

## Gas Transmission Charging Methodologies Forum

### Draft Meeting Report: 04 September 2008

*This report outlines the key discussions of the twenty fourth Gas TCMF meeting held at Elexon Offices, 350 Euston Road, London NW1 3AW on 4<sup>th</sup> September 2008. Supporting material can be found at [www.nationalgrid.com/uk/Gas/Charges/TCMF](http://www.nationalgrid.com/uk/Gas/Charges/TCMF)*

#### Attendees

Tim Davis	TD	Joint Office
Amrik Bal	AmB	Shell
Angela Love	AnL	Poyry
Audrey Luksicek	AuL	Centrica
Christiane Sykes	CS	Statoil
Denis Aitchison	DA	Scotia Gas Networks
Debra Hawkin	DH	National Grid NTS
Eddie Blackburn	EB	National Grid NTS
John Bradley	JB	Joint Office
Jeff Chandler	JC	Scottish and Southern Energy
Jemma Spencer	JS	National Grid NTS
Leigh Bolton	LB	Cornwall Consulting
Martin Watson	MW	National Grid NTS
Richard Fairholme	RF	E.ON UK
Richard Miller	RM	Ofgem
Rekha Patel	RP	WatersWye Associates
Stefan Leedham	SL	EDF Energy
Shelley Jones	SJ	Statoil
Steve Rose	SR	RWE

#### 1. Introduction

TD welcomed attendees to the meeting.

#### 2. Report of Previous Meeting

The meeting report of the forum held on 09 July 2008 was agreed.

#### 3. Review of actions.

54. *National Grid NTS to revise the "Explanation of NTS and SO Commodity Charges" document to set-out the key assumptions made.*

National Grid NTS intend to issue a revised report within the next week which they believe will address this action. **Carried Forward**

55. *National Grid NTS provide a proposal for incentivising efficient booking of entry capacity to the next forum.*

This will be on the agenda of the October forum. **Carried Forward**

## **4. Update on Recent Pricing Consultation and Discussion Papers**

### **4.1. GCM05 NTS Exit(Flat) Capacity Exit Reform**

AuL asked about analysis of supply demand balancing rules. EB referred to the presentations made at the last forum and intended to develop further solutions at the November forum.

JC asked about the removal of interruptible credits under GCM05. EB responded that the proposal was ensuring that the charging methodology was consistent with the removal of automatic credits (1/15th firm capacity charges) within the exit reform UNC proposals. National Grid could still enter into bilateral contracts for interruption but the payments would not be covered by the transportation charging methodology. MW commented that Users could potentially obtain interruptible capacity at zero price which might be an issue if interruption occurred yet firm capacity was still released within day. TD suggested that there would be time to sort out the implications on pricing if 0195A was approved. This was acknowledged by the attendees.

DA asked about the effect on pricing volatility through the adoption of a one year model, compared to the previous averaging over ten years, and removal of any limits on the maximum level of allowed change. EB responded that the 10 year averaging was largely to mask the volatility of Transcost and that the Transportation Model was more stable. EB believed that Users wanted timely benefit from changes if, for example, the addition of a new ASEP led to Exit Charges reducing at certain locations. The change to exit prices as a result of the supply & demand balancing rules has been identified as an issue and National Grid will look to bring proposals forward at the November TCMF which might address this issue. Averaging with the Transportation Model may have led to less stable prices if the forecast date of future new entry connections varied year on year.

Consultation Close-out is set for 12 September 2008.

### **4.2. GCM12 (Draft) Entry Over Recovery and K Management**

This Proposal replicates the GCM11 proposal regarding entry over-recovery but also provides separate treatment of Entry and Exit over-recovery revenue for charge setting purposes, thus over-recovery on Entry would only lead to adjustment of Entry charges, and the same would apply to Exit. There would be no requirement for a Licence change and the reporting of K would continue with a total TO figure being reported.

AuL asked about the policy behind the exclusion from possible rebates of sites on the short-haul tariff. EB responded that GCM12 was intended to bring consistency with GCM10 where the principle was established that short-haul would not benefit from over-recovery. Short-haul is an alternative to payment of TO and SO Commodity at Entry and SO Commodity at Exit. If short-haul flows do not contribute towards under-recovery (i.e. they do not attract the TO Entry Commodity charge) then they should not benefit from over-recovery.

EB responded to RF that he hoped Ofgem's concerns in respect of negative TO Commodity Charges had been addressed. Previous proposals for negative commodity charges had been vetoed as it was unclear as to how the charges would be set within year whereas GCM12 was proposing an end of year process. GCM11

had been vetoed due to the potential cross subsidy of entry users by exit users whereas GCM12 avoids this outcome by keeping entry and exit over-recovery completely separate. RM, however, stated that it was too early for Ofgem to comment.

