

Gas Transmission Charging Methodologies Forum

Draft Meeting Report: 10 October 2006

This report outlines the key discussions of the seventh Gas TCMF meeting held at Elexon, 350 Euston Road, London on 10th October 2006. All supporting material can be found at www.nationalgrid.com/uk/gas

ATTENDEES

Tim Davis (Chair)	TD	Joint Office of Gas Transporters
Amrik Bal	AB	Shell
Chandima Dutton	CD	National Grid NTS
Chris Wright	CW	BGT
Dennis Timmins	DT	RWE Npower
Duncan Willey	DW	National Grid Distribution
Eddie Blackburn	EB	National Grid NTS
Erik Sleutjes	ES	Ofgem
Gareth Evans	GE	Total
John Baldwin	JBa	CNG Services
John Bradley	JBr	Joint Office of Gas Transporters
Jeff Chandler	JCh	Scottish and Southern Energy
Julie Cox	JCo	AEP
Joel Viala	JV	Glencore Energy
Phil Broom	PB	Gaz de France
Paul Roberts	PR	National Grid NTS
Richard Fairholme	RF	EON UK
Steve Armstrong	SA	National Grid Distribution
Shelley Rouse	SR	Statoil
Stefan Leedham	SLe	EDF Energy
Steve Ladle	SLa	WatersWye Associates
Yasmin Sufi	YS	ENI

1. Introduction

TD welcomed attendees to the meeting.

2. Report of Previous Meeting

The meeting report of the Forum held on 24 August 2006 was agreed as accurate, with the exception that ES pointed out that Ofgem had not accepted action 22.

3. Actions and Issues from previous meetings

19. *National Grid NTS to demonstrate the effect of assuming that currently interruptible NTS Supply Points were firm.*

This was discussed under item 4.1 below

Action Closed

20. *National Grid NTS to consider whether the Transportation Model Spreadsheet could be publicly available if commercially sensitive values were hidden.*

This was discussed under item 4.1 below.

Action Closed

21. *National Grid NTS to consider alternative options for publishing supply/demand data (e.g. baseline figures) used to calculate charges.*

This was discussed under option 4.1 below,

Action Closed

22. *Ofgem to report back at the next Gas TCMF on the requirements of EU Regulations with respect to non-discrimination, and to provide a guidance note on those circumstances where the Authority can deviate from the principle of single treatment for all Users.*

ES did not accept that Ofgem had accepted this action. However, he pointed out that Ofgem has not changed its view on the Storage Commodity charges – a discount might be appropriate. In respect of the EU Regulations, ES stated that Ofgem did not see its role as interpreting these in the absence of a proposal. Primarily, the Transporter should consider the EU Regulations in forming proposals and Ofgem would take them into account when coming to decisions on changes to charging methodologies. ES clarified that Ofgem was not intending to produce a guidance note in respect of treatment of different types of Exit Points but reiterated the point that it would expect all proposals to embody the principles of consistent and cost reflective treatment.

Action Closed

4 Capacity Charges – Update

4.1 Entry/Transitional Exit

PR outlined the consultation documents that would be produced. CD stated that a draft methodology statement would be included. PR stated that a single document would include Entry and Transitional Exit and National Grid NTS hoped to produce this by the end of October 2006. EB stated that National Grid NTS' entitlement to use the model code was only for internal use, so National Grid NTS had developed its own code such that the a model could be released externally. It was, therefore, in a position where it could release the model with indicative underlying data, if customers were prepared to sign confidentiality agreements. CD stated that the model would be distributed free at the same time as the pricing discussion document.

EB gave a presentation in the impact on Exit Prices of Interruptibles. The simulation, which was based on 2010/11 and the two following years, showed an increase in prices in the Southern area but reductions in the North West. EB clarified that these simulations were based on raw prices i.e. they were not scaled. SA questioned the validity of the model if it modeled specific supply increases to match the increased interruptible loads. EB acknowledged that assumptions had to be made to retain a supply and demand balance but believed that scaling all supplies conflicted with the agreed approach.

