

## Gas Transmission Charging Methodologies Forum

### Draft Meeting Report: 5 February 2008

*This report outlines the key discussions of the nineteenth Gas TCMF meeting held at Elexon, 350 Euston Road, London on 5<sup>th</sup> February 2008. Supporting material can be found at [www.nationalgrid.com/uk/Gas/Charges/TCMF](http://www.nationalgrid.com/uk/Gas/Charges/TCMF)*

#### Attendees

Tim Davis	TD Joint Office
Amrik Bal	AB Shell
Adam Cooper	AC Merrill Lynch
Angela Love	AnL Pöyry Energy Consulting
Audrey Luksicek	AuL Centrica
Bogdan Kowalewicz	BK Ofgem
Christiane Sykes	CS Statoil UK
Clive Woodland	CW Centrica
Damian Clough	DC National Grid NTS
Debra Hawkin	DH National Grid NTS
Eddie Blackburn	EB National Grid NTS
Emma Hayes	EH BG
Ed Lawns	EL Scottish and Southern Energy
John Bradley	JB Joint Office
John Costa	JC EDF Energy
Jemma Spencer	JS National Grid NTS
Leigh Bolton	LB Cornwall Consulting
Richard Fairholme	RF E.ON UK
Roddy Monroe	RM Centrica Storage Ltd
Rekha Patel	RP WatersWye Associates
Steve Gordon	SG ScottishPower
Shelley Rouse	ShR Statoil UK
Stefan Leedham	SL EDF Energy
Steve Rose	StR RWE

#### 1. Introduction

TD welcomed attendees to the meeting.

#### 2. Report of Previous Meeting

The meeting reports of the fora held on 06 November 2007 and 03 December 2007 were agreed. *(Post meeting note: BK stated that Paul O'Donovan (PO) had not attended the meeting on 03 December - action update 37 repeated the statement made by PO at the previous meeting. The minutes have been adjusted accordingly)*

### 3. Review of actions.

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

This will await the solution for exit reform. It was agreed that this be closed.  
**Closed**

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

No update given. **Carried Forward**

39 RM1/AP to raise issue regarding timeframe for issue of GCM10 consultation report and any necessary impact assessment

BK stated that Ofgem will probably not be carrying out an impact assessment.

**Closed**

40 DH to look at data presented on compressor fuel usage and throughput specifically at low throughputs. Also to check whether St Fergus compression had been included.

An updated version of the presentation, excluding St Fergus compression, was included in the information pack issued to attendees. **Closed**

41 Draft discussion paper on Storage commodity charging to be issued to the next TCMF.

See agenda item 7.2 below **Closed**

45 National Grid NTS to provide more information on SO allowed revenue and its components in relationship to the recent indicative notice for the SO commodity charge.

See agenda item 7.1 below. **Closed**

47 National Grid NTS to arrange NTS Charging Transportation Model training session.

This was held prior to this forum. **Closed**

48 National Grid NTS to confirm the ASEPs with a negative LRMC within the Transportation Model

See agenda item 6 below. **Closed**

### 4. Price Setting for April 2008

DC gave this presentation. He reminded the meeting that last year National Grid NTS had to set the commodity charge to zero mid-year to reflect capacity auction income.

The charges for this year reflect anticipated revenue from capacity auctions at the same level as last year.

CW expressed surprise at the flows assumed for St Fergus, which are above recent experience – if 2008 actuals were lower, the shrinkage impact would mean NTS would over-recover. DC responded that it was a mid-range assumption that reflected National Grid NTS' SO Incentive.

## **5. 2008 Gas TCMF Work Plan and Survey**

EB gave this presentation and highlighted that a survey was being launched so that feedback on the TCMF process could be taken into account together with views on areas of the Transportation Charging Methodology which should be reviewed. He highlighted six main areas where National Grid NTS might propose changes to the Charging Methodology.