Consultation Close-out is set for 12 September 2008.

## **5. Exit Capacity Prices – GCM13 (Draft)**

EB gave this presentation and began by demonstrating the likelihood of exit pricing fluctuation. One solution would be moving from October – September to April – March pricing but this was not favoured by National Grid NTS, as Exit Capacity will be booked from October each year under Exit Reform. Options 3 and 4 were based on a one-off change in April 2009. Option 3 was full recalculation of charge levels, while Option 4 was simply adjusting October prices to recover allowed revenue without updating any other model parameters and re-running the full methodology.

RF asked whether it was realistic to expect that prices would remain the same for two consecutive years as suggested in EB's illustration of the path of prices. EB stated that it was possible, but acknowledged there were other items that influenced prices and an October change would be required to reflect the updated model.

AuL asked about the relationship between the prices associated with an April price change and the data within the Transportation Model. EB responded that under option 4, the only change would be to update the required revenue to be collected and this would be notified to Users. The model itself would not be updated.

SL queried whether there could be confidence regarding stability when revenue is based on RPI, predictions of which could prove to be wrong. He believed that further step changes might be required – potentially each year such that the one-off proposal could be repeated and so Shippers would face two price changes per year. DA also believed National Grid NTS' view that RPI changes would be consistent from year to year was optimistic. He would prefer an April change each year, which is the practice now followed by the DNs. The Shippers were indifferent regarding the month of change but supported change being no more frequent than annual.

EB asked whether, in the light of the discussion, it was worth going ahead with a consultation suggesting that there might be merit in progressing with the proposal, while at the same time investigating a move to April to March exit price setting. SL asked for an estimate of the price fluctuation. National Grid NTS suggested that it would be approximately 20%. There was a variety of views on whether the stability benefits were worthwhile. EB responded to a question from SR by stating that the cash-flow benefits would be negligible as the cycles would be essentially symmetrical. This was acknowledged.

It was suggested that attendees be given the opportunity to reflect on the information provided and discuss the issue further at the October forum. The timescale would be tight for an April price change but achievable, providing Ofgem did not carry out an impact assessment on any methodology change.

## **6. October 2008 Charging Methodology Statement**

DH said that National Grid NTS were on target for 1<sup>st</sup> October issue of a revised Statement.

RM indicated that Ofgem had agreed to the National Grid NTS proposal that SO Commodity charge for storage be delayed, and DH indicated that, in light of this, the consultation report would now be published.

## **7. TO and SO Information Reporting**

EB expressed National Grid's intention to publish the quarterly report covering the setting of the 1<sup>st</sup> October 2008 NTS commodity charges during the next week. It was agreed that Action 54, National Grid NTS to revise the "Explanation of NTS and SO Commodity Charges" document to set-out the key assumptions made, be carried over so that the forum would be able to judge whether this paper met the action. EB invited comments on the report once it was available.

## **8. Any Other Business**

SL asked when the Transportation Models would normally be produced. EB responded that the timing was linked to the preparation of prices for the QSEC.

RF stated that E.ON was considering a Review Proposal to bring equivalent provisions for NTS that were introduced for the DNs through UNC Modification 0186, Provision of cost information. EB responded that NTS were seeking to address the requirements without the need for a UNC Proposal via the charging quarterly report (see section 7). RF recognised the efforts made by NTS but suggested that Users should address whether this was sufficient. TD suggested that, consistent with the DN approach, a quarterly commentary on whether NTS was on target with revenue would be helpful, but this could be provided on a voluntary basis rather than necessarily requiring a UNC Modification.

## **9. Next Meeting**

It was agreed that the following Items would be discussed:

- Exit Capacity Prices – GCM13 (Draft)
- TO and SO Information Reporting
- Entry Discounts/Spare Capacity
- Entry Points with Negative LRMCs

The meeting will be held on Thursday 2<sup>nd</sup> October 2008 at Elexon, 350 Euston Road, following the Transmission Workstream.

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**Action Log**

<b>No.</b>	<b>Date Raised</b>	<b>Description</b>	<b>Status</b>	<b>Comments</b>
54	11/06/2008	National Grid NTS to revise the "Explanation of NTS and SO Commodity Charges" document to set-out the key assumptions made.	Carried Forward	Awaits publication of the TO and SO Information Report.
55	11/06/2008	National Grid NTS provide a proposal for incentivising efficient booking of entry capacity to the next forum.	Carried Forward	