring and testing assumptions will be critical.

RF noted issues with the price cap and how the increasing cost to GDN is factored through to forecast. RF queried how that factors into the supply market and advised it would be useful to bring in Shippers with a supply perspective. CWi queried if anything different could be done about the various assumptions made. RF suggested it may be a good idea to take a condensed version of the presentation to the Distribution Workgroup and flag it as an issue.

Nick Wye (NW) commented that the key thing to achieve is to maximise use of the network in the face of expected decline in gas demand and that the only way to maintain or increase gas flow is through transit to Europe. NW noted that when transiting gas, both the Entry and Exit must be looked at as they both face costs. NW suggested that the NTS needs to compete with Re-Gas on the continent and to make the UK more of a transit country. Anna Shrigley (AS) supported NW's comments and noted that one interpretation of the graph is that GB Tariffs can provide an incentive for exporting gas from GB as the Exit Tariff is significantly lower than the Entry Tariff.

Kirsty Appleby (KA) presented on the solution of proposing an introduction of a single Capacity tariff across all Entry Points and all Exit Points (with the exception of those points where existing discounts apply). KA outlined the 'As Is' process used to calculate prices and the effect of using this proposed methodology would be that a price is determined where Entry and Exit is equal.

KA advised that National Gas proposed to 'pool' values across Entry and Exit for both the transitional year and for all future years and that all other 'key topics' discussed previously would not be changed as part of the proposal.

KA highlighted some of the consumer impacts and advised this is an area still requiring further consideration. KA provided the following additional table:

Combined Price	24/25	25/26	26/27	26/28	26/29
Current Published	0.1573	0.1535	0.1305	0.1470	0.1331
Proposal	0.0896	0.0964	0.0932	0.1010	0.1014
Price difference	0.0677	0.0571	0.0373	0.0460	0.0317
%	43%	37%	29%	31%	24%

RH queried if the impacts related to just domestic consumers or all different types of consumers and KA confirmed they would look at all types of consumers. RH referred to row 2 of the table on Slide 20 which stated 'throughput may increase' in the area of 'Lower bills than would otherwise be the case' and reflecting on NW's earlier point, noted it may not just be that throughput increases, but it increases the potential reduction in throughput as the existing contracts fall away with LNG. That potential reduction may be reversed so that may maintain the current throughput levels which may otherwise decrease. EF added that it is a re distributive effect and the potential macro effects would need to be overlaid. KA commented it would be challenging.

RF commented in relation to industrial customers who are buying at the NBP price and Exit charges increasing as well as the cost of industrial customers. RF noted that the assumption that the NBP price would go down specifically due to this change would be challenging, if not impossible. RF added that market prices could increase due to other factors and it will be difficult to prove this will reduce in the long term as Existing Contracts and delivering gas at the beach etc. will have significant impacts on the pricing for imports of gas. RF noted this work would not impact any of that because if Existing Contracts stay the same, the cost of importing a large proportion of gas into the UK is not going to change for several years but there will be an increase in Exit charges which will be less satisfactory for industrial customers. RF added that Ireland may have concerns about this as they are reliant on one source. KA commented that if there is a published entry price that is decreasing quite significantly, that should flow through. NW agreed that it is impossible to disentangle the natural volatility within the NBP market from the impact of entry charges; but pure economic models indicate that the reductions should flow through.

KA highlighted the two main relevant charging objectives "c): That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers." EF referred to the point made by RF earlier regarding cost reflectivity and noted that at a macro level, price control should give some cost reflectivity. KA advised that the current methodology is cost recovery methodology rather than cost reflectivity. RF noted KA's interpretation but highlighted that the relevant objective is still cost reflectivity, and making GB more attractive is not a relevant objective and will not factor into Ofgem's' decision making. RF added that this change alone makes it less cost reflective than it is currently and that more should be taken on balance to say whether the main one i.e. competition between Shippers, outweighs the fact that the charges themselves would be less reflective.

NW noted that there appeared to be some confusion between revenue allocation and cost reflectivity which are different things, as cost reflectivity is principally about the cost which National Gas incurs for carrying out its activities, and in relation to capacity, taking delivery of a unit of gas or delivering a unit of gas. NW argued this is more cost reflective than the current regime. RH agreed with NW and highlighted that cost reflectivity in the GB regime no longer existed after auctions were introduced in 1999.

KA highlighted the other main relevant charging objective which was "b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business" and provided an overview of this.

