

Gas Transmission Entry Charging Review

Draft Meeting Report: 06 October 2009

This report outlines the key discussions of the second GTECR meeting held at Ofgem Offices, 9 Millbank, London, SW1P 3GE on 6th October 2009. Supporting material can be found at www.nationalgrid.com/uk/Gas/Charges/TCMF

Attendees

Tim Davis	TD	Joint Office
Alex Barnes	AIB	Gazprom
Amrik Bal	AmB	Shell
Andrew Pearce	AP	BP
Brendan O'Riordan	BOR	Bord Gáis
Debra Hawkin	DH	National Grid NTS
David Turner	DT	Gassco
Eddie Blackburn	EB	National Grid NTS
Guan Yang	GY	Centrica
John Baldwin	JBa	CNG Services
John Bradley	JBr	Joint Office
Jeff Chandler	JC	Scottish and Southern Energy
Justin Jackson	JJ	ExxonMobil
Jemma Spencer	JS	National Grid NTS
Julie Cox	JuC	AEP
James Thompson	JT	Ofgem
Richard Fairholme	RF	E.ON UK
Richard Miller	RiM	Ofgem
Rekha Patel	RP	WatersWye
Steve Fisher	SF	National Grid NTS
Sofia Fernandez Avendaño	SFA	Total
Stefan Leedham	SL	EDF Energy
Shelley Rouse	SR	Statoil

1. Introduction

TD welcomed attendees to the meeting.

2. Actions

Action ECR09/01: Ofgem (RiM) to advise whether any potential licence developments are under consideration, which would affect the areas under review.

RiM confirmed that there was nothing to report at this stage. Any options which might be pursued were most likely to emerge from the RPI-X @ 20 process.

Action Closed

Action ECR09/02: National Grid NTS (EB) to redraft Terms of Reference in light of discussion.

See 3 below

Action Closed

Action ECR 09/03: National Grid NTS (EB) to expand the analysis presented to include SO as well as TO revenue, identifying incremental and non-incremental capacity, including projections across the next price control period.

See 5.3 below

Action Closed

Action ECR 09/04: National Grid NTS (EB) to develop a list of objectives for the Review.

See 3 below

Action Closed

3. Terms of Reference (TOR)

SL presented a view on objectives for this review. These were:

- Reduce the TO Commodity charge;
- Encourage long term bookings of entry capacity;
- Provide locational signals for use of spare capacity;
- Provide certainty to Shippers;
- Provide predictability to Shippers; and
- Align with developments in Europe.

AP pointed out that long-term bookings on the continent had substantially reduced both capacity availability and the development of competition such that encouraging long term bookings is not necessarily desirable. AmB suggested that this was not a feature of long-term booking alone but also the contractual arrangements that are in place.

SL set-out candidates as key objectives from EDF Energy's viewpoint.

1. Collect TO Revenue from TO Capacity charges;
2. Encourage long term bookings;
3. Encourage security of supply; and
4. Consider negative LRMCs.

SL was invited to suggest what qualified as long-term. He acknowledged that this was a matter of degree, but suggested that anything over a year could be regarded as long term – this definition would currently include QSEC and AMSEC auctions.

RF expressed a view that some capacity should continue to be made available for the shorter term, and that the objective should be to incentivise appropriate behaviour rather than only long term bookings. SL agreed and suggested that the review concentrates on pricing methodology rather than on changing the current release mechanisms.

JBa pointed out that changes in auction charging would not affect relatively new entrants, such as LNG importers, since they had already booked long term incremental capacity. Rather than under-recovery being addressed through TO Commodity Charges, he suggested that some contribution from Exit was appropriate. JuC responded that any Exit contribution would indicate that charges were not cost reflective.

EB pointed out that the UK was unique in allowing entry capacity to be available on the day at zero price - in continental Europe, even interruptible capacity was not available at zero price.

RiM offered to consider the objectives discussed from Ofgem's perspective and to respond by the next meeting on what should be given priority. This was accepted

ECR 10/01: Ofgem (RiM) to review the objectives suggested by EDF and National Grid NTS and suggest priorities.

EB then highlighted four objectives as set out in the revised Terms of Reference:

1. Continue to achieve the NTS Licence and EU relevant charging objectives.
2. Maximise the proportion of NTS TO target entry revenue recovered through entry capacity charges.
3. Appropriately incentivise long-term booking of NTS Entry Capacity.
4. Appropriately differentiate by price between the NTS Entry Capacity products made available.

AIB reiterated that incentivising long-term booking should not necessarily be the aim, which DT supported. DT expanded that Norwegian exit tariffs do not discriminate by member states and that commodity charges therefore disincentivise gas being provided.

AIB argued that, if the review concluded that long-term bookings should be incentivised, the justification for this should be made clear in any report. TD suggested, instead, that the review should aim to achieve a balance between long and shorter-term bookings rather than assuming all bookings should be on one basis rather than the other. This was accepted as a principle. EB offered to remove objective 3 and substitute a security of supply objective; however, the meeting agreed that, instead of removing objective 3, it should be amended to reflect the need for justifying the statement.

