

## Gas Transmission Charging Methodologies Forum

### Draft Meeting Report: 7 May 2008

*This report outlines the key discussions of the twenty first Gas TCMF meeting held at Elexon, 350 Euston Road, London on 7<sup>th</sup> May 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	AB	Shell
Alistair Clarke	AC	BG
Andrew Fox	AF	National Grid NTS
Audrey Luksicek	AL	British Gas Trading
Charles Ruffell	CR	RWE
Debra Hawkin	DH	National Grid NTS
Eddie Blackburn	EB	National Grid NTS
Emma Hayes	EH	BG
Ed Lawns	EL	Scottish and Southern Energy
Graham Jack	GJ	British Gas Trading
John Bradley	JB	Joint Office
Julie Cox	JC	AEP
Jemma Spencer	JS	National Grid NTS
Leigh Bolton	LB	Cornwall Consulting
Martin Watson	MW	National Grid NTS
Peter Bolitho	PB1	E.ON UK
Phil Broom	PB2	Gaz de France
Paul O'Donovan	POD	Ofgem
Richard Fairholme	RF	E.ON UK
Rekha Patel	RP	WatersWye
Steve Armstrong	SA	National Grid Distribution
Sofia Fernandez Avendaño	SFA	Total
Stefan Leedham	SL	EDF Energy
Shelley Rouse	SR	Statoil

#### 1. Introduction

TD welcomed attendees to the meeting.

#### 2. Report of Previous Meeting

The meeting report of the forum held on 08 April 2008 was agreed.

### 3. Review of actions.

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

National Grid had agreed to bring specific example to the meeting rather than a high level comparison of the two approaches. This was agreed. **Closed**

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

#### 4.1. GCD05 Storage Commodity Charging

Draft paper to be submitted to Ofgem. It is likely to recommend not going ahead.

#### 4.2. GCM10 TO Entry Commodity Rebate Mechanism

The credits have been submitted totalling £15.2m.

#### 4.3. GCM11 Retrospective Negative TO Entry Commodity Charge

National Grid NTS intend to place a draft consultation paper, based on an amended GCM11 proposal, on the website. This will include separate management of the Licence over/under recovery mechanism (K) for entry and exit price setting to seek to overcome the reasons for the rejection of GCM11.

### 5. Updated Charging Methodology Statements

Updated versions of the Gas Transmission Transportation Charging Methodology, Licence Condition 4B (Connection Charging) Methodology Statement and the Statement of the Gas Transmission Metering Charges have been added to the Gas Charging section of the National Grid website.

#### 5.1. GCM09/10 Entry Capacity Over Recovery

The Transportation Charging Methodology statement has been updated to include the processes defined within charging methodology proposals GCM09 and GCM10 in regard to entry revenue over recovery avoidance

#### 5.2. SO Capacity Incentives and Charging

The Transportation Charging Methodology statement has also been updated to clarify the treatment of incremental exit revenue as SO revenue. A new appendix has been added to detail the key Licence formula in regard to both TO and SO allowed and actual revenue to seek to improve the clarity of the process.

SL asked whether the charging model would be updated in line with the newly announced charge levels. EB responded that National Grid NTS would be happy to release the model if requested but would be doing an update in the summer and wondered whether there would be confusion if too many versions of the model were available. **[Post meeting note – the model has been released to registered users of the Transportation Model]**

## 6. Exit Reform

### 6.1. UNC Proposals

Currently there are seven Modification Proposals under consideration. National Grid NTS will be concentrating on the flat capacity aspect as a zero reserve price for flexibility had been agreed through charging proposal GCM04. EB summarised the differences in relation to the charging impact. Auctions would apply to medium term products in the 0116 series (except 0116A) but not to 0195/0195A.

### 6.2. Pricing Discussions

Three pricing discussions have been held covering both commodity and capacity for flat and flexibility capacity plus the TO under/over recovery mechanisms.

National Grid NTS propose using the prevailing methodology to set prices or in the case of auctions reserve prices. Whilst suggesting a zero reserve price for interruption, this might be incompatible with EU regulation.

EB reviewed the suggested Transportation Model Inputs. JC suggested that the forum had discussed this already. EB responded that the issues had been discussed a year ago and therefore not since UNC proposals 195 and 195AV. National Grid NTS doesn't have to raise a discussion paper – it could go straight to consultation

PB1 suggested that the Flat Exit Capacity proposal should be raised whilst Ofgem was carrying out its impact assessment on the exit regime. National Grid NTS indicated that it would be prepared to do this as a draft proposal either in the form of a draft consultation paper or a charging discussion paper. This approach was agreed.