CWi outlined the next steps which were to look to raise a formal Modification in December and asked the Workgroup to get in touch directly if they had any questions.

RF queried the timescales if the Modification were to be raised. CWi advised the earliest implementation date would be 01 October 2026.

Joseph Leggett (JL) commented that he recognised that there were a number of factors to discuss, and that was he was supportive of the high-level proposal presented by National Gas particularly when considering the attractiveness of the GB market and the Entry costs for European markets being what they are.

Jeff Chandler (JC) referred to the timeline and referred to discussions in prior months regarding charges through into the DN price regimes. CWi noted he was mindful of the implications to DNs and this would need to be considered as part of the process.

NW queried what the drop-dead date was in terms of alternatives if a pre-Modification were to be raised for early December and it went to panel in December, assuming it became a Modification. EF advised as early as possible is desirable and timely prior to the Workgroup report being returned to panel. NW noted that it would therefore be around June at the very latest for all alternatives to be tabled. EF noted a risk in terms of governance with other bodies that implementation may be compromised.

RH commented he was mindful to the changes proposed to the minutes of the last meeting by Ofgem where it wanted to stress that it was looking to this Workgroup to expedite discussions regarding the Entry and Exit split.

Please refer to the published slides for full details.

4. Capacity and Revenue Monitoring Update

David Bayliss (DB) provided an overview of the FCC Methodology and process.

DB referred to previous discussions held about discrepancies between the forecast for capacity within the FCC for Power Generation and what has actually been seen in terms of output, and determining why that has happened.

DB outlined that National Gas are proposing a minor revision to the current FCC Methodology process that is used to calculate Exit Capacity and predominately, around the application of a cap to the Capacity Utilisation Factor to ensure erroneous data is not being created which produces high-capacity forecasts.

DB noted a case for updating the threshold for Power Station as it appears the Exit FCC for the Power Generation exit points is slightly lower than it should be which leads to a denominator that is lower than actuals.

DB highlighted the UNC Obligations and provided an analysis of Power Generation Capacity Forecasts as well as an outline of the four options in relation to the Forecasts, explaining National Gas' rationale in proposing to apply a revised cap.

In relation to slide 12, DB explained that when adding the annual capacity bookings (AFLEC) on across the Power Generation sector, there was a reduction in AFLEC for October 2024 compared to 2023 and it therefore would not appear sensible to apply the previous year's AFLEC value into the FCC calculation as the bookings would have been significantly overstated. There is also a drop in 2024 so the values are not consistent year on year.

On Slide 13, DB explained that by taking the greater of the two values for October 2024 AFLEC bookings and the FCC Calculator for October 2024, this equates to £6m in overcollection and doing nothing about this would not be a prudent approach to apply when trying to get the capacity forecasts as close to the actuals as possible.

On Slide 14, DB demonstrated the impact of removing the cap completely which would result in significantly higher values and booking being overstated.

DB then provided an overview of the implications of applying a revised cap of 4x for Power Generation sites only to try to account for a number of these sites where their Utilisation Factor was discounted through the process through having a 2x cap. This would result in an aggregated position across the sector closer to the actuals and was the preferred option of National Gas.

DB outlined the proposal, noting there would be no change to the wording under section (c) but footnote 13 would be tweaked to add 'or 4.00 in the case of Power Stations.'

Lauren Jauss (LJ) commented that capacity had been discussed as a costs recovery exercise. LJ noted that National Gas has the right to withhold capacity, and parties therefore have uncertainty whether they will have access to capacity in the short term. LJ added that illustrates the problem described in Modification UNC 860 where an OPN could be rejected if they did not hold capacity, and that this may be why there is overbooking of capacity from Power Generators. LJ advised that unless the underlying problem was addressed, there could be completely different procurement behaviour from one year to the next depending on whether there are concerns about accessing the network so NGT should consider a longer-term average rather than just last year's numbers.

