

Gas Transmission Charging Methodologies Forum *Draft Meeting Report: 6 September 2007*

This report outlines the key discussions of the fourteenth Gas TCMF meeting held at Elexon, 350 Euston Road, London on 6th September 2007. All supporting material can be found at www.nationalgrid.com/uk/Gas/Charges/TCMF

Attendees

Tim Davis	TD Joint Office
Amrik Bal	AB1 Shell
Alex Barnes	AB2 BG
Angus Paxton	AP Poyry
Charles Ruffell	CR RWE
Christiane Sykes	CS Statoil
Chris Wright	CW1 Centrica
Clive Woodland	CW2 Centrica
Debra Hawkin	DH National Grid NTS
Eddie Blackburn	EB National Grid NTS
Graham Mitchell	GM RWE
John Baldwin	JB1 CNG
John Bradley	JB2 Joint Office
Jeff Chandler	JC1 Scottish and Southern Energy
Joy Chadwick	JC2 ExxonMobil
Leigh Bolton	LB Cornwall Energy
Martin Watson	MW National Grid NTS
Mike Young	MY Centrica
Phil Broom	PB Gaz de France
Paul O'Donovan	PO Ofgem
Richard Fairholme	RF E.ON
Roddy Monroe	RM Centrica Storage
Rekha Patel	RP WatersWye
Sebastian Eyre	SE EDF Energy
Sofia Fernandez Avendaño	SF Total
Stefan Leedham	SL EDF Energy
Stephen Rose	SR RWE
Stuart Waudby	SW Centrica Storage

1. Introduction

TD welcomed attendees to the meeting

2. Report of Previous Meeting

The meeting report of the forum held on 5 July 2007 was agreed as accurate.

3. Review of actions

30 National Grid NTS to carry out TO Exit cost recovery analysis based on all DN load being firm.

National Grid NTS confirmed that it would include this analysis in its consultation document, which it intended to issue to reflect progress on the exit regime.

Carried Forward

37 Ofgem to consider producing a document, prior to the first substitution auction, setting out its rationale for approving substitution applications.

PO advised that Ofgem was considering this further but was expecting to encompass the main principles in its review of baselines.

Carried Forward

38 National Grid NTS to publish data on forecast over-recovery amounts following the recent AMSEC auctions, taking into account the likely income from trade and transfer auctions.

This would be dependent on implementation of one of the current Modification Proposals but without trades and transfers the forecast was zero.

Closed

4. TO Entry Revenue Over Recovery Mechanism

4.1. GCM09

EB gave this presentation and began by reviewing the background. There was a need to consider the potential for over-recovery arising from income in the various auctions. He outlined the impact of pricing consultations PC65 and PC67 on the revenue over-recovery process. GCM09 proposed that Step 1 of the mechanism for returning revenue to Entry Capacity holders would be triggered by an over-recovery of 4% or more in one year, or 6% or more over two years, based upon total revenue (ie Entry plus Exit). SF questioned why the trigger had been suggested at 4% of the total amount rather than 4% of entry alone. EB responded that this percentage is referenced in the GT Licence with respect to over-recovery, but acknowledged that this could be considered as arbitrary.

EB then outlined Step 2 of the proposed mechanism by which additional credits would be paid in April against buy-back costs in respect of the previous formula year ie April to March against which no credits had already been paid. By offsetting the buy-back costs, this could be seen as preventing half the credit "going to exit" through the "K" mechanism. It would, however, mean that over-recovery through K would still occur if over-recovery was greater than buy-back costs.

TD asked whether Ofgem were likely to carry out an Impact Assessment on this change. PO responded that Ofgem had not identified any problems that would justify an Impact Assessment.

4.2. Further Developments

National Grid NTS had considered a number of alternative solutions and these were outlined by EB.

Allowing the TO Commodity Charge to be negative had been considered but this approach had previously been vetoed by Ofgem. A particular difficulty was that any such charge had to be forecast based on buy-back costs and auction outcomes, unless the charge rate was set retrospectively.