4.2 Spare Capacity

EB gave this presentation and explained that National Grid NTS had proposed moving from a multi year Transcost model, with spare capacity modelled explicitly, to a simpler one year Transportation Model which didn't recognise spare capacity but included backhaul benefit. Concerns had been raised in regard to removing 'spare capacity' and specifically charging for capacity at declining terminals i.e. where genuine spare capacity may materialise. It had been recognised that while Transcost modelled peak spare capacity this was the major source of price instability as it modelled all spare peak capacity and not just the genuine spare capacity that could be made available under all reasonable supply conditions. National Grid NTS had developed some options for including spare capacity within the Transportation Model but these were either open to claims that they were arbitrary, discretionary, discriminatory or might create cross-subsidies.

An alternative approach was raised that, while it would not explicitly model spare capacity, would result in falling prices if spare capacity became available. This would involve basing prices on forecast flow rather than baseline with the difference between baseline and forecast flow being a proxy for spare capacity. The disadvantage of the approach would be reductions in year on year price stability.

JCo suggested that spare capacity should not be included and believed this view was shared by a number of members of the forum. She also referred to the difference between capability and flows at peak. EB responded that they would be assuming maximum flows at non-beach terminals (i.e. LNG and Storage) that represent capabilities but at certain beach terminals they would use lower figures that reflected decline in offshore supplies. JCo was concerned that this information might turn out to be incorrect. CD responded that National Grid NTS would be using TBE data. JBa was concerned that taking one Entry Point in isolation, such as St Fergus, might have unintended effects due to prorating to allowed revenue. EB offered to publish typical scenarios, which he hoped would allay concerns – either based on current baselines or on estimates of future baselines.

Action EB

SA suggested that modelling the effects of terminal flow decline over more than one year might reduce the volatility associated with National Grid NTS' suggested approach. EB didn't see the necessity of this as there would be no impact on exit prices and he expected LNG and Storage Entry Point prices to be stable. The only instability would be the beach terminals exhibiting flow decline.

JCo saw a broader issue that whilst the asset life of pipelines was forty years but St Fergus would decline in much less than forty years, this would result in Users at other Entry Points paying for the remainder of the associated asset life. EB recognised that the simpler Transportation Model did not suffer from this effect to the extent that Transcost would. JBa asked why there was such a concern to model spare capacity. EB responded that the methodology had to meet the Licence objectives and the charging methodology should incentivise efficient development of the system. JBa did not believe that modelling spare capacity would encourage new sources of supply to land gas at St Fergus and would like to see how material the changes would be.

TD asked whether there is much benefit in doing these calculations on existing baselines when they are subject to change before the approach would be implemented. ES stated that baselines might be developed which recognise decline. This led SL to ask whether this proposal was for one year only. PR responded that the approach would work for a longer term. TD asked whether National Grid NTS wanted a view from the forum on whether spare capacity should be modelled. JBa repeated that he would need to know the impact, but he felt this was a third or fourth order discrimination concern.

SL enquired about timescale. It was pointed out that an impact assessment carried out by Ofgem might impact on an April implementation. JBa reiterated that a document setting out all the relevant data should be produced.

5 Commodity Charges Update

5.1 SO Storage Commodity

PR gave this presentation. Both a draft consultation document and a draft UNC proposal had been circulated. The proposal reflected the Ofgem view that a discount might be appropriate. JCo expressed the view that no discount should be applied. A number of the reasons given in the consultation documents relating to storage, e.g. relating to compression, would equally apply to certain other Supply Points. JCo expressed the view that this proposal would be discriminatory and contrary to the EU gas regulation.

JBa did not agree with this view and believed a bigger picture view was needed. Applying the SO commodity charge would impede the development of storage. Such storage was badly needed at the present time. PR stated that National Grid NTS recognised the two extreme views in making this proposal. He pointed out that the effect would be modest as the revenue would be £4.5m. JBa replied that an increase in the volume of storage would increase this figure. It was clarified that the shorthaul tariff provisions would be unchanged.

6 Enduring Exit

PR began by outlining the consultations for the UNC Proposal, ExCR, pricing methodology and licence. These would be proceeding in parallel. Three pricing papers would be issued in line with Ofgem first informal TPCR Licence drafting consultation (now expected on 20th Oct 2006).

6.1 Flat Capacity

The discussion paper outlined the two main options – Transcost and Transportation Models. SL asked about year on year variation if the Transportation Model were used. CD suggested that most of the variations would be in the South West of the country. As National Grid NTS would not be adjusting to recover allowed revenue in the enduring regime it was producing a third consultation document to deal with under and over recovery.