NS commented on the merit in having a defined methodology with a precise basis for calculation, noting that when FCCs are calculated, National Gas exercise considerable discretion in respect of the inputs that go in and there could be step changes in booking behaviours between the years associated with some Power Station. NS queried if National Gas had given any consideration or appealed for information 2-3 weeks before the FCC is set to then make a judgement on what the values should be. DB advised they had reached out to users over the last couple of years and were told users were unwilling to share commercial considerations beforehand especially as it was being published in the FCC. NS highlighted that the method was not replicable and it was disappointing if people were unwilling to share the latest view on their bookings given those implications have consequences for other actors and influence price setting prices. JCo added there is a whole host of commercial trade-offs and different companies take different views so it could become more uncertain as to what parties do going forward. DB agreed that it was difficult to predict as there were a number of commercial changes driving behaviours between sectors. DB added that there were some booking trends happening for a number of years which look to continue for the next few years and by increasing the cap, National Gas take this into account without driving a significant and fundamental shift into the numbers that are produced. Regarding CP30 and the reduction in Power Station demand, DB highlighted that demand was used as one of the key drivers around each sector's average and then this cap would be built on top of that so that diminishing forecast of flows by sector is taken into account when calculating the FCC. DB noted there could be some bookings above that for certain users who may still book a lower number going forward so they were trying to account for volatility and issues without setting it in stone.

AB agreed the methodology could not be perfect but that it was important that the methodology was somewhat replicable and can be forecasted as SEFE track the FCC and have their own forecast of it and what the impact on future tariffs may be. AB also added that the views of Shippers could change quickly and they would not want to give incorrect information as this will impact tariffs and other players.

LJ suggested re-visiting the possibility of shorter-term auctions for Exit as this will help for Exit users to match their requirements for their bookings much more closely. DB advised that another discussion would be had at the following month before making any formal updates to the FCC Methodology and it would be kept on the agenda for next month.

DB provided the monthly update on Capacity and Revenue Monitoring.

DB advised there was a significant reduction in throughput than previous months, particularly July and August where there was an uplift in gas flowing back and into Europe which was higher than had been forecasted. In September, throughput dropped off quite significantly below forecast levels which led to lower capacity bookings and under recovery for the month.

At P6, DB advised that the capacity forecast was around 3% off target and the net position in terms of revenue was that they are £6m away from what they are looking to collect.

For Exit, DB highlighted that capacity booking have dropped and Year to Date (YTD), they are 9% over capacity bookings actuals to forecast. Revenue is also smaller. At P6 they are £14m over collecting.

DB summarised that the net position across Entry and Exit Capacity is around £20m over collected at P6.

In relation to General Non-Transmission and St Fergus Compression Revenue, DB highlighted there was a similar trend for July and August. For September, there was a slight under collection due to the drop-off particularly in the interconnector flow across and into Europe, resulting in a small net reduction in revenues collected in September against forecast but the net position YTD is a collection of £320m and therefore a £17m overcollection at P6.

Please refer to the published slides for full details.

5. St Fergus Compression Charging

CWi referred to previous information shared about St Fergus Compression Charging and the little feedback received in return. CWi advised that National Gas were inclined to leave the status quo in place in relation to the Uncertainty Mechanisms at St Fergus and would create a short presentation on this for the next meeting outlining their formalised view.

6. Issue Tracker

EF reminded the Workgroup of the Issue Tracker which can be found on the Joint Office website under the NTSCMF page.

7. Any Other Business

JCo highlighted some offline exchanges of emails since the last CMF meeting as she noted there were some Non-Obligated revenue against Theddlethorpe which has been disconnected, and queried how there could be Non-Obligated revenue for something that was no longer working. JCo noted that there is a zero baseline at Theddlethorpe because it was decommissioned and that makes any revenues from any flows, Non-Obligated, rather than part of Transmission revenue. JCo added that it appeared to be used as it was convenient and queried whether there was a new connection entry point to the NTS and if so, why it did not go through the process, and noting if it is connecting into Theddlethorpe, then it is not really decommissioned.

New Action 1101: NGT to provide an explanation for how Non-Obligated Capacity was allocated to Theddlethorpe.

JC noted it may be an Ofgem perspective and EF commented that if there was a need for that, if NGT could include this in their explanation.

8. Workgroups

9.1. 0897S - Removal of Non-Obligated Entry Capacity from Capacity Neutrality

https://www.gasgovernance.co.uk/0897

9. Diary Planning

NTSCMF meetings are listed at: https://www.gasgovernance.co.uk/NTSCMF

All other Joint Office events are available via: http://www.gasgovernance.co.uk/events-calendar/month

Time / Date	Paper Publication Deadline	Venue	Workgroup Programme
10:00 Tuesday 03 December 2024	5 pm Monday 25 November 2024	Microsoft Teams	Standard Agenda
10:00 Tuesday 07 January 2025	5 pm Monday 27 December 2024	Microsoft Teams	Standard Agenda
10:00 Tuesday 04 February 2025	5 pm Monday 27 January 2025	Microsoft Teams	Standard Agenda