TD suggested that, as an additional objective, National Grid NTS set charges with a view to collecting allowed revenue. He also suggested that a further objective may be that available capacity should not be withheld from the market – which had been the reason given for including the clearing allocation obligation in the National Grid NTS Licence. AmB responded that 4 above should cover this aspect. RF suggested that, in setting out these objectives, National Grid NTS might be strengthening user commitment. EB agreed that this might be the case and would need to be reflected in the pricing of longer and shorter term products.

It was agreed that, after taking into account Ofgem's offer to review priorities, the meeting did not need to agree objectives at this stage.

JuC raised any flow-through of principles developed within the Review to exit. EB responded that, if this were the case, the processes of the TCMF would be followed. It was therefore agreed that the last sentence in the 'Nature and Purpose' section of the TOR would be deleted.

SFA suggested that any positive features of the exit regime should be considered, and this was accepted.

4. Review Timeline

EB indicated that National Grid NTS had reconsidered the more relaxed timeline, of the two previously presented, to see if implementation could be brought forward to March 2011 instead of April 2011 and so cover an additional QSEC process. The conclusion was that this might only be achieved if some processes proceeded in parallel rather than in series. In particular, if Ofgem consulted on Licence changes in parallel with an Impact Assessment. Concerns were raised that there was little point in pursuing options which were dependent on a Licence change unless that change was definitely going to be forthcoming. TD again emphasised that if options being discussed were clearly unacceptable to Ofgem, the Group would hope to receive an early indication of this in order to avoid wasting resources.

5. Analysis

5.1. Throughput Based Analysis

EB presented graphs for all the main Entry Points on capacity bookings vs. flows. AP suggested that these graphs demonstrated that long-term booking is taking place so the problem is not the lack of long-term booking – the problem might be prices. JBa suggested that these slides showed that the secondary market was undermined by the huge amount of interruptible capacity sold. DT added that this position might change if substitution is implemented. This was recognised by the meeting.

EB then demonstrated how much entry capacity revenue would be recovered if capacity bookings were based on throughput. He concluded that there would still be under-recovery if that were seen in practice. JuC acknowledged this but suggested that relatively minor overbooking of capacity, which would be expected and logical, could eliminate under-recovery. JBa maintained that, even if there were greater incentives to book long-term capacity, there would still be under-recovery. He agreed, however, that Users should have to pay for daily capacity, including Interruptible and that the Review should conclude this was appropriate and look to early implementation.

TD reminded the meeting that this principle conflicts with the licence – the clearing obligation – and hence is not an option as things stand. RiM identified that the clearing obligation is not set in stone and Ofgem would consider its removal if a sufficient case was made that this is the right thing to do.

5.2. European Comparison

EB reviewed the charging survey conducted by GTE three years ago. RF pointed out that the comparisons were not all like for like and caution should be exercised. AIB pointed out that the likelihood of interruption criteria, which applied in Italy and the Netherlands, could be complex to apply in GB.

EB emphasised that GB had by far the lowest daily reserve prices as a percentage of annual. The same applied with monthly reserve prices.

5.3. TO and SO Revenue

EB highlighted the differences between the old incentive scheme and the scheme from April 2007 and illustrated how TO revenue would change given a set of assumptions. This indicated that no sudden change in TO revenue was anticipated as a result of the incentive schemes running their course and revenue allowances moving from the SO to TO category.

6. Any Other Business

The group discussed what further analysis might assist discussions within the Review Group and how to move towards recommendations.

National Grid NTS was requested to provide analysis for a selection of reserve price options looking, for example, at whether they should be the same for all products or how they should be structured – increasing or decreasing as bookings became shorter term. JuC emphasised that this should concentrate on historic data rather than looking to predict behavioural responses.

ECR 10/02: National Grid NTS (EB) to provide analysis to support a selection of reserve price options, concentrating on historic data.

Also National Grid NTS was requested to review which of the exit charging principles might usefully be applied to entry.

ECR 10/03: National Grid NTS (EB) to review which of the exit charging principles might be usefully applied to entry.

Subject to room availability, it was agreed that the next meeting should be held on 11 November 2009 in London.

Action Log – Gas Transmission Entry Charging Review 10 October 2009

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
ECR 09/01	09/09/09	2	Advise whether any potential licence developments are under consideration, which would affect the areas under review.	Ofgem (RiM)	Ofgem advised no current considerations taking place Closed
ECR 09/02	09/09/09	2	Redraft Terms of Reference in light of discussion.	National Grid NTS (EB)	Redrafted Closed
ECR 09/03	09/09/09	4	Expand the analysis presented to include SO as well as TO revenue, identifying incremental and non-incremental capacity, including projections across the next price control period.	National Grid NTS (EB)	Analysis presented Closed
ECR 09/04	09/09/09	4	Develop a list of objectives for the Review.	National Grid NTS (EB)	Objectives developed Closed
ECR 10/01	06/10/09	3	Review the objectives suggested by EDF and National Grid NTS and suggest priorities	Ofgem (RiM)	
ECR 10/02	06/10/09	6	Provide analysis to support selection of reserve price options, concentrating on historic data	National Grid NTS (EB)	
ECR 10/03	06/10/09	6	Review which of the exit charging principles might usefully be applied to entry	National Grid NTS (EB)	