National Grid Gas plc

Gas Transmission Charging Methodologies Forum

Draft Meeting Report: 06 July 2006

This report outlines the key discussions of the fifth Gas TCMF meeting held at Elexon, 350 Euston Road, London on 6th July 2006. All supporting material can be found at www.nationalgrid.com/uk/gas

ATTENDEES

Tim Davis (Chair)	TD	Joint Office of Gas Transporters
Amrik Bal	AB	Shell
Angela Love	AL	Pöryr
Andrew Pester	AP	Ofgem
Chandima Dutton	CD	National Grid NTS
Colin Dickens	CDi	ExxonMobil
Charles Ruffell	CR	RWE
Christiane Sykes	CS	EON
Chris Wright	CW	BGT
Denis Aitchison	DA	Scotia Gas Networks
Eddie Blackburn	EB	National Grid NTS
David Edward	DE	Ofgem
Helen Bray	HB	CIA
John Bradley	JB	Joint Office of Gas Transporters
Jeff Chandler	JC	SSE
John Costa	JCos	EDF Energy
Julie Cox	JCox	AEP
Lorraine Goodall	LG	Scotia Gas Networks
Phil Broom	PB	GdF
Roddy Monroe	RD	Centrica Storage
Sharif Islam	SI	Total Gas and Power
Sophia Avendez	SA	Total
Sebastian Galliano	SG	GdF
Yasmin Sufi	YS	ENI

1. Report of Previous Meeting

The meeting report of the Forum held on 25 May 2006 was agreed as accurate.

2. Actions and Issues from previous meetings

11 National Grid NTS to identify the assumptions behind the determination of Milford Haven UCAs and the relationships with existing Entry points

It was confirmed that the UCAs for Milford Haven had been set based on the same underlying cost estimates as existing Entry points. **Action Closed**

15 National Grid NTS to provide spreadsheet data on the five options in respect of NTS Supply Points.

It was confirmed that this spreadsheet was on National Grid's website. **Action Closed**

16 In respect of the Transitional Exit Prices, National Grid NTS to provide table showing impacts in terms of percentage

It was confirmed that this table was on National Grid's website. ***Action Closed***

17 National Grid NTS to consider which year to use as the base network in their models, and whether a move to more than one year averaging would be desirable

See item 3 below **Action Closed**

18 National Grid NTS to arrange a demonstration of the Transportation Model spreadsheet.

See item 3 below **Action Closed**

3. Overview of Transportation/Transcost Models

EB gave this presentation. He began by describing the Panhandle equation behind Transcost and the limitations of the Transcost model. It was recognised that the Transportation Model reflected a single expansion factor for all pipe diameters. This accorded with planned investment though it did not reflect the current transmission assets. JCos referred to the larger number of assumptions in the Transportation Model. EB responded that, in fact, although the model was simpler than Transcost, there were fewer assumptions in the Transportation Model. The example was given that Transcost was basd on the assumption that a single configuration would be used at each multijunction whereas the transportation model was free to calculate the optimum route and hence could effectively model any configuration. SI suggested that this was not the main issue – it was which model would drive the most efficient and economic result. EB responded that the Transportation Model would drive stability and repeatability. Providing the Models were cost reflective, efficiency would be promoted. Whilst a complex model might be expected to provide a cost reflective result, there would be exceptions – such as where reconfiguration of the network meant that no additional assets were required.

EB pointed out that Transcost modelled an incremental flow of 2.834 MCM/D. The Transportation model had an effective increment of 1 kWh so it represented a true marginal cost model. On the Transportation Model, National Grid NTS had identified previously that with a 50:50 Entry:Exit split, the costs were independent of the position of the reference node. The Transportation Model reflected the contribution of compressors to a pipeline network but not regulators. EB acknowledged that not all parts of the system were rated at 85bar but believed that all new pipes would be. He demonstrated this by summarising the five factors that lead to the calculation of the expansion factor. TD pointed out that whilst the Transportation Model was based on a single expansion factor, a variant could be produced that had more than one factor it this was considered desirable.

CD then demonstrated the transportation model. It was possible to select any Entry and Exit Point to easily view that calculated charges. The solver would do the calculations based upon a 50:50 split. She also selected two different reference nodes – Peterborough and Peterhead and showed that the tariffs were unaffected by the choice of reference node as the results were identical.

CD stated that National Grid NTS expected to recalculate expansion factors annually. TD asked whether the model would be placed on the National Grid NTS website. EB said that National Grid would like to make the model available on the website but could not at this time because National Grid NTS had difficulty in making the Supply and Demand data available that was incorporated in the model. National Grid NTS were to discuss with DNs how the demand data might be derived. EB confirmed that the central supply/demand forecast from the Ten Year Statement would be assumed in deriving the data. SI asked about scaling to allowed revenue. EB stated that currently exit charges are scaled but entry charges are not. In future, it was suggested that exit charges would be adjusted using an additive factor rather

than scaled (multiplicative) but this process would happen before negative prices had been removed and hence certain exit points would remain at a minimal level e.g. points in the North of Scotland.

