

Gas Transmission Charging Methodologies Forum

Draft Meeting Report: 09 July 2008

This report outlines the key discussions of the twenty third Gas TCMF meeting held at Ofgem Offices, 9 Millbank, London on 9th July 2008. Supporting material can be found at www.nationalgrid.com/uk/Gas/Charges/TCMF

Attendees

Tim Davis	TD	Joint Office
Adam Cooper	AC	Merrill Lynch
Amrik Bal	AmB	Shell
Craig Purdie	CP	Centrica Storage
Clive Woodland	CW	British Gas
Damian Clough	DC	National Grid NTS
Debra Hawkin	DH	National Grid NTS
Eddie Blackburn	EB	National Grid NTS
John Costa	JoC	EDF Energy
John Bradley	JB	Joint Office
Jeff Chandler	JeC	Scottish and Southern Energy
Julie Cox	JuC	AEP
Keith Harsham	KH	Gaz de France Storage
Leigh Bolton	LB	Cornwall Consulting
Martin Watson	MW	National Grid NTS
Richard Fairholme	RF	E.ON UK
Richard Miller	RiM	Ofgem
Roddy Monroe	RoM	Centrica Storage
Rekha Patel	RP	WatersWye Associated
Steve Edwards	SE	Wales & West Utilities
Steve Gordon	SG	ScottishPower

1. Introduction

TD welcomed attendees to the meeting.

2. Report of Previous Meeting

The meeting report of the forum held on 11 June 2008 was agreed.

3. Review of actions.

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

This document (GCM05) has been published on the Gas Charging area of the National Grid website

Closed

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

This had been included in the GCM05 presentation – see item 6.2 below
Closed

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.*

See item 3.1 below **Closed**

54. *National Grid NTS to revise the “Explanation of NTS and SO Commodity Charges” document to set-out the key assumptions made.* **Carried Forward**

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

This will now be addressed at the September forum **Carried Forward**

3.1 Targeting TO Revenue: is 50/50 Entry/Exit still appropriate?

EB gave this presentation suggesting that the analysis supported the 50:50 assumption to some degree but a higher exit proportion might lead to more cost reflective capacity prices as fewer prices would be constrained at the minimum level. JuC suggested that cost reflectivity is a wider topic than simply reducing constrained prices. EB acknowledged this and responded that National Grid NTS was not at this stage considering any immediate change from the current 50/50 split and that the wider charging objectives needed to be considered. It was noted that reducing the entry proportion might be consistent with the proposal to look at credits for entry points with negative LRMCs raised by EON. The meeting agreed to further consider the 50-50 issue as part of the credits for entry points with negative LRMCs proposal.

4. Update on Recent Pricing Consultation and Discussion Papers

4.1. GCM12 (Draft) Entry Over Recovery and K Management

EB explained that this built upon the GCM11 proposal that was vetoed by Ofgem. GCM12 replicates GCM11 and also manages K separately for entry and exit which should overcome some concerns expressed and the reasons for the veto. Comments were invited prior to National Grid raising the proposal later in the summer.

4.2 SO Commodity Charge

National Grid NTS were in discussion with Ofgem in respect of not proceeding with this. RiM advised that Ofgem is minded to agree with the suggestion.

5. Negative LRMC Entry Points/CLNG/Short-haul

National Grid NTS intends to produce a draft discussion paper prior to the September Gas TCMF meeting. A range of options are being developed regarding the quantity which might be used to calculate the credit including forecast peak flow, actual peak flow or flow averaged over a number of days. Views are invited.

6. Exit Reform

6.1. Draft Consultation Paper (GCM05)

EB gave this presentation. RF asked how much the indicative prices were likely to change. EB hoped that the range advised should cover the uncertainties associated with level of bookings for 2012/13 however, uncertainties are also associated with entry flows. National Grid NTS would expect to provide firmer prices in the May prior to the initial application period should a relevant UNC proposal be directed for implementation. It would also revise the Transportation Model to include four years of data, if required, which would probably require a UNC Modification Proposal to allow publication of the data. As the exit regime is implemented the need for forecasts would gradually disappear as capacity booking for future years became available.