JBa emphasised in the discussion paper that there was considerable variation for the three years. EB stated that supply variations were the root cause of these and confirmed that National Grid NTS had used the same assumptions that were included within the Ten Year Statement. TD asked how much of allowed revenue would be recovered if these charges were applied. EB agreed to obtain this. **Action EB**

6.2 Flexibility (Capacity and Commodity)

National Grid NTS believed that a commodity charge for flexibility was appropriate. EB outlined how National Grid NTS had concluded that flexibility accounts for 4.2% of SO costs. National Grid NTS had proposed that the most appropriate allocation of the majority of SO costs would be to pro-rata the costs on the exit flat and flexible capacity baseline volumes as these are the products that National Grid NTS would be making available. The exception to this rule is Operating margins gas which is procured to protect system pressures. Network analysis of a 900mm 75 bar pipeline indicates that the impact of one unit of flexible capacity is ten times that of a unit of flow as, for a given pressure gradient, the maximum flow is ten times the maximum flexible capacity. National Grid NTS believes that the most appropriate allocation of costs would be to pro-rata applicable OM costs based on the impact on pressure of the exit flat and flexible capacity baseline volumes as a proxy for allocating between flow and flexible capacity.

There would also be a Flat Commodity charge set to recover 50% of allowed SO revenue net of flexibility commodity charges.

6.3 TO Commodity

EB gave this presentation which identified the under and over recovery mechanisms with reference to Entry. JBa asked how the current entry under recovery had arisen. EB referred to the lack of changes in UCAs. CD referred to User behaviour. National Grid NTS was suggesting a flat commodity charge to deal with under recovery. For Over Recovery there could be an Exit Buy-back offset fund and/or a flat commodity charge. EB emphasised that these were options for which National Grid NTS was not stating any preference at this stage.

JBa stated that he would prefer scaling to a TO Commodity Charge. SA stated a preference for the opposite. JCo suggested that Shippers with a spread of beach terminals were unlikely to have a preference. EB stated that National Grid NTS believed that stability of prices, including auction reserve prices, would result from use of the TO Commodity Charge option rather than scaling exit capacity charges.

7 Way Forward

JCo referred to the fact that the documents issued were discussions and asked when the consultation documents would be published. PR responded that these were likely to be published in January 2007. National Grid NTS believed that this was consistent with an April 2007 implementation. The Storage Commodity charge consultation document would be published by the end of October 2006.

ES agreed to ascertain whether Ofgem will conduct an impact assessment on Storage Commodity charges **Action ES**

8 AOB/Date of Next Meeting

To be arranged

Action Log

No.	Date Raised	Description	Status	Comments
19	06/07/2006	National Grid NTS to demonstrate the effect of assuming that currently interruptible NTS Supply Points were firm.	Closed	Analysis is being undertaken to determine the effect of assuming current interruptible sites book firm capacity. Analysis presented on 10/10/06.
20	06/07/2006	National Grid NTS to consider whether the Transportation Model Spreadsheet could be publicly available if commercially sensitive values were hidden.	Closed	The publication of demand data at nodal level, which would be classed as confidential data, may require a change to UNC (Section V) and an amendment to National Grid NTS' GT Licence to avoid a breach of Section 105 of the Utilities Act. On 10/10/06 National Grid NTS advised that the Spreadsheet would be distributed to those prepared to sign confidentiality agreements.
21	24/08/2006	National Grid NTS to consider alternative options for publishing supply/demand data (e.g. baseline figures) used to calculate charges	Closed	On 10/10/06 National Grid NTS will place realistic data within the spreadsheet model.
22	24/08/2006	Ofgem to report back at the next Gas TCMF on the requirements of EU Regulations with respect to non-discrimination, and to provide a guidance note on those circumstances where the Authority can deviate from the principle of single treatment for all Users.	Closed	Ofgem did not acknowledge the action but on 10/10/06 gave a verbal report to the meeting on these aspects
23	10/10/06	National Grid NTS to publish results of typical scenarios which model spare capacity adjustments		
24	10/10/06	National Grid NTS to advise forum of how much allowed revenue would be recovered under flat capacity charging		
25	10/10/06	Ofgem to advise whether it believes an Impact Assessment will be required for the SO Commodity Charge changes.		