NTSCMF Workgroup Action Table

Action Ref	Meeting Date	Minute Ref	Action	Reporting Month	Owner	Status Update
1001	01/10/2024	1.3	NGT (CWi) to provide a breakdown of how UM Values feed into historic and future price control revenue allowances in the next update.	January 2025	NGT (CWi)	**Carried Forward**
1002	01/10/2024	3.0	NGT (AA) to consider what the GB prices would be if there were no existing contracts.	November 2024	NGT (CWi)	**Closed**
1003	01/10/2024	3.0	NGT (CWi) to bring back an informal proposal with a single end-to-end option taking into account the discussions so far for a focused conversation.	November 2024	NGT (CWi)	**Closed**
1101	05/11/2024	7.0	NGT to provide an explanation for how Non-Obligated Capacity was allocated to Theddlethorpe.	December 2024	NGT (CWi)	**Pending**

UNC Workgroup 0897S
Removal of Non-Obligated Entry Capacity from Capacity Neutrality
Tuesday 05 November 2024
via Microsoft Teams

Attendees		
Eric Fowler (Chair)	(EF)	Joint Office
Aaliya Khan (Secretary)	(AK)	Joint Office
Katie McGuiness (Observer)	(KM)	Joint Office
Adaeze Okafor	(AO)	Equinor
Alex Barnes	(ABa)	Alex Barnes & Associates
Alex Nield	(AN)	Storengy UK
Amy Howarth	(AH)	Storengy UK
Anna Shrigley	(AS)	ENI
Ash Adams	(AA)	National Gas Transmission
Chris Wright	(CWr)	Exxon Mobil
Colin Williams	(CWi)	National Gas Transmission
Daniel Donovan	(DD)	Corella
David Bayliss	(DB)	National Gas Transmission
Donald Lam	(DL)	Ofgem
Hannah Reddy	(HR)	Corella
Jeff Chandler	(JC)	SSE
Joseph Leggett	(JL)	Interconnector
Josie Lewis	(JLe)	Xoserve
Julie Cox	(JCo)	Energy UK
Kieran McGoldrick	(KMc)	National Gas Transmission
Kirsty Appleby	(KA)	National Gas Transmission
Nigel Sisman	(NS)	Sisman Energy Consultancy Limited
Paul Bass	(PB)	Ofgem
Paul Ocholla	(PO)	National Grid
Richard Fairholme	(RM)	Uniper
Ritchard Hewitt	(RH)	Hewitt Home and Energy Solutions
Simon Harris	(SH)	Xoserve
Tim Gwinnell	(TG)	South Hook Gas

This Workgroup meeting will be considered quorate provided at least two Transporter and two Shipper User representatives are present.

Please note these minutes do not replicate detailed content provided within the presentation slides, therefore it is recommended that the published presentation material is reviewed in conjunction with these minutes. Copies of papers are available at: https://www.gasgovernance.co.uk/0897/051124.

1. Outline of Modification

Nigel Sisman (NS), on behalf of the Proposer Jeff Chandler (JC), provided an overview of the proposal using the Modification Panel Presentation template. NS outlined that the proposal was in relation to removing Non-Obligated Entry Capacity from the Capacity Neutrality process. NS explained this would have two effects: reducing cash flows passing through Capacity Neutrality and reducing transportation charges by the same aggregate value.

NS re-iterated that Non-Obligated Entry Capacity Revenues do not contribute to National Gas' Recovered Revenues as it is subject to Capacity Neutrality which is what makes it different.

NS explained that the effects were modest but that the application of Capacity Neutrality to Non-Obligated Entry Capacity still appeared inappropriate and anomalous. NS advised this was likely to cause a small detriment to consumers and the fix was easy.

In terms of implementation, NS highlighted that the suggested legal text is included in the Modification, but that implementation required further work as it was likely IT systems refinement was necessary.

NS noted that it was likely that the Modification required a ROM.

New Action 1101: Joint Office (EF) to commission a ROM to be able to assess the significance or otherwise of any changes required in relation to Modification 0897S and potentially any costs and time frame concerns.

NS explained the wording of the proposal was succinct and believed to be factually correct. NS added it made reasonable interpretations of the likely effects, notably, that there is likely to be modest detriment to consumers of the current treatment and that previous pre-Modification discussions in this Workgroup confirmed the change would not impact on the incentive treatment of Non-Obligated Entry Capacity. NS added that in previous meetings, the Workgroup noted that whether a corresponding licence change may be necessary was a matter for Ofgem to consider.