- Enduring Exit Arrangements
- Entry Discounts and Interruptible Pricing
- Rebates for Entry Points with Negative LRMCs
- Optional (Short-haul) Commodity Charges
- SO Storage Commodity Charge
- “Spare Capacity”

For each of these, EB summarised the work so far and a suggested way forward.

CS highlighted the importance of making progress on Entry Discounts and Interruptible Pricing as this potentially influences bidding behaviour in the entry capacity auctions. EB acknowledged the point but said National Grid NTS favoured waiting for clarity on when the next QSEC auction would take place.

SL asked why implementation of a UNC Proposal would be needed in order to provide for Entry Points with Negative LRMCs. He mentioned two precedents (GCM10 and GCM11) where a UNC Proposal had not been raised. EB pointed out the differences between this approach and GCM10/11 and concluded that a UNC Proposal should be raised. GCM10/11 were essentially rebating existing charges whereas this new proposal suggested the payment of a new commoditised credit linked to use of capacity. RF agreed with the point and had included this aspect within E.ON's proposal.

EB emphasised that National Grid NTS wanted to know Users' priorities in terms of the six areas. ShR asked whether Entry Capacity Substitution should be part of the reviews. EB did not believe a charging methodology change in relation to reserve prices was feasible because substitution would take place after the auctions. Whilst acknowledging this, attendees saw a clear linkage between substitution and spare capacity. EB acknowledged the point but pointed out some of the pitfalls in spare capacity “solutions”. EB stated that the IECR would cover substitution issues such as the NPV test for additional Entry Capacity.

## **6. EON Presentation – Rebates for Entry Points with Negative LRMCs**

RF gave this presentation, concentrating on the questions asked at the previous meeting. He highlighted the nine entry points with negative LRMCs

CS asked who would pay for the additional rebates. RF responded that charges would have to be rebalanced accordingly. AC concluded from this that some of the benefits would be reduced.

SG believed that wider issues were potentially involved as electricity was also looking at capacity charging. An integrated view of pricing methodologies was worth considering. He questioned whether LRMCs as a concept should continue as a different approach was being discussed in electricity. BK stated that Ofgem had no plans for harmonising charging methodologies. However, a number of people believed that comparisons would be of value. RP and AC acknowledged the risks of applying the same solution to both industries but suggested that a simple side by side comparison at a high level might be a useful first step. TD suggested that National Grid NTS integrate this into its workplan and EB agreed to bring comparisons of this nature to the relevant meetings. **Action**

CS asked about whether the existing shorthaul tariff would continue if negative charges were adopted. RF responded that it would need to be reviewed and EB agreed with this. AB reminded the meeting that the shorthaul tariff only applied where gas flowed. SL was concerned that introduction of negative LRMCs would produce big winners and losers and based on the experience of electricity, polarisation of views was likely to result.

RF, having raised the concepts, identified his hope that National Grid NTS would take a consultation forward. EB agreed this would be done in support of any UNC Modification proposal which was raised. EB suggested a presentation on Constrained LNG may be useful, as this is an existing feature of a similar nature to that suggested by E.ON. **Action**

National Grid NTS emphasised that E.ON had carried out the analyses using the Transportation Model demonstrated that morning.

## **7. NTS Charges at Storage Sites**

### **7.1. Updated SO Daily Costs (OUG and UAG) Presentation**

DH did not give the presentation included in the pack as it was based on a previous presentation but now excluded St Fergus compression. RM highlighted the conclusions in respect of storage i.e. no additional compression usage as a result of storage injection and withdrawal, and lack of a relationship between UAG and throughput or storage flows.

### **7.2. GCD05 SO Storage Commodity Charging**

TD asked whether National Grid systems and administration costs to implement the change had been calculated. DH responded that this hadn't been done so far. EB stated that National Grid had come to the conclusion that it was not physical costs, if any, that should be reflected in a charge and

so a charge should not be associated with physical flows, but this choice impacted on systems costs.