4. Capacity Proposals: Input Assumptions

EB gave this presentation. He acknowledged the current inconsistency between Gas Year and "capacity year". He suggested that the Gas Year basis should be used based on the expected network each 1st October. This was justified on the basis that new pipeline and compressor projects wee planned for availability for 1st October in each year due to the requirement for a summer construction programme and hence the network capacity effectively changed from 1st October. He then described National Grid Exit Capacity Charging proposals in relation to the ten issues discussed at previous forums and the initial proposal in respect of each. He suggested that year-on-year price changes should not be capped but realised this might be contentious. In defence, he stated that the model would be more stable than the existing methodology. He clarified that costs would be incremented by the same amount to equal allowed revenue rather than using scaling. As a final step the negative costs would be excluded. Use of a single year model would also allow future prices to be forecast

JCox asked about the influence of the exit regime, where unlike current practice all NTS Supply Points would be firm and therefore show a flow. This could lead to instability in costs. EB expressed the view that use of a transportation model would be consistent with exit reform and agreed that the key issue was the choice of supply and demand scenario to use for charge calculation purposes. He pointed out that modelling such effects could be carried out fairly readily and agreed to do so.

Action EB

SI asked about other implications of the enduring regime such as flat and flexible capacity considerations. EB responded that the Transportation Model was more applicable than Transcost for calculating flat capacity as route costs were based solely on flow distances and not pressures.

EB then identified the implementation dates. To meet the indicative charge deadline, National Grid NTS might need to produce prices both on the existing and new methodology. JCox was concerned at two sets of prices for April and October 2007 that might be quite different from each other. TD suggested that the timetable be discussed later.

For Entry, EB again described National Grid Capacity Charging proposals in relation to the ten issues discussed at earlier forums and noted that the proposals were generally consistent for Entry and Exit. On Entry , he acknowledged that removal of the day-ahead and on-the-day reserve price discounts might be contentious. EB clarified that the main difference between the entry and exit proposals was that supply analyses would be carried out individually for each Entry Point at the baseline level as not all entry points would be flowing at their baseline levels within the base case S&D scenario. PB queried the Entry methodology timeline and input data. EB agreed that there were some inconsistencies and agreed to adjust the slide [Post meeting note: the slide has been amended and the presentation has been added to the Gas TCMF website].

CD outlined National Grid NTS' initial thoughts on Entry Capacity baseline prices. She displayed the difference between the Ofgem proposed UCA, the current LTSEC Reserve Price, indicative reserve prices using supply flows adjusted to reflect obligated capacity levels and the unadjusted central case prices for three years and outlined the reason for differences at each beach terminal. TD suggested that these results were in line with expectations. For example, with St Fergus the costs would be expected to be higher with the Transportation Model. For smaller Entry Points she pointed out some significant increases from existing reserve prices that may arise by using Ofgem's proposed UCAs. The Transportation Model

typically produced minimal prices for the smaller storage sites, reflecting that they were beneficial to the system. Therefore it might be concluded that the results of the Transportation Model were more cost reflective.

5. Way Forward

CD stated that National Grid NTS intended to produce a TCMF progress report in July 2006. In August 2006 it would issue a consultation paper for April 2007 implementation. In addition, it would issue, the same month, a draft revised charging methodology statement. To enable publication of the Transportation Model, National Grid NTS were attempting to address the information issue without use of a UNC Modification Proposal. If not, it would raise the Proposal in August 2006. TD suggested that an Urgent Proposal might be the only practical way of aligning the consultation timescales. TD asked whether Ofgem would do an impact assessment as part of the UNC Modification Proposal evaluation. AP agreed to investigate this. National Grid NTS were considering when a revised IECR would be released.

To assist in issuing the Transportation Model spreadsheet, JCox suggested issuing the model with hidden values. EB agreed to investigate this possibility. **Action EB**

SI reiterated that National Grid NTS should demonstrate the effect of current NTS Interruptible Supply Points going firm (action already agreed).

6. AOB

None

7. Dates of Next Meeting

It was suggested that a further gas TCMF meeting be scheduled for 3rd August 2006 following the UNC Transmission Workstream to discuss Commodity Charging issues. It was noted by the Joint Office that a number of other requests had been received to schedule meetings on that date. National Grid NTS will investigate potential alternative dates for the next gas TCMF meeting and will inform the industry via the Joint Office and the National Grid website.

Action Log

No.	Date Raised	Description	Status	Comments
11	26/04/2006	National Grid NTS to identify the assumptions behind the determination of Milford Haven UCAs and the relationships with existing Entry points	Closed	It was confirmed that the UCAs for Milford Haven had been set based on the same underlying cost estimates as existing Entry points.
15	25/05/2006	National Grid NTS to provide spreadsheet data on the five options in respect of NTS Supply Points.	Closed	Placed on National Grid's website
16	25/05/2006	In respect of the Transitional Exit Prices, National Grid NTS to provide table showing impacts in terms of percentage	Closed	Placed on National Grid's website
17	25/05/2006	National Grid NTS to consider which year to use as the base network in their models, and whether a move to more than one year averaging would be desirable	Closed	Included in proposals
18	25/05/2006	National Grid NTS to arrange a demonstration of the Transportation Model spreadsheet.	Closed	Demonstration made on 06/07/2006
19	06/07/2006	National Grid NTS to demonstrate the effect of assuming that currently interruptible NTS Supply Points were firm.		
20	06/07/2006	National Grid NTS to consider whether the Transportation Model Spreadsheet could be publicly available if commercially sensitive values were hidden.		