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

SL expressed a concern that bi-directional points may be double charged – not currently a problem where these points are interruptible. EB responded that bi-directional sites are treated as supplies in the Transportation Model but exit prices would still be calculated. While entry and exit capacity is sold as separate products it would be difficult to take into account any potential double counting solely through a pricing approach.

### 6.3. Timelines

EB stated that National Grid NTS would look towards issuing the indicative prices two months prior to the application window. SA asked that National Grid NTS aim instead for 1<sup>st</sup> May of each year as there is a link to DNO charging. This was agreed.

### 6.4. Way Forward

EB then summarised and asked for comments from the forum. The forum believed that National Grid NTS should issue a draft consultation paper as

soon as possible. TD suggested that a longer consultation might be worth considering. EB suggested discussing with Ofgem the appropriate ways of consulting. This was agreed.

## 6.5. Indicative Prices

EB outlined four scenarios based on combinations of interruptible Supply Points/Exit Points booking NTS Exit (flat) capacity and explained the principle of charges foregone. Charges foregone are those charges that interruptible exit points would attract if they paid capacity charges. This revenue is collected through the SO price control and therefore through the SO commodity charge as a consequence of the Licence but would be collected through TO Exit charges post exit reform. EB then displayed the effect averaged by exit zone, DN and for the NTS. There would be no change in average prices if all existing interruptible demand booked NTS Exit (flat) capacity but there would be some zonal variation. SL suggested that National Grid NTS conduct analyses based upon putting the baselines into the Transportation Model. This was agreed by National Grid NTS.

**Action 52: National Grid NTS to generate indicative exit prices using the Transportation Model with exit baselines as flow inputs.**

SA suggested updating the analysis when the DN interruption position is better defined later in the year. This was agreed by National Grid NTS.

## 7. Targeting TO Revenue: Is 50/50 Entry/Exit Still Appropriate?

EB gave this presentation. Allowed TO revenue is explicitly split 50/50 between entry and exit having first taken into account the DN pensions deficit charge. There is a bias towards entry due to the revenue foregone in interruptible capacity but the enduring exit regime would ensure a 50/50 split. The Transportation Model would be able to work with whatever split was input. AL asked whether the model could assess a natural split rather than input the 50/50 split. EB responded that this was not possible as the split was an input to the model and not an output. SA pointed out that moving a long way from 50/50 would generate negative charges which could be problematical.

For the SO commodity charge, as a result of shrinkage and a uniform entry/exit rate, the split was slightly different from 50/50 but the basic principle applied. Originally the charge was on exit only and moving to 50/50 should have affected prices at the NBP, leaving the final cost to end consumers unchanged, however, as gas prices are much higher and more variable than the commodity charge, it is not possible to say whether this has occurred in practice. Incremental entry and exit capacity revenue is treated as SO under the licence and hence as more incremental entry capacity has been released, more capacity revenue is collected from entry.

In electricity the TNUoS charge is 27% generation which might be considered as a compromise between a 0/100 and 50/50 split. BSUoS is 50/50.

National Grid NTS could conduct an exercise to attribute SO costs to entry and exit; however, there was little support for carrying out such an exercise. In regard to TO and hence capacity revenue, SA suggested that a potential criteria would be to minimise the number of points where you would need to constrain prices to the minimum. TD asked how often SA would wish to see this optimisation done. SA responded that repeating the exercise every five years and using the split derived for the five year period would suffice. The following actions were therefore agreed

**Action 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.**

## **8. Any Other Business**

### **8.1. Next Meetings**

Wednesday 11<sup>th</sup> June 2008

**Action Log**

<b>No.</b>	<b>Date Raised</b>	<b>Description</b>	<b>Status</b>	<b>Comments</b>
49	05/02/2008	National Grid NTS to bring a high level comparison of electricity versus gas capacity charging methodologies to the forum	Closed	Comparisons for specific proposals are to be provided
51	17/05/2008	National Grid NTS to raise a draft pricing proposal for Flat Exit Capacity.		
52	17/05/2008	National Grid NTS to generate indicative exit prices using the Transportation Model with exit baselines as flow inputs.		
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.		