

## Gas Transmission Charging Methodologies Forum

### Draft Meeting Report: 11 June 2008

*This report outlines the key discussions of the twenty second Gas TCMF meeting held at Elexon, 350 Euston Road, London on 11<sup>th</sup> June 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
Alex Barnes	AB	BG Group
Charles Ruffell	CR	RWE npower
Christiane Sykes	CS	Statoil UK
Clive Woodland	CW	British Gas
Debra Hawkin	DH	National Grid NTS
Eddie Blackburn	EB	National Grid NTS
Martin Watson	MW	National Grid NTS
Huw Davies	HD	EDF Energy
John Bradley	JB	Joint Office
Leigh Bolton	LB	Cornwall Consulting
Phil Broom	PB	Gaz de France
Richard Fairholme	RF	E.ON UK
Richard Miller	RMi	Ofgem
Roddy Monroe	RMo	Centrica Storage
Rekha Patel	RP	WatersWye Associates
Stefan Leedham	SL	EDF Energy

#### 1. Introduction

TD welcomed attendees to the meeting.

#### 2. Report of Previous Meeting

The meeting report of the forum held on 07 May 2008 was agreed.

#### 3. Review of actions.

51. *National Grid NTS to raise a draft pricing proposal for Flat Exit Capacity.*

To be in a paper to be published by the end of June 2008 **Carried Forward**

52. *National Grid NTS to generate two indicative price variants using the Transportation Model – baseline inputs and booked capacity inputs.*

To be in a paper to be published by the end of June 2008 **Carried Forward**

53. *National Grid NTS to assess the split required to minimise the number of constrained points and provide an assessment of the work required to do an SO cost attribution exercise.*

National Grid NTS demonstrated the effect of avoiding constrained charges, which could support moving to charging solely at exit. The remaining part of the action would be addressed at the next forum. **Carried Forward**

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

### **4.1. GCD05 Storage Commodity Charging**

A draft report has been submitted to Ofgem recommending not going ahead at this time. Once the report had been considered by Ofgem, National Grid NTS support its wider publication.

## **5. Entry Over-Recovery and K Management**

EB gave this presentation. RF asked why there would be an uncertainty in respect of Exit revenue. EB responded that, within the DNs, there is currently an uncertainty associated with the NDM demand. SL pointed out that in two of the examples the Entry and Exit components balanced so why was interest calculated? EB responded that interest paid/recovered from Exit should be independent of that paid/recovered from Entry and vice versa.

EB expressed the view that whilst National Grid NTS did not anticipate any Entry over-recovery this year it nevertheless wished to go ahead with the consultation to ensure that in the future any over recovery scenario could be managed. It believed its revised proposal would address the concerns expressed previously in regard to GCM11. In terms of the timing for taking this forward, there was support for raising the proposal with Ofgem requesting that National Grid NTS avoid the proposal being with Ofgem for consideration during the Christmas period.

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

EB explained that National Grid NTS had received a number of requests for further explanation on how it sets SO and TO Commodity Charges. For this reason the document "Explanation of NTS and SO Commodity Charges" had been placed on its website. EB hoped that this would not only increase understanding on how charges are calculated but also assist Users in deducing how other changes might affect these commodity charges. The intention is to update this report on a quarterly basis.

He then went on to demonstrate the calculation for the April 2008 SO Commodity charge. SL suggested that some further commentary might be helpful particularly in respect of some of the assumptions made. Members suggested that National Grid NTS look at current DN practice in this respect in terms of coverage and format. National Grid NTS agreed to do this.

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

## **7. Entry Capacity**

### **7.1. Firm and Interruptible Entry Capacity Discounts and Spare Capacity**

EB outlined the impact of a zero reserve price for capacity sold on the day, which, by employing a zero reserve price, met the licence obligation to offer capacity for sale in a clearing allocation but did not encourage long term bookings. TD asked for views on whether long term bookings should be encouraged or not. AB recognised that long term bookings had their value but short term alternatives should be available as well. Other members believed that a range of options was required. MW clarified that National Grid NTS had not asked for a removal of the obligation to offer capacity in a clearing allocation - he was seeking views prior to making any such proposal to Ofgem. Ofgem confirmed that they were not actively considering removing the obligation.

EB suggested that removing the zero reserve price would only be effective if current use it or lose it rules were revised. The potential for not releasing UIOLI interruptible capacity until firm capacity had sold out had already been discussed through charging discussion paper GCD04. It was recognised by the forum that this was consistent with encouragement of long term booking, should that be the objective.

### **7.2. Spare Capacity and QSEC Discounts**

EB began by looking at the definition of spare capacity in terms of unused physical capability. Reflecting this in charges would indicate the use of Transcost or a similar model. This would in turn lead to reduced transparency and pricing instability. EB then proceeded to discuss three alternative definitions of spare commercial capacity:

1. Unutilised Entry Capacity at an ASEP,
2. Baseline Entry Capacity less forecast entry flows; and
3. Unsold Obligated Entry Capacity.

He reminded the forum that the first alternative is only known after the Day; the second lay behind GCM06 proposal, which was not well supported and ultimately vetoed by Ofgem and might have led to unstable pricing; and the third is the basic principle behind the existing auctions where unsold capacity is offered for sale.

EB then outlined the forecast loop and contrasted the “success” and “failure” outcome of discounts for capacity, based on the use of forecasts, in potentially increasing spare capacity sales. Success, i.e. additional sales of entry capacity than might otherwise have been the case, could only be achieved if the initial forecast of capacity sales used to set prices proved to be ‘incorrect’. He highlighted the risk of cross subsidies even if the outcome were success. To minimise these issues EB suggested that National Grid NTS focus on incentivising the use of existing (i.e. obligated) entry capacity within investment time scales. This led to a suggestion that a discount be introduced to the QSEC P0 prices. EB outlined the effect at each of the largest terminals, based on 90% of the obligated capacity level being used as

an input to the model to set lower prices and asked for views on this. CW believed that there were already incentives to book capacity early and so was unsure if this was necessary or likely to be effective. SL suggested that, as discounts might increase revenue under recovery, the alternative of increasing short term capacity release prices should be investigated.

MW asked for guidance on the way forward. TD suggested that National Grid NTS produce a draft proposal for discussion at the next forum, covering reserve prices in all auctions. This was agreed.

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

## **8. Any Other Business**

### **8.1. Next Meeting**

Wednesday 9<sup>th</sup> July 2008 at Ofgem 9 Millbank.

### Action Log

No.	Date Raised	Description	Status	Comments
51	17/05/2008	National Grid NTS to raise a draft pricing proposal for Flat Exit Capacity.	Carried Forward	To be in a paper to be published by the end of June 2008
52	17/05/2008	National Grid NTS to generate two indicative price variants using the Transportation Model – baseline inputs and booked capacity inputs.	Carried Forward	To be in a paper to be published by the end of June 2008
53	17/05/2008	National Grid NTS to assess the split required to minimise the number of constrained points and provide an assessment of the work required to do an SO cost attribution exercise.	Carried Forward	National Grid NTS demonstrated the effect of removing constraints. The remaining part of the action would be addressed at the next forum.
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.		
55	11/06/2008	National Grid NTS provide a proposal for incentivising efficient booking of entry capacity to the next forum.		