NS highlighted that the proposal would ensure that Non-Obligated Entry Capacity Revenues would contribute to National Gas' Recovered Revenues just as all other user capacity purchases, and the change should be implemented at modest cost.

NS explained that the recommendation was that the proposal did not need to go to Ofgem as it is low-value and straight-forward but if anyone opposed, this was fine, and that Workgroup were invited to assess the proposal which they have three months for.

CWi referred to the statement in the presentation that Non-Obligated Entry Capacity does not contribute towards recovered revenue. CWi countered that this was untrue as the net effect is that it does not, but Non-Obligated Entry Capacity does contribute towards Recovered Revenue collection but there is a UNC mechanism that returns it in the same month it is billed. This change, therefore, would remove that return mechanism and CWi highlighted that this point should be made clear. NS countered that the licence states that the money goes in and then out and although it is not transparent to people, at the moment, the revenue does not contribute to Recovered Revenues. CWi advised that the net effect of the current treatment was zero and NS agreed. CWi added that there were two transactions in the licence but by saying it did not contribute, it implied there was only one transaction. NS agreed that there were two transactions in the licence and welcomed any thoughts from Ofgem on this, but no comments were made. NS highlighted that this point was outlined in the 'Summary' section of the presentation. Anna Shrigley (AS) noted it would be helpful to capture the discussion about the two steps. CWi added that each individual customer is affected differently depending on how much Non-Obligated they purchased and the proportion they get returned through Capacity Neutrality. AS highlighted that the confusion was because when Shippers receive their invoices, there is no classification of Non-Obligated Capacity. Shippers then receive Neutrality credit based on their capacity booking, for transparency, the proposal is reasonable as it will make the process more straightforward.

Chris Wright (CWr) queried whether it would it be worth clarifying within the Modification if this would do anything for NGT's incentive to release Non-Obligated Entry Capacity. NS confirmed this would not have an impact as it was separate and that if it is helpful, it can be put into the Modification for clarification, but he has deliberately attempted not to clutter the Modification.

2. Initial Discussion

2.1. Issues and Questions from Panel

2.1.1. Is there a reason why non-obligated currently feeds into capacity neutrality?

CWi summarised what was said in the Capacity Neutrality webinar and the general view of capacity neutrality being that financial mechanism used to ensure certain costs and revenues associated to the provision of Entry Transmission capacity did not result in a net gain or loss for National Gas. CWi added that the timing was discussed, and it was there to ensure if any costs associated to a constraint were to materialise, they would be spread over a wider base and invoiced in a timely manner. Neutrality costs and revenue are distributed across Shippers and the effect is that in the event of a constraint, non-obligated revenues would reduce the overall costs in a particular time frame. EF summarised by saying it is there to potentially offset the costs of a constraint if one were to occur and therefore mitigating the costs that were to appear on Shipper invoices. NS explained that the idea referred to by CWi is an idea that was considered in the regime in that there was a reserve fund that was available to offset the constraint cost. NS referred to a previous massive over-recovery of revenue coming through the auction and not enough means to give it back and an idea being presented to use that money in the reserve fund that was for auctions and that could then be deployed against the constraint costs if incurred. NS queried whether the historical idea is being mixed with what is going on here and referred to CWi's point that certain cash flows perhaps should not be associated with Recovered Revenue of Transporters. NS queried why anyone would think Non-Obligated Entry Capacity should not be revenue that should legitimately be recovered and contribute to allowed revenue for the Transporter.

NS offered a personal reflection based on history and referred to the early transporter licence which only envisaged long term capacity bookings. A problem arose when a daily product was set up as there was no way the revenue from that could contribute to the allowed revenue stream. The Transco network code was used to address the issue and it was considered essential that Transco had financial incentive to release short term capacity. This notion can be observed in the structure of the Capacity Neutrality provisions in the UNC. Ofgem were keen to get this moved into a licence from 1 April 2002, but it was not implemented until 1 October 2002 and in the six month period in between, it was intended that the Transco network code would be used and would cover any transitional features. It was implied by Ofgem's explanatory document that Capacity Neutrality would be removed from the Transco network code on 1 October 2002, but this never happened.

When the new charging arrangements were introduced, urgent action was required as there was a £15m a month cash flow problem where money was coming in and then immediately going out because of Capacity Neutrality. This was remedied by UNC 748 and a review of Capacity Neutrality was promised which has still not taken place.

