

Gas Transmission Charging Methodologies Forum

Draft Meeting Report: 6 November 2007

This report outlines the key discussions of the fifteenth Gas TCMF meeting held at Ofgem, 9 Millbank, London on 6th November 2007. All supporting material can be found at www.nationalgrid.com/uk/Gas/Charges/TCMF

Attendees

Amrik Bal	AB1 Shell
Alex Barnes	AB2 BG
Richard Street	CS Statoilhydro
Clive Woodland	CW Centrica
Debra Hawkin	DH National Grid NTS
Eddie Blackburn	EB National Grid NTS
Martin Watson	MW National Grid NTS
Tim Miller	TM National Grid NTS
John Baldwin	JB CNG
Joy Chadwick	JC ExxonMobil
Leigh Bolton	LB Cornwall Energy
Richard Miller	RM1 Ofgem
Andrew Pester	AP Ofgem
Richard Fairholme	RF E.ON
Roddy Monroe	RM2 Centrica Storage
Nick Wye	NW WatersWye
Stefan Leedham	SL EDF Energy

1. Introduction

MW welcomed attendees to the meeting

2. Report of Previous Meeting

The meeting report of the forum held on 6 September 2007 was agreed as accurate.

3. Review of actions

30 National Grid NTS to carry out TO Exit cost recovery analysis based on all DN load being firm.

No Update on comment from previous meeting.[National Grid NTS confirmed that it would include this analysis in its consultation document, which it intended to issue to reflect progress on the exit regime.] **Carried Forward**

37 Ofgem to consider producing a document, prior to the first substitution auction, setting out its rationale for approving substitution applications.

No Update on comment from previous meeting[Paul O'Donovan advised that Ofgem was considering this further but was expecting to encompass the main principles in its review of baselines.] **Carried Forward**

4. Further TO Entry Revenue Over Recovery Mechanism

4.1. GCM10

EB gave this presentation and began by reviewing the background. Revenue resulting from the RMSEC auctions and Entry Capacity Trade and Transfer processes (£13.4m) will result in TO over recovery. The non veto of GCM09 will improve the TO over recovery "buy-back off-set" mechanism, however there remains a risk that the mechanism may not be triggered or that the buy back costs will be below the over recovery amount.

A negative TO commodity charge has been proposed and vetoed in the past. Due to concerns about how it would be set in parallel with the buy-back offset mechanism. The proposed GCM10 mechanism would allow for a partial or full rebate of TO Entry Commodity charges paid earlier in the year and as a retrospective rebate should overcome the issue associated with previous proposals.

SL asked why the indicative TO commodity charge from 1 April 2008 has been set to a non zero value given the current over-recovery issue. EB/DH replied that this was based on implied revenues from auctions already held and forecast auction revenues for those yet to be held as compared with the allowable TO revenue. The 1 April 2008 rate represents 1/6th of the 1 April 2007 rate. If the auction revenues deviate from those forecast it would be possible to adjust the charge from October 2008. EB pointed out that the Industry had requested stable charges where possible and setting a charge for the full year was an alternative to a zero charge for the first half of the year and a larger charge for the second half.

SL requested that information be provided on the collected TO revenue as compared to the allowed TO revenue. EB replied that this was included later in the presentation.

EB pointed out that the timeline for implementation of GCM10 by 31st March 2008 and the issue of the consultation report might be impacted by Ofgem's time frame for consideration of the proposal if an impact assessment was required and three months was necessary. If this was the case, the consultation report would need to be issued before Christmas. RM/AP agreed to raise this issue within Ofgem to facilitate a mutually agreeable time frame for the issue of the consultation report and any necessary impact assessment that would not preclude implementation by the end of March.

4.2. GCM11

EB described an additional TO Entry Over-recovery mechanism under GCM11. The proposal is for a retrospective negative TO entry commodity charge (i.e. a credit). This would be based on the relevant entry throughput during the financial year. This mechanism would apply after GCM09 and GCM10 (if not vetoed) to return any remaining excess revenue.

EB explained that the proposal should overcome previous objections to a negative TO commodity charge in that there is clarity of how the charge would be set given the interaction with the buy-back off-set mechanism. In order to balance the costs associated with an ad hoc invoice and the materiality of any rebate EB suggested that rebates would only be paid if the residual over recovery was in excess of £1m (the equivalent of the current minimum TO Entry commodity charge of 0.0001p/kWh) RS commented on this level of materiality. After discussion it was agreed to seek views within the consultation as to the appropriate minimum level at which to pay rebates.

SL raised concerns about the interaction between entry and exit revenue recovery and suggested an approach might be to manage the over or under recovery separately for entry and exit. EB agreed to bring some options forward for the next Gas TCMF meeting and suggested that this could be developed in parallel to the GCM10 and GCM11 proposals.

SL enquired about the notice period for such a credit. EB replied that since this was effectively a rebate, consistent with those paid under PC65/7 (as subsequently revised under GCM09), rather than a charge, no notice period should be necessary.

EB stated that this proposal could be implemented whether or not GCM10 was vetoed, however in order to facilitate consideration by the Industry of both proposals and any potential interactions, EB suggested that GCM11 could be issued as soon as possible so that the consultation period for GCM10 would overlap with GCM11. This was agreed by the meeting attendees.

5. NTS Charges at Storage Sites

5.1. Waters Wye Associates Presentation on behalf of the Gas Storage Operators Group

NW gave a presentation on behalf of the Gas Storage Operators Group. Waters Wye Associates had used the Transportation model to prove the hypothesis that 'gas storage sites provide a benefit to the transmission system'. There were three reasons for the timing of the presentation – (i) UK gas supplies were declining (ii) more investment was needed in storage and (iii) there was a possibility that new charges could be introduced for storage users. The presentation described potential savings that could be attributable to the existence of storage.

National Grid was asked to respond. EB agreed that the analysis represented a reasonable estimate of the cost savings to the industry as a result of the existence of storage and demonstrated that storage was an alternate to peak NTS investment. MW commented that the analysis could also have been applied to any entry point, for example Easington, to potentially show the benefit or cost that each entry point provides to transmission. NW agreed with this comment.

RM2 asked whether it had ever been acknowledged by Ofgem that storage provided a benefit. RM1 said that he would check the history in connection with this.

SL asked if there should be a payment to storage if storage was required to support the system as Storage Monitors suggested. EB replied that where system support was required through constrained LNG or operating margins, the service was paid

for. EB commented that safety monitors are required for energy balancing not system support..

RM2 enquired what the way forward was. NW responded that it was necessary to properly consider the benefits to the system of storage and also whether storage needs to be considered differently from other entry or exit points.

NW asked what does the Industry think and suggested that there are potentially other benefits not referred to within the paper.

5.2. SO Storage Commodity Charging

DH gave a presentation on storage and SO costs. The presentation covered analysis relating to costs incurred on a daily basis and therefore costs that could be compared to on the day storage utilisation. Other annual costs would be looked at a later meeting. Firstly, the relationship between Own Use Gas (OUG), i.e. compression, and throughput was considered. The data showed that there is a clear relationship between compression and throughput (either with or without storage) and a linear model could be fitted. The analysis of the residuals from this analysis compared to storage throughput showed no clear relationship indicating that there is no relationship between OUG and storage use at the same throughput level. This supports the argument that 'gas flowing through the system uses the same amount of compression gas whether it goes via storage or not'.

CW queried the data used in the analysis. Specifically that at low throughputs the compressor fuel usage was more variable. TM commented that the data was an amalgamation of all the flows on each day and was therefore not specific to any one terminal or storage facility. DH agreed to look again at the data and report back. JB asked if St Fergus compression had been included within the analysis.

The second part of the presentation looked at the relationship between Unaccounted for Gas (UAG) and storage usage. No clear relationship has been determined as expected. This appears to be consistent with the theory that UAG is thought to be largely meter error. If storage meter error was contributing towards UAG we would see unexplainable increases or decreases in storage stock levels which has not been the case. This unique attribute of storage (gas can be accounted for by considering change in stock verses input and output flows) suggest that recovering UAG costs from storage Users may not be appropriate.

To sum up DH stated that these costs had been reviewed in light of the outcome of the GCM03 consultation in order to discuss the inclusion or not of potential costs in a possible SO commodity charge for storage. This analysis did not support the inclusion of Compression or UAG in such a charge.

The next step is to issue a discussion paper in this area and it was agreed by the attendees that a draft discussion paper would be most helpful at this stage. This should be possible for the next TCMF.

MW asked RM1 to update us on Ofgem's position in regard to an SO commodity charge and its application to storage. RM1 agreed this should be possible for the next meeting.

CW requested a copy of the data used in this analysis. National Grid will look at the existing data provision in this area. It is intended that daily compressor usage will be released to the industry as part of the consultation on SO incentives.

6. Update on Current Pricing Consultation and Discussion Papers

EB gave an update on the following:

6.1. GCM09 TO Over-recovery Mechanism

EB updated the meeting that this consultation had not been vetoed by Ofgem and has been implemented from 1 November 2007.

7. Any Other Business

7.1. Information Request

CW requested information on the SO allowed revenue and its components in relationship to the indicative notice for the SO commodity charge.

Post meeting note; the 1st April 2008 SO Commodity rate has been calculated based on the following assumptions :

Indicative (at Nov2007) SO MAR 08/09£316.6m

Forecast revenue from St Fergus compression charge....£ 12.3m

Forecast revenue from optional commodity charge.....£ 9.9m

Other charges and neutrality.....£ 61.6m

Amount to be recovered through SO commodity charge...£232.8m

(this includes £13m of exit capacity incentive revenue)

Forecast flows (entry plus exit).....1,920 TWh

Indicative (at Nov 2007) SO commodity charge.....0.0121p/kWh

8. Date of Next Meeting

Booked for December 3rd 1:30pm at Elexon, 350 Euston Road, London.

Action Log

No.	Date Raised	Description	Status	Comments
30	01/02/07	National Grid NTS to carry out TO Exit cost recovery analysis based on all DN load being firm.	Carried Forward	National Grid NTS confirmed that it would include this analysis in the relevant charging consultation document raised as a consequence of any further exit regime proposals
37	05/07/07	Ofgem to consider producing a document, prior to the first substitution auction, setting out its rationale for approving substitution applications.	Carried Forward	Ofgem was considering this further but was expecting to encompass the main principles in its review of baselines.
39	06/11/07	RM1/AP to raise issue regarding time frame for issue of GCM10 consultation report and any necessary impact assessment.		
40	06/11/07	EB to seek views within GCM11 on appropriate minimum level at which to pay rebates.		
41	06/11/07	RM1 to check history regarding Ofgem acknowledgement that storage provided a "benefit" in relation to a storage commodity charge.		
42	06/11/07	DH to look at data presented on compressor fuel usage and throughput specifically at low throughputs. Also to check whether St Fergus compression had been included.		
43	06/11/07	Draft discussion paper on Storage commodity charging to be issued for the next TCMF.		
44	06/11/07	RM1 to provide update on Ofgem's position with regard to an SO commodity charge and its application to storage for the next TCMF.		

Action Log continued

45	06/11/07	National Grid to provide information on SO allowed revenue and its components in relationship to the recent indicative notice for the SO commodity charge.		
46	06/11/07	In parallel with GCM10 and GCM11, EB to consider options to manage any potential over recovery separately for entry and exit.		