

Gas Transmission Charging Methodologies Forum

Draft Meeting Report: 8 April 2008

This report outlines the key discussions of the twentieth Gas TCMF meeting held at Ofgem, 9 Millbank, London on 8th April 2008. Supporting material can be found at www.nationalgrid.com/uk/Gas/Charges/TCMF

Attendees

Tim Davis	TD Joint Office
Alex Barnes	AB BG
Angus Paxton	AP Poyry
Audrey Luksicek	AL British Gas Trading
Christoph Hoft	CH E.ON Ruhrgas
Christiane Sykes	CS Statoil UK
Debra Hawkin	DH National Grid NTS
Eddie Blackburn	EB National Grid NTS
Andrea Altenkamp	AA E.ON Ruhrgas
Ed Lawns	EL Scottish and Southern Energy
John Bradley	JB Joint Office
John Costa	JC EDF Energy
Jemma Spencer	JS National Grid NTS
Martin Watson	MW National Grid NTS
Phil Broom	PB Gaz de France
Nick Wye	NW WatersWye Associates
Richard Fairholme	RF E.ON UK
Richard Miller	RMi Ofgem
Roddy Monroe	RMo Centrica Storage Ltd
Richard Street	RS Corona
Sofia Fernandez Avendano	SFA Total
Shelley Rouse	ShR Statoil UK

1. Introduction

TD welcomed attendees to the meeting.

2. Report of Previous Meeting

The meeting report of the forum held on 05 February 2008 was agreed.

3. Review of actions.

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

RMi was happy for this to be carried forward on the understanding that it would await development of the substitution methodology. It was decided instead that this be progressed through the substitution workshops. **Closed**

49 National Grid NTS to bring a high level comparison of electricity versus gas capacity charging methodologies to the forum

National Grid had brought a specific example to the meeting rather than a high level comparison of the two approaches. EB believed that the action was a standing action for all new areas brought to the Gas TCMF. TD commented that as Steve Gordon, who had raised the action at the last TCMF, was not present this would be clarified at a later meeting. **Carried Forward**

50 National Grid NTS to make presentation on Constrained LNG at the forum

See item 6 below

Closed

4. 2008 Gas TCMF Work Plan and Survey

EB gave this presentation. In view of the feedback, National Grid NTS intend to give more information about price changes at future TCMF meetings; to review the layout of the TCMF section of the National Grid website; to follow Joint Office standards on publication of meeting documentation; and to produce more draft documents prior to formal consultation. The most consistent response on meeting frequencies was that they should fit in with consultation timescales. On priority work areas, RMo asked whether the survey results fitted in with Ofgem's priorities. RMi responded that he would feed back these results. EB then reviewed the responses on the topic areas and how National Grid NTS intend to cover them.

RMo asked whether any assistance could be offered to Shippers on understanding charging principles. EB offered a session on understanding transportation charging methodology but would not be able to offer full training. There will be some additional details in the charging methodology statement that will be issued shortly.

AL asked for the 50:50 split of allowed revenue between entry and exit to be on the agenda of a meeting in the near future. This was agreed.

5. Entry Over Recovery and K

EB gave this presentation. GCM10 "TO Entry Commodity Rebate Mechanisms" had been implemented and a credit was due. He highlighted the suggestion for shippers to waive the normal delay requirement such that credits could be issued earlier, and this was agreed.

GCM11 "Retrospective Negative TO Entry Commodity Charge" had been vetoed by Ofgem, primarily on discrimination grounds – Exit and Entry Users would not be treated symmetrically in the event of under- and over-recovery. Ofgem pointed out that the Licence does not require auction based prices to be cost reflective – they can reflect market value. EB then put forward three options to take the issue forward, including do nothing.

RF asked about the incompatibility issue i.e. with a monthly trade and transfer process regarding adjusting exit prices. EB replied that Exit recovery is an annual process and hence National Grid would have to take a view on trade and transfer income for the following six months if changing charges with effect from 1 October. In practice, this would be difficult to achieve with any certainty given a monthly trade and transfer process.

National Grid NTS was suggesting revising GCM11 but incorporating separate management of entry and exit 'k' for charging purposes. A complication is that there is a different interest rate for under and over recovery. EB presented a slide showing the calculations involved, and suggested attendees may wish to review this prior to the next TCMF meeting.

AL suggested that most of the over or under recovery would be on the entry side, which EB agreed. NW asked about the effect of Exit reform. EB responded that it was auctions that added uncertainty and hence the effect would be dependent on which proposal was implemented.

RS asked about the priority for introducing the suggested change. EB responded that, due to responses received and the implementation costs of doing it now (alongside GCM10 changes) rather than later, he had concluded that the change should be implemented soon. AB suggested that National Grid NTS issue a draft consultation on the subject followed by formal consultation. It was agreed that this route be followed.

