

Gas Transmission Charging Methodologies Forum

Draft Meeting Report: 18 May 2007

This report outlines the key discussions of the fourteenth Gas TCMF meeting held at Elexon, 350 Euston Road, London on 18th May 2007. 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
Charles Ruffell	CR	RWE
Christiane Sykes	CS	Statoil
Clive Woodland	CW	BGT
Eddie Blackburn	EB	National Grid NTS
John Bradley	JB	Joint Office of Gas Transporters
Nick Wye	NW	WatersWye
Paul O'Donovan	PO	Ofgem
Richard Fairholme	RF	EON UK
Rekha Patel	RP	WatersWye
Sofia Fernandez Avendano	SF	Total
Stefan Leedham	SL	EDF Energy
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 1 May 2007 was agreed as accurate.

3 Actions and Issues from previous meetings

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

National Grid NTS confirmed this will be included in the consultation document

Carried Forward

36 Ofgem to consider whether changes to DN Incentives are required in the context of implementation of Proposal 0116V.

Ofgem have proposed extension of the current incentives for a further year.

Closed

4 NTS Entry Regime Charging

4.1 NTS GCM06 – Further Revision to Obligated NTS Entry Capacity Reserve Price Determination

EB began by indicating that National Grid NTS had issued GCM06 following the approval of GCM01. Whilst approving this methodology Ofgem had indicated the need for including

spare capacity within the model. In particular Ofgem had indicated a preference for National Grid NTS's rejected approach, "Option 2a"

EB then went on to describe the key differences between Options 2a and 2b:

Both options include a base case scenario that involves adjusting some supplies down in order to match the 1 in 20 forecast demand.

In option 2a, the analysis, for each entry point, involves adjusting that entry point flow to the **maximum base case** level and then reducing the flow of the entry point(s), furthest from that entry point, until a supply/demand balance is achieved. These analyses would be conducted for all entry points where the maximum base case level was different to the base case flow modelled. In practical terms, this would only apply to Storage Connection Points, Interconnector entry points and LNG Importation entry points

In option 2b, the analysis, for each entry point, involves adjusting that entry point flow to the **baseline/obligated** level and then reducing the flow of the entry point(s), furthest from that entry point, until a supply/demand balance is achieved. These analyses would be conducted for all entry points where the baseline/obligated level was different to the base case flow modelled. This would potentially include all entry points.

National Grid NTS had favoured option 2b but recognised that the advantages/disadvantages compared to option 2a were finely balanced. It was also recