

Gas Transmission Charging Methodologies Forum

Draft Meeting Report: 02 October 2008

This report outlines the key discussions of the twenty fifth Gas TCMF meeting held at Elexon Offices, 350 Euston Road, London NW1 3AW on 2nd October 2008. Supporting material can be found at www.nationalgrid.com/uk/Gas/Charges/TCMF

Attendees

Tim Davis	TD	Joint Office
Alex Barnes	AIB	BG Group
Amrik Bal	AB	Shell
Audrey Luksicek	AL	Centrica
Debra Hawkin	DH	National Grid NTS
Dennis Timmins	DT	RWE
Eddie Blackburn	EB	National Grid NTS
John Bradley	JB	Joint Office
Jeff Chandler	JC	Scottish and Southern Energy
Jennifer Higgins	JH	RWE
Martin Watson	MW	National Grid NTS
Richard Fairholme	RF	E.ON UK
Richard Miller	RiM	Ofgem
Roddy Monroe	RoM	Centrica Storage
Richard Street	RS	Corona Energy
Stefan Leedham	SL	EDF Energy
Steve Rose	SR	RWE
Tricia Moody	TM	xoserve

1. Introduction

TD welcomed attendees to the meeting.

2. Report of Previous Meeting

The meeting report of the forum held on 04 September 2008 was agreed.

3. Review of actions.

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

This was placed on the website after the previous forum. A number of comments have been received - mainly requesting greater clarity. There were also some more specific comments that are being considered. National Grid NTS would like more clarity on what level of commentary would be helpful. The forum suggested that reasons for change between reports were the most important items to include in a commentary. **Closed**

To progress reporting and transparency, the following action was agreed:

Action 56: National Grid NTS to consider replicating the DNO reporting arrangements established by Modification Proposal 0186.

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

See 6 below.

Closed

4. Update on Recent Pricing Consultation and Discussion Papers

4.1. GCM05 NTS Exit(Flat) Capacity Exit Reform

In response to comments received, EB acknowledged that annual capacity should have been included in the price calculation for the 0195 and 0195AV UNC Modification Proposals. He would therefore be including annual capacity in the final proposals. Comments had been received in respect of bi-directional sites and the potential for double charging. National Grid NTS proposed bringing this aspect to a TCMF meeting in the future. EB clarified that this would be focussed on capacity charging, not commodity. Ofgem was unable to indicate whether an impact assessment was likely for GCM05.

4.2. GCM12 Entry Over Recovery and K Management

All except one response to the consultation paper supported the Proposal. The response not in support centred on short-haul charging. National Grid NTS therefore suggested reviewing short-haul in the future; the pricing consultation report will be essentially unchanged from the original proposal. Ofgem was unable to indicate whether an impact assessment was likely.

5. Exit Capacity – April Price Changes

EB gave this presentation. SL asked which RPI National Grid NTS were referring to in this presentation. EB responded that it was the monthly published RPI and acknowledged that there was a slight difference from the basis used for the Transmission Price Control but the figures were provided simply to demonstrate RPI variability. In a series of graphs, he demonstrated that an April price change would reduce volatility taking into account the RPI variability likely, based on recent years experience. SL referred to the change in the capacity and commodity split within the DNs, which will reduce the volatility. However, the DNs had argued that an April rather than October price change would further reduce volatility and it was unclear why transmission charges should differ. EB responded that DN charges were based on average costs whereas NTS exit charges were based on marginal costs which changed annually due to network and contractual supply & demand changes which tended to occur for 1st October. Exit reform was also proposing an annual product defined from 1st October.

EB suggested an alternative that the price could be set as now, two months prior to 1st October, but for two periods ie October to March and April to September This would allow the price set to be different for the two periods while arguably remaining consistent with the Licence obligation regarding setting charges once a year.

SL asked what the impact of Exit Reform would be. EB replied that this was not known at this point in time given that no decision on exit reform had been made.

EB then asked the forum whether it wanted National Grid NTS to issue the GCM13 consultation paper facilitating an April price change. This was agreed, providing the paper included estimates of allowed and target TO exit revenue.

6. Entry Discounts

EB gave this presentation. He put forward the principle that, to reflect costs and encourage long term bookings, QSEC prices should be less than MSEC prices which in turn should be less than DSEC prices. RS did not accept this and suggested that a key argument put forward when auctions were introduced was price discovery, which would reflect the market value of the auctioned product. SL responded that price discovery is less achievable where there is a monopoly provider. EB questioned whether true price discovery had occurred other than at Easington. Some members believed that the longer the commitment period the greater the discount should be, as seen in other markets. Others cited airline standby arrangements as indicating the opposite. There were further discussions on whether National Grid NTS' assumption was valid, particularly if this led to QSEC prices so low that they prompted speculative activity rather than user commitment. EB presented a slide showing potential options that led to modest QSEC obligated capacity (P0) discounts. After discussion, TD asked for agreement to the principle that National Grid NTS should incentivise long term booking. RoM suggested that National Grid NTS check on impending regulatory changes before moving to a pricing consultation. RS suggested forum members discussed this with other industry participants before forming a view.

EB then moved on to alternative means of setting MSEC and DSEC prices. TD suggested that the licence obligation to conduct a clearing allocation might prevent changes of this nature. MW outlined the discussions that had taken place with Ofgem. TD stated that Ofgem's original position justifying zero reserve prices was that the Transporter should not withhold capacity from the market, which would be an abuse of monopoly. MW questioned whether a non zero price would equate to withholding capacity.

RiM agreed to check whether this licence provision was a barrier to the proposals put forward by National Grid NTS and hence they should not be pursued further. However, he anticipated difficulties in obtaining guidance until the proposal was more developed.

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.

It was agreed that forum members considered this issue further prior to discussions at the next forum. AB suggested that some further analysis would be useful including pros & cons and EU comparisons.

7. Entry Points with Negative LRMCs

DH gave this presentation. In the context of constrained CLNG, RF questioned whether a specific contract was necessary for there to be a benefit (i.e. for National Grid to avoid investment) and DH confirmed that it was. She confirmed that any capacity holding would need to be backed up by a requirement to flow. EB emphasised that flow at any entry point would be necessary when required for

National Grid NTS to meet its 1 in 20 obligations; otherwise it would need to invest in pipe.

SL did not believe that comparison with the Triad principle in electricity was valid, however National Grid NTS believed that it was.

DH suggested than TCMF attendees submit potential suggestions and ideas for justifying a credit to the next meeting of the forum or by direct correspondence to the charging team. SL suggested that, at a bi-directional point, the LRMC calculations of both entry and exit costs at that point would equate to zero in the 1 in 20 demand scenario. EB agreed with this; however he repeated that a negative charge in one direction would only have value if there was a requirement to flow.

It was agreed that due to the importance placed on security of supply, work should continue in respect of all Entry Points with negative LRMCs – not just storage points. DH repeated her request for comments from members.

8. Next Meeting

The meeting will be held on Thursday 6th November 2008 at Elexon, 350 Euston Road, following the Transmission Workstream.

Action Log

No.	Date Raised	Description	Status	Comments
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.	Closed	Published on National Grid's website.
55	11/06/2008	National Grid NTS provide a proposal for incentivising efficient booking of entry capacity to the next forum.	Closed	Presentation given 02/10/2008
56	02/10/2008	National Grid NTS to consider replicating the DNO reporting arrangements established by Modification Proposal 0186.		NTS to present views to December TCMF.
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		Ofgem to provide update at November TCMF