Ofgem had previously suggested any charge should be based on physical flows. EB believed that this view was based on the requirement to use compression to withdraw gas from storage at some sites however National Grid's view was that there was no net increase in the compression requirement when comparing the beach to storage to end consumer journey compared to the direct beach to end consumer journey. If there were no physical costs then there was no requirement to levy any charge on physical flows.

DH then demonstrated the impact of implementing the Proposal on large and small Users, based on a 0.0031 p/kWh Storage Commodity Charge. The smallest 25 Users might, in percentage terms, see a substantial rise in charges. Larger Users would see a similar reduction in absolute terms but in percentage terms this would only be small. RM suggested that the competition aspects of such a distributional shift should be considered. National Grid NTS agreed with this statement. BK confirmed that Ofgem look seriously at such aspects. DH stated that National Grid NTS wanted to see the consultation proceed so that the matter would be settled. CS suggested that this was not a high priority and asked BK for an Ofgem view. BK responded that it remained a priority, but resisted placing it in any priority order. SG acknowledged that the issue should be resolved. DH emphasised that responses were still requested even from those who didn't believe that progress on this item was a high priority.

## **8. Update on Current Pricing Consultation and Discussion Papers**

### **8.1. GCM10 TO Entry Commodity Rebate Mechanism**

This was with Ofgem for decision and the 28 day period had almost elapsed. Ofgem confirmed that an Impact Assessment was unlikely and a decision will be published by 8 February 2008.

### **8.2. GCM11 Retrospective Negative TO Entry Commodity Charge**

This was also with Ofgem for decision and the 28 day period had almost elapsed. Ofgem confirmed that an Impact Assessment was unlikely and a decision will be published by 8 February 2008.

### **8.3. GCD04 Entry Capacity Discounts**

The responses to this document have been published on National Grid's website along with the discussion report.

## **9. SO Capacity Incentives and Charging**

EB outlined proposed changes to the exit capacity descriptive text within National Grid NTS' charging methodology for clarification purposes. The changes included two new equations seeking to clarify the treatment of SO and TO exit capacity revenue. These details will be placed on National Grid's website. As these were clarifications rather than changes, National Grid NTS were not intending to formally consult on these changes however comments are welcomed.

**10. Any Other Business**

None

**11. Next date**

To be advised

### Action Log

No.	Date Raised	Description	Status	Comments
30	01/02/2007	National Grid NTS to carry out TO Exit cost recovery analysis based on all DN load being firm.	Closed	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.
37	05/07/2007	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.
39	06/11/2007	RM1/AP to raise issue regarding timeframe for issue of GCM10 consultation report and any necessary impact assessment	Closed	Ofgem confirmed that an Impact Assessment was unlikely.
40	06/11/2007	DH to look at data presented on compressor fuel usage and throughput specifically at low throughputs. Also to check whether St Fergus compression had been included.	Closed	This was presented at the forum held on 05/02/2008
41	06/11/2007	Draft discussion paper on Storage commodity charging to be issued to the next TCMF.	Closed	This was issued by National Grid NTS and discussed at the forum on 05/02/2008.
45	06/11/2007	National Grid NTS to provide more information on SO allowed revenue and its components in relationship to the recent indicative notice for the SO commodity charge.	Closed	This was included in discussion document NTS GCD 05.
47	03/12/2007	National Grid NTS to arrange NTS Charging Transportation Model training session.	Closed	The training session was held on 05/02/2008.
48	03/12/2007	National Grid NTS to confirm the ASEPs with a negative LRMC within the Transportation Model	Closed	The nine ASEPs were included in the presentation given by E.ON on 05/02/2008.
49	05/02/2008	National Grid NTS to bring a high level comparison of electricity versus gas capacity charging methodologies to the forum		
50	05/02/2008	National Grid NTS to make presentation on Constrained LNG at the forum		

