

Gas Transmission Charging Methodologies Forum

Draft Meeting Report: 04 December 2008

This report outlines the key discussions of the twenty seventh Gas TCMF meeting held at Elexon Offices, 350 Euston Road, London NW1 3AW on 4th December 2008. Supporting material can be found at www.nationalgrid.com/uk/Gas/Charges/TCMF

Attendees

Tim Davis	TD	Joint Office
John Bradley	JB	Joint Office
Audrey Luksicek	AL	Centrica
Alex Barnes	AIB	BG Group
Amrik Bal	AmB	Shell
Craig Purdie	CP	Centrica Storage Ltd
Debra Hawkin	DH	National Grid NTS
Dan O'Donovan	DOD	xoserve
Eddie Blackburn	EB	National Grid NTS
Ismail Gun	IG	Centrica
Jeff Chandler	JeC	Scottish and Southern Energy
Jennifer Higgins	JH	RWE Npower
Joy Chadwick	JoC	ExxonMobil
Jemma Spencer	JS	National Grid NTS
James Thomson	JT	Ofgem
Julie Cox	JuC	Association of Electricity Producers
Martin Watson	MW	National Grid NTS
Richard Miller	RiM	Ofgem
Richard Jones	RJ	xoserve
Rekha Patel	RP	Waters Wye Associates
Shelley Rouse	ShR	StatoilHydro
Steve Rose	StR	RWE Npower

1. Introduction

TD welcomed attendees to the meeting.

2. Report of Previous Meeting

The meeting report of the forum held on 06 November 2008 was approved.

3. Review of actions.

Action 56: National Grid NTS to consider replicating the current DNO requirements for setting out estimates of price changes.

Update: See below

Closed.

Action 57: *Ofgem to consider whether the requirement to conduct a clearing auction can be removed to facilitate a pricing structure which incentivises long term entry capacity bookings.*

Update: RM indicated that Ofgem would leave it to National Grid NTS to make a proposal once substitution had been adopted. They would consider any such proposal on its merits. **Closed**

Action 58: *S and D Balancing Rules - A Discussion Paper to be produced and the use of the TYS data to be revisited to see if better options could be identified.* **Carried Forward**

Action 59: *Revised methodology for CLNG payments - A Consultation Paper to be produced which would include further information.*

This was issued for consultation on 28 November 2008. **Closed**

4. Update on Recent Pricing Consultation and Discussion Papers

4.1. GCM12 Entry Over Recovery and K Management

Final Proposals have been sent to Ofgem and are available on the National Grid website. An Ofgem decision is expected by 19 December 2008.

4.2. GCM13 April Exit Capacity Price Change

JS gave this presentation. National Grid NTS had concluded that an April price change may not be necessary in 2009 or even in future years. She explained that, if prices were nonetheless required to be changed in an April, due to some unforeseen event, to reduce price volatility, this proposed methodology change would remove the need for the supply data to be updated at the same time hence producing a constant price change. JuC stated that her members were looking for an enduring solution to get it right and therefore had reservations on National Grid NTS's proposal. She was also concerned about the increasing complexity and consequent reductions in transparency. EB responded that National Grid NTS did not necessarily want to exclude the principle of an April price change in future years and it was for this reason that it was consulting on the principle. There were discussions on the prospects of introducing rolling AQs and consequently SOQs but it was pointed out that whilst this may affect volatility it would probably be associated with introduction of Project Nexus and hence no earlier than 2012.

SL raised the volatility of individual prices quoting some very high year on year figures, which dwarfed any volatility reduction as a result of the proposed methodology change, which consequently had little value. EB suggested that this was a separate issue that needed a specific solution. JuC emphasised the importance of that work. EB responded that the analysis of supply & demand balancing rules, which was seeking to reduce exit point price volatility, was ongoing but complex whereas introducing a revised approach for April price changes was something that could be implemented within a shorter timescale. It was for this reason that it had been brought to an earlier TCMF. EB assured the group that work was progressing on the supply & demand balancing issue and that this would be given a higher priority.

National Grid NTS was invited to give reasons for the reduction in SOQs seen in the AQ review but was unable to give a definitive answer at this stage. It is likely that economic considerations/fuel efficiencies and the slowdown in the economy affects the AQ values which feed through to the SOQs.

4.3. GCM14 Constrained LNG Credits

National Grid NTS had reissued Appendix A after a minor error had been brought to their attention. Early responses to the consultation paper would be appreciated. Attendees had no particular comments to make at this stage.

5. Initial Thoughts on Charging and UNC Exit Reform Decision

5.1. GCM05 NTS Exit (Flat) Capacity

EB gave this presentation. Ofgem have expressed concerns regarding the NTS Charging Proposals consulted on through GCM05. GCM05 proposed that exit (flat) capacity charges would be adjusted to collect all target TO exit revenue. The concern is that supply points relying on the interruptible or off-peak products may not pay an appropriate proportion of TO costs given that 'revenue foregone' licence arrangements would expire

EB outlined the consequences if Proposal 0195AV were implemented. If all existing interruptible load went firm, and all the TO revenue was collected through capacity charges, as proposed by GCM05, there would be no change in the level of capacity charges as the increased capacity revenue would offset the removal of revenue foregone. The SO Commodity would reduce since it would no longer recover the 'revenue forgone' amount. If, however, current interruptible customers took advantage of the off-peak service they would actually pay less under GCM05 as they would only attract the lower SO commodity charges and firm charges would increase. SL suggested that the concept of charges foregone could be revived. EB accepted that this was one possibility.

EB then raised three options as alternatives to the current GCM05 proposal, regarding which Ofgem had expressed concerns.

1. Non-zero interruptible capacity price. No specific comments were made on this option
2. LRMC based firm capacity prices. JuC responded that this had been considered before and rejected and hence suggested there was no value in resurrecting it.
3. Firm capacity prices adjusted to collect allowed revenue based on a definition of Connected Load. This was discussed further, particularly what was referred to as the "baseline" option. Prices would be adjusted to collect TO allowed revenue from the licence baseline capacity levels and hence capacity charges would only cover TO allowed revenue if baselines sold out.

EB then demonstrated the shortfall in TO revenue based on four scenarios including all current interruptibles using the off-peak interruptible service introduced with 0195AV. SL believed that the limitation on days where the

national demand was equal to or greater than 80% of peak firm load would reduce the number of loads taking the off-peak interruptible service. MW was unsure whether this would be the case if there was a high level of firm baseline available at a location where a shipper used this service.

RM was invited to express Ofgem's concern and responded that take-up of the off-peak interruptible service would lead to increased prices for firm Exit Points. TD suggested that this concern might be alleviated by reinstatement of the principle of revenue foregone if the aim was to reinstate the status quo and avoid firm loads paying more. EB clarified what he understood by the status quo which is that interruptibles pick up a share of the 25% of revenue foregone TO exit costs. EB commented that an approach where prices were adjusted to the baseline, with a TO exit commodity charge collecting any TO exit revenue shortfall, was probably closest to the status quo however revenue foregone is currently collected through both entry and exit charges. JeC commented that it was probably more appropriate for this to be collected through exit charges.

EB then outlined the timetable for implementation in summer 2009, which would involve issuing a consultation paper in January. TD suggested that National Grid NTS provide a draft consultation paper prior to the January 2009 forum. TD also suggested that Ofgem indicate in advance of the forum whether any of the four options suggested would not be acceptable to them.

Action 60: *Ofgem (RM) to advise which alternatives, if any, to the current GCM05 proposal were unlikely to be accepted.*

JeC asked that National Grid NTS give more information on how the "baseline" option i.e. one of the connected load options, would look in practice.

6. TO and SO Information Reporting

EB went through a spreadsheet he had prepared, broadly equivalent to those produced by the DNOs as a consequence of the implementation of UNC Modification Proposal 0186, which was based on dummy data. Whilst National Grid NTS was able to provide TO data for five years it was reluctant to provide the same data for SO as it was so dependent on buy-backs, gas prices and privileged information relating to new connections and suggested instead providing three years of data. National Grid NTS had to change SO prices three times in 2008, so projecting further forward was clearly problematic. SL suggested that an aggregate value for the final allowed net revenue for later years would suffice. National Grid NTS agreed to consider this.

The forum reacted positively to receiving this data. EB identified that National Grid NTS intended to provide real data by the next forum and quarterly thereafter, in line with the DN timetable.

7. DADSEC Report

EB presented the proposed day-ahead daily system entry capacity report and invited comments from the forum. The forum agreed that it should be published on a quarterly basis and that this should provide the missing TO revenue data to allow better forecasting of the TO entry commodity charge.

8. Incremental Capacity Revenue Example

EB gave this presentation that demonstrated how revenue from incremental entry capacity was accounted for under the previous price control arrangements, including a downward adjustment to TO allowed revenue to compensate for the additional SO income for the Transporter. In the new arrangements, the incremental capacity becomes TO revenue in the following price control period. This is simpler than the old method. EB then answered further questions from attendees on points of detail.

9. Impact of UNC0230 on Pricing

EB outlined the differences between Modification Proposal 0230 and 0230A which were seeking to change the dates when the QSEC and AMSEC entry capacity auctions are held. He then outlined the consequences on charging arrangements and answered questions. No charging methodology changes had been identified however the way that the charging methodology would be applied would change due to the change in auction timings due to the information available at the time of capacity price setting.

A question was raised in regard to TO entry under/over recovery given that the proposal was moving the capacity year start from 1st April to 1st October and therefore out of step with the formula year. EB answered that as entry prices were based on LRMCs and not adjusted for allowed revenue there would be no impact on under/over recovery.

10. Any Other Business

None

11. Next Meeting

The meeting will be held on Thursday 8th January 2009 at Elexon, 350 Euston Road, following the Transmission Workstream.

Action Log

No.	Date Raised	Description	Status	Comments
56	02/10/2008	National Grid NTS to consider replicating the current DNO requirements for setting out estimates of price changes.	Closed	06/12/08 Spreadsheet presented at December meeting
57	02/10/2008	Ofgem to consider whether the requirement to conduct a clearing auction can be removed to facilitate a pricing structure which incentivises long term entry capacity bookings.	Closed	06/12/08 Ofgem indicated that once the nature of the entry substitution regime had been established National Grid NTS would be able to apply for a removal of this requirement and such an application would be considered on its merits.
58	06/11/08	S and D Balancing Rules - A Discussion Paper to be produced and the use of the TYS data to be revisited to see if better options could be identified.	Carried Forward	
59	06/11/08	Revised methodology for CLNG payments - A Consultation Paper to be produced which would include further information	Closed	This had been issued.
60	04/12/08	Ofgem (RM) to advise which alternatives, if any, to the current GCM05 proposal were unlikely to be accepted.		