An alternative was a rebate capped at the amount of TO Entry Commodity Charges already paid. SL expressed concern that this principle might also be applied to under-recovery and so might lead to additional charges of a retrospective nature which he could not support. EB responded that National Grid NTS did not intend the principle to apply both ways – it would only apply to over-recovery. SL asked why National Grid NTS were suggesting restricting the rebate amount to the Commodity Charge rather than including Capacity Charges. AB2 pointed out that this might adversely affect bidding behaviour and so did not recommend a link to Capacity Charges.

EB then outlined a possible extension of the rebate approach to return over-recovery, over and above the level of TO Entry Commodity Charges paid, in the form of a one-off retrospective rebate, allocated between Shippers based on total flows in the previous year. EB clarified that, unless rebates of some form were applied, the over-recovery would go into K.

TD asked for the views of the meeting and the response was agreement with the principles put forward by National Grid NTS and support for the timetable outlined by EB. MW asked whether changes to the mechanism in the event of under-recovery were also needed. PB stated that mechanisms should normally apply both ways but, in this situation, was not recommending a more symmetrical solution. TD asked for thoughts on the trigger. The conclusion was that if the adjustment was made annually at the end of the formula year, no minimum trigger was necessary, although a de-minimis provision would be sensible.

AB2 suggested that this forum meet during the consultation period on these proposals. This was agreed.

5. Transportation Model Demonstration

EB summarised the model development. The version now available (1.2.1) is fully populated and can be used for both entry and exit charge calculation, including the QSEC price steps. EB clarified that the model did not specifically take account of differences in pipe diameter and operating pressure. EB demonstrated that a difference in reference node did not affect the output of the model. JB1 asked for a demonstration of a baseline change, with Teesside selected for the demonstration. This showed how quickly the model could produce prices as impacted by a baseline change. National Grid NTS would be developing guidance sheets to assist users of the model, although these may not be fully available before the end of the year. It was also producing the model with three data sets to reflect three successive years of TBE forecasts.

6. Update on Current Pricing Consultation and Discussion Papers

EB gave an update on the following:

6.1. NTS GCD04 Entry Capacity Discounts

The consultation had been extended but no further responses were received. National Grid NTS do not intend to propose implementing any change prior to October 2008. This was largely because the concerns relating to high TO Entry Commodity charges, which had been linked to the discounts, were no longer an issue in the short term due to the zero TO Entry Commodity charge resulting from the latest AMSEC auction. There was also a view that no change should be raised prior to any Trade & Transfer process being implemented.

6.2. NTS GCM06 Entry Capacity Reserve Prices

Ofgem has vetoed this proposal, which sought to address pricing issues at declining terminals. National Grid NTS will review the position following the outcome of the re-consultation on baselines..

7. Future Pricing Consultation and Discussion Papers

7.1. SO Storage Commodity Charge

National Grid NTS intend to bring updated proposals, in the context of a discussion paper, to the next TCMF. Any presentation on alternative suggestions would be welcome. RM responded that the storage operators group would like to take up this offer. Currently implementation may only be possible for April 2009 at the earliest due to the systems implications implied by the decision letter rejecting the UNC proposal that was linked to the last charging proposal to introduce an SO Storage Commodity Charge.

7.2. UNC 0116V (Exit Reform) Related Charges

EB suggested that whilst there was now a redundant section within the Charging Methodology defining NTS Exit (Flexibility) Capacity reserve prices, as these were to be set at zero, there was no need for an urgent resolution.

8. Any Other Business

None raised.

9. Date of Next Meeting

To be confirmed by National Grid NTS.

Action Log

No.	Date Raised	Description	Status	Comments
30	01/02/07	National Grid NTS to carry out TO Exit cost recovery analysis based on all DN load being firm.	Carried Forward	National Grid NTS confirmed that it would include this analysis in the relevant charging consultation document raised as a consequence of any further exit regime proposals
37	05/07/07	Ofgem to consider producing a document, prior to the first substitution auction, setting out its rationale for approving substitution applications	Carried Forward	Ofgem was considering this further but was expecting to encompass the main principles in its review of baselines.
38	05/07/07	National Grid NTS to publish data on forecast over-recovery amounts following the recent AMSEC auctions, taking into account the likely income from trade and transfer auctions,	Closed	This would be dependent on implementation of one of the current Modification Proposals but without trades and transfers the forecast was zero