

Gas Transmission Charging Methodologies Forum

Draft Meeting Report: 08 January 2009

This report outlines the key discussions of the twenty eighth Gas TCMF meeting held at Elexon Offices, 350 Euston Road, London NW1 3AW on 8th January 2009. Supporting material can be found at www.nationalgrid.com/uk/Gas/Charges/TCMF

Attendees

| | | |
|-------------------|----|--------------------------------------|
| Tim Davis | TD | Joint Office |
| John Bradley | JB | Joint Office |
| Craig Purdie | CP | Centrica Storage Ltd |
| Christiane Sykes | CS | Statoil UK |
| Clive Woodland | CW | Centrica |
| Denis Aitchison | DA | Scotia Gas Networks |
| Debra Hawkin | DH | National Grid NTS |
| Eddie Blackburn | EB | National Grid NTS |
| Ismail Gun | IG | Centrica |
| Julie Cox | JC | Association of Electricity Producers |
| Jemma Spencer | JS | National Grid NTS |
| James Thomson | JT | Ofgem |
| Richard Fairholme | RF | E.ON UK |
| Richard Jones | RJ | Xoserve |
| Richard Miller | RM | Ofgem |
| Steve Gordon | SG | ScottishPower |
| Stefan Leedham | SL | EDF Energy |
| Steve Rose | SR | RWE Npower |

1. Introduction

TD welcomed attendees to the meeting.

2. Report of Previous Meeting

The meeting report of the forum held on 04 December 2008 was approved.

3. Review of actions.

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.*

Some further analysis has been conducted that was presented at this meeting. A discussion paper will be issued in due course. **Carried Forward**

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

Ofgem has reviewed the GCM05 revised consultation paper and, subject to consultation responses, do not believe at this stage that there are any matters of principle that would prevent its acceptance. **Closed**

4. Update on Recent Pricing Consultation and Discussion Papers

4.1. GCM12 Entry Over Recovery and K Management

This proposal has not been vetoed and will be implemented on 01 April 2009. As there is forecast to be no entry revenue over recovery for the 2008/9 formula year, the key outcome of this proposal is that over/under recovery (K) will be treated separately for entry and exit for the purposes of setting target entry and exit revenue for 2009/10.

4.2. GCM13 April Exit Capacity Price Change

JS gave this presentation. The closing date for submission of responses has been extended to 16 January 2009. EB explained that National Grid NTS had a reasonable endeavours obligation to change its capacity prices no more than once per year from 1st October but could foresee potential benefits to the industry in one-off April price changes. Whilst National Grid NTS does not intend making a price change in April this year it wanted to ensure that it could use this methodology in future years should an April price change be identified as being of benefit.

DA was seeking for a clear rationale for deciding that a price change would be needed plus a requirement to discuss any proposal at the TCMF. EB suggested that DA's response should reflect this and the proposal could be modified, in light of responses received, to require National Grid to consult the industry prior to any April price change. The benefit of progressing GCM13 was that it would avoid a three month charging methodology change process in the future whereas an industry consultation on an April price change might only take 1 month. CW suggested that the potential for an April price change could be identified significantly in advance. DH added that it is difficult to set out in advance why price changes would be required that would cover all circumstances. DA recognised this but did not want to give too much of a green light to change. EB reiterated that the reasonable endeavours obligation would remain.

DA expressed a preference for an April change date instead of October as he believed this would reduce price volatility and would assist the DNs when setting their own charges. Others did not believe that this was a conclusive reason - October was more aligned to gas supply contracts for example. All agreed to the concept of no more than annual price changes, but some believed that, when necessary, a one-off April change was preferable to a long term change from October to April. RF expressed the need for a formal consultation to precede any April change. This was recognised.

4.3. GCM14 Constrained LNG Credits

The consultation has closed and a report is being prepared. The final proposal will be unchanged from that issued for consultation.

5. Charging and UNC Exit Reform

5.1. GCM05 NTS Exit (Flat) Capacity Re-consultation

National Grid NTS was still proceeding on the basis of acceptance of UNC Modification Proposal 0195AV even though a formal decision had not yet been issued by Ofgem.

The revised GCM05 proposal is on the assumption that allowed revenue would be collected from baseline exit capacity. Any shortfall, resulting from un-sold baseline capacity, would be recovered through a TO Exit (Flat) Commodity charge. This would overcome the capacity charge setting issue, whereby booked levels would be unknown when capacity prices were set. SL foresaw that introduction of substitution would incentivise Users to book capacity, although he hadn't worked through the implications of this on the pricing methodology. EB suggested that National Grid NTS' proposal would still work if Users increased their bookings for this, or any other, reason. If baseline capacity sold out then the revised GCM05 proposal would be identical to the original GCM05 proposal.

SR identified that Exit user commitment was based on four years and asked what would happen if actual prices were higher than the indicatives on which the commitment was based. National Grid NTS responded that, based on earlier discussions on exit reform, the commitment would be discharged earlier. Conversely where outturn charges were lower, the commitment would be discharged over the same four year time period if the booked capacity levels materialised. SR asked if a draft Exit Capacity Release Methodology [in respect of the enduring period] was available. EB replied that this was in development. [Post meeting note; it is intended that this will be the subject of a presentation at the 5th February 2009 UNC Transmission Workstream.]

EB then outlined a range of capacity based charge shortfalls and consequent TO commodity charges based on a range of capacity bookings by presently interruptible loads (DN and NTS Direct Connects) and set-out the consultation timetable. There was then some discussion on the need for indicative prices. SL believed that this information would not be required by Shippers for two years. DA responded that indicative charges are linked to the DN's incentives. SR acknowledged this but pointed out that these charges could be derived using the transportation model. EB confirmed that indicative charges are required for deriving the DN incentive measures based on an agreed charging methodology.

JC was unclear when incremental capacity would be incorporated into the baseline for modelling purposes. National Grid NTS agreed to investigate this.

Action 61: National Grid NTS (EB) to clarify how and when incremental exit capacity is incorporated into baselines.

Finally, as an April capacity related charging methodology change is proposed, TD pointed out that Standard Special Condition A5 2A (b) (ii) requires written consent by the Authority – a lack of veto would not suffice.

6. Supply and Demand Balancing Rules for Capacity Charge Setting

EB gave this presentation. National Grid NTS had conducted analysis based upon four rule variants (including the prevailing merit order – rule 1) rules 1, 3, 5 and 6. Three further options, presented on at the November TCMF, had been discarded as these produced more variable results than the prevailing methodology. He suggested that Rule 3 showed the least volatility - three years had been modelled for Entry and Exit prices over which the lowest price range was associated with Rule 3.

Rule 3 split supplies into three groups:

1. Beach, Interconnectors, LNG Importation, Long-Range Storage (Rough)
2. Mid-Range Storage
3. Short-Range Storage (LNG)

Reviewing the appendices, which showed comparisons based on supply data from Ten Year Statements 2006 to 2008 inclusive, a number of attendees suggested that none of the rules performed significantly better than the others. JC suggested that this indicated retaining the status quo. EB agreed with a suggestion from CW that application of Rule 5 gave strange results.

TD asked for views on the balance between reflecting reality and year on year developments as opposed to minimising price change. EB suggested that this was not the only consideration - there was a benefit in moving from the concept of a merit order as it was problematic to determine and publish where a new Entry Point may figure in a merit order.

Some members were not convinced that a change was required other than in publishing the merit order list. EB responded that National Grid NTS could do this for current Entry Points only but questioned how they could produce a list that included future points.

As the group had not come to a consensus on the Way Forward, it was accepted that National Grid NTS should raise a discussion paper that reflected the analysis and suggested the pros and cons of changing the methodology.

7. Gas TCMF Survey 2009

DH gave this presentation. National Grid intends to repeat the TCMF survey, previously carried out in February 2008. DH outlined the potential areas for development of the charging methodology which would be included in the survey. The survey would also give an opportunity for respondents to raise further areas for development. All were encouraged to respond to the survey which will be released in February 2009.

8. Any Other Business

EB agreed to confirm whether day-ahead data had been published, as discussed at a previous TCMF. EB also confirmed that National Grid NTS were looking to produce forward looking pricing data, consistent with that provided by the DNs under Modification 0186, for discussion at the February 2009 TCMF.

9. Next Meeting

The meeting will be held on Thursday 5th February 2009 at Elexon, 350 Euston Road, following the Transmission Workstream.

Action Log

| No. | Date Raised | Description | Status | Comments |
|------------|--------------------|---|-----------------|---|
| 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 | Analysis presented at meeting 08/01/09. Discussion paper to be produced summarising the analysis and potential methodology changes. |
| 60 | 04/12/08 | Ofgem (RM) to advise which alternatives, if any, to the current GCM05 proposal were unlikely to be accepted. | Closed | Ofgem indicated that it did not believe there were any matters of principle that would prevent the acceptance of GCM05. |
| 61 | 08/01/08 | National Grid NTS (EB) to clarify how incremental exit capacity is incorporated into baselines. | | |