CW asked whether the baseline exit capacities would change as a result of exit reform. MW responded that, apart from taking into account exit substitution and reflecting any consequent changes from entry baseline changes, there would be no change.

EB stated, in response to a question, that exit substitution would not affect the expansion factor and hence would not affect exit prices for a given supply and demand scenario.

6.2. Indicative Prices

CW suggested that the paper was published without Scenario 4 which had been included within the presentation. EB agreed to check this. [Post meeting note – this scenario will be included in the final paper]

EB then went on to show the price changes for the four scenarios and identified that views were invited in terms of the presentation of the data within the GCM05 paper. SE asked about the differences with Wales and West, EB responded that it reflected the peak shaving LNG in that part of the country modelled to achieve a supply and demand balance.

CW asked whether there would be issues with the concept of a negative TO exit commodity charge as there had been on entry. EB identified the differences between entry and exit and the progress that had been made. He concluded that there would be fewer issues with Exit particularly if the GCM12 proposal were implemented, which introduces the separate management of entry and exit revenue over/under recovery.

Impacts on DN charging were discussed. SE identified progress and indicated that there would be discussions at the DCMF.

6.3. Supply and Demand Balancing Options

EB identified three options, the status quo (merit order), scaling all storage and scaling all supplies, the last being the electricity transmission charging methodology approach. There were discussions about the differences between electricity and gas but it was recognised that conclusions were not readily drawn on the reasons for the differences. In both fuels the merit order was arguably less applicable.

Particularly for Wales and West, scaling all supplies produced the least volatility between three demand scenarios compared to the other S&D balancing options. SE suggested that this represented a trade-off between cost reflectivity and stability. EB responded that he did not view it in these terms as the more stable prices may also be more cost reflective but National Grid NTS would be conducting further analysis, including the impact on entry pricing, before bring forward any proposals. This was supported by the forum.

7. Exit Prices

7.1. Volatility and Price Change Timing

DC gave this presentation demonstrating how the current obligations produce volatility from year to year. He suggested that applying exit charges from April to April instead of October to October or a one-off April 2009 change would bring more price stability. He then went through the advantages and disadvantages. Moving to an April to April charge might require a Licence change. The alternative of a one-off change might increase price variation across the NTS exit zones but this could be overcome by resetting prices by only changing the TO target revenue in the Transportation Model used to set the previous October's prices. EB summarised that the potential for an April Exit Capacity price change, based on TO revenue only, would require a Charging Methodology change. A charging proposal would provide a route for gauging industry support and a final proposal would only be raised subject to industry support. Ofgem consent to change exit capacity prices in April would be required and support via consultation would help the process.

TD asked how the situation developed and what confidence was there that it would not recur. EB responded that it should be looked on as an option for exceptional circumstances and that it might only need to be considered at the start of each price control. SE pointed out that the DNs had gone to April to April for similar reasons. JuC suggested putting this out to consultation and noted that Exit Reform involved capacity release from October, suggesting that October price changes could be retained.

8. Next Meeting

It was agreed that the following Items would be discussed:

- Entry Discounts/Spare Capacity
- Entry Points with Negative LRMCs

The meeting will be held on Thursday 4th September 2008 at Elexon, 350 Euston Road following the September Transmission Workstream.

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.	Closed	Published
52	17/05/2008	National Grid NTS to generate two indicative price variants using the Transportation Model – baseline inputs and booked capacity inputs.	Closed	Presentation made
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.	Closed	Presentation made
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.	Carried Forward	
55	11/06/2008	National Grid NTS provide a proposal for incentivising efficient booking of entry capacity to the next forum.	Carried Forward	