6. Rebates for Entry Points with Negative LRMCS – Comparison with Constrained LNG

EB gave this presentation. He outlined how a negative LRMC could be derived for a constrained LNG site and then went through the detail of the present methodology. RF commented that LNG credits need to be taken into account as part of any methodology change to reflect negative LRMCS. EB clarified that negative entry LRMCS occurred where entry points were close to areas of high demand as the entry plus exit LRMC equals the route LRMC and negative entry LRMCS occur where gas flows from such entry points are over short distances.

EB then outlined how negative charges are dealt with in electricity. Charges are based on the average volumes in three settlement periods. The three settlement periods are those of the highest metered volumes for the Power Station or Interconnector and the two half hour settlement periods of the next highest metered volumes which are separated from the highest metered volumes and each other by at least 10 Clear Days, between November and February of the relevant Financial Year inclusive. These settlement periods do not have to coincide with the Triad. EB commented that a gas equivalent could be the highest three Daily flows in a Gas Year. He also suggested that this might not be applied to constrained LNG sites as double counting could occur.

On the way forward, EB suggested looking at options which covered the related issues of Constrained LNG arrangements, an electricity type negative LRMC methodology and short haul tariffs as all three areas were in relation to transportation of gas over relatively short distances.

7. Entry Capacity Discounts

EB gave this presentation and suggested that the present approach to interruptible capacity may wipe out the value of the original capacity release. AB responded that in general, this is due to flows being lower than baselines; if these were more evenly matched, there would be less interruptible capacity available and the value would be retained. AB also cautioned against an assumption that encouraging long term booking was appropriate as this potentially restrained competition – wider European conditions should be considered since the existence of long term bookings had been

identified as a key barrier to competition. Several attendees agreed that a mixture of product terms was appropriate enabling Shippers to hold balanced portfolios. MW accepted this but maintained that a free daily product, which though titled interruptible was firm in practice, was an anomaly that needed resolution.

Following discussions on setting reserve prices, AB suggested that TCMF should discuss the types of behaviour the charging methodology should incentivise. TD linked this to the National Grid NTS suggestion of taking a holistic view of the issue. AP pointed out that having non zero reserve prices would encourage the secondary market. AB asked about over recovery issues with non zero reserve prices. EB clarified that the income from interruptible capacity sales is SO, not TO, revenue and hence would not impact TO over-recovery. National Grid NTS suggested that the interruptible price should be inversely proportional to the risk of interruption – this principle is embodied in EU Regulation 1775.

It was agreed that this should be the subject of a future TCMF meeting.

8. Update on Recent Pricing Consultation and Discussion Papers

8.1. GCD05 SO Storage Commodity Charging

National Grid NTS summarised the responses. 11 were not in support, 1 offered conditional support and 1 was in support but post exit reform. There will be discussions between Ofgem and National Grid NTS on the way forward.

8.2. GCM10 TO Entry Commodity Rebate Mechanisms

This proposal has been implemented. See item 5 above

8.3. GCM11 Retrospective Negative TO Entry Commodity Charge

This proposal was vetoed. See item 5 above

9. Updated Charging Methodology

9.1. GCM09/10 TO entry over recovery mechanisms

The charging methodology statement, which will be issued shortly, has been updated to reflect the implementation of these proposals.

9.2. SO Capacity incentives and Charging

There will be some additional details in the charging methodology statement that will be issued shortly.

10. Any Other Business

10.1. Impact of 2008 AMSEC Auction on TO Commodity Charges

EB summarised the AMSEC revenue and the effect it would have on TO Commodity Charge. If National Grid were to receive similar auction revenues through the remaining auctions and Transfers and Trades processes to be

held in 2008/9 as seen in 2007/8, it would expect to see an increase in the TO Commodity charge from October 08 onwards to a rate of approximately 0.0094 p/kWh. When deriving this figure National Grid are assuming similar bidding behaviour to last year so this figure may vary by around +/- 20%. As the formulae year progresses National Grid will gain a better picture on actual bidding behaviour and will update the Gas TCMF accordingly. .

11. Next Meetings

Wednesday 7th May 2008 (Exit Focus, and will also include a report on charging related information publication)

Wednesday 11th June 2008

Action Log

No.	Date Raised	Description	Status	Comments
37	05/07/2007	Ofgem to consider producing a document, prior to the first substitution auction, setting out its rationale for approving substitution applications	Closed	To be progressed through the substitution workshops under the auspices of the Transmission Workstream
49	05/02/2008	National Grid NTS to bring a high level comparison of electricity versus gas capacity charging methodologies to the forum	Carried forward	Comparisons for specific proposals are to be provided, with negative charges covered on 8 April
50	05/02/2008	National Grid NTS to make presentation on Constrained LNG at the forum	Closed	Presented on 8 April