NS summarised;

- the origins of Capacity Neutrality stem from the introduction of Short Term (i.e. daily) Entry capacity which could **not** contribute to Licence Recovered Revenues
- the issue was originally addressed solely within the Transco Network Code
- provisions should have been migrated to Licence from 1 October 2002
- the ending of transitional arrangements in the TNC were not addressed on 1 Oct 2002
- the "anomaly" remained until 2020 when it exploded because of the reform of Charging arrangements
- the major part of the issue was fixed by UNC0748.
- This Proposal addresses part of the residual and persisting issue.
-

NS believes it's the right thing to do and it should be expected to deliver a benefit, albeit modest, to consumers.

JCo agreed with NS's comments.

2.1.2. Is there any evidence for the claim that neutrality credits are less likely to be passed to consumers?

Shippers were invited to express a view on whether, and if so, neutrality credits arising from Non-Obligated entries are passed onto consumers. NS added that the Modification reasonably states that it considers it unlikely that all money finds its way back to consumers. JC advised that SSE was no longer active in the GB retail market but when they were, he was confident that Capacity Neutrality return payments were not part of the process for assessing their cost base. JC advised he was not sure how the current price cap mechanism works and invited Ofgem to share any thoughts. Donald Lam (DL) advised Ofgem had limited visibility on how Capacity Neutrality payment was returned. Regarding Price Cap mechanism, DL provided the following link to Ofgem's methodology in the chat: Energy price cap (default tariff) levels | Ofgem

NS commented that it was beyond belief that it all goes back and Non-Obligated entry will not be mentioned in Ofgem's price cap methodology as it is a sub-component. NS noted that there must be an element of leakage. AS noted it was strange territory and there was no meaningful way of determining that evidence and the discussion should be discarded. AS explained this was just speculation and if the intention was to pass the benefit to the consumer then the UNC contract would need to be designed in line with that and it was incorrect to assume that Shippers do not pass these benefits on.

CWi highlighted that it is not known until each individual month whether there will be Capacity Neutrality credit for Non-Obligated and until it is passed on, there would be no visibility of that. CWi noted that any credits returned through the return of Non-Obligated revenue is not published and what Shippers will do will be up to them and it will be impossible to understand what they will do with it. JCo agreed in relation to not knowing if you will get a Capacity Neutrality credit ahead of time so if you are looking to include a tariff for a customer, it is unclear what to include and it will be based on Transportation charges known and published in advance. JCo added it is a commercial decision made by each Supplier and this was not the right question to be asked and not appropriate.

DL advised that under the network costs allowance methodology of the price cap, Capacity Neutrality or any revenue under that arrangement is not something the price cap calculation takes into account. It takes into account the published tariff but not revenue. DL provided a link to information on the price cap calculation in the chat:

Annex 3 - Network_cost_allowance_methodology_gas_v1.15.xlsx

NS queried if the answers to the Panel questions go in the Workgroup Report. EF confirmed they should appear explicitly in the Workgroup Report.

2.2. Initial Representations

EF queried whether anyone thought the proposal did not warrant Self-Governance status.

JCo highlighted that the number had to be quite big in order to be material and that the angle here is that it is not material. NS reminded CWi's of comments in earlier discussions that NGT felt this change was not sufficiently material for NGT to want to raise it.

2.3. Terms of Reference (www.gasgovernance.co.uk/0897)

3. Next Steps

EF stated that prior to next month's meeting, a ROM would be formally requested as on the face of the proposal it was clear for an analysis to be done.

EF proposed gathering enough material for the writing of the Workgroup Report in the next meeting to allow for a working draft to be published.

4. Any Other Business

None.

5. Diary Planning

NTSCMF meetings are listed at: https://www.gasgovernance.co.uk/NTSCMF

All other Joint Office events are available via: http://www.gasgovernance.co.uk/events-calendar/month

Time / Date	Paper Publication Deadline	Venue	Workgroup Programme
10:00 Tuesday 03 December 2024	5 pm Monday 25 November 2024	Microsoft Teams	Consideration of ROM and Development of Workgroup Report
10:00 Tuesday 07 January 2025	5 pm Monday 27 December 2024	Microsoft Teams	Completion of Workgroup Report

0897S Workgroup Action Table						
Action Ref	**Meeting Date**	**Min Ref**	**Action**	**Owner**	**Reporting Month**	**Status Update**
1101	05/11/24	1.0	Joint Office (EF) to commission a ROM to be able to assess the significance or otherwise of any changes required in relation to Modification 0897S and potentially any costs and time frame concerns.	Joint Office (EF)	December 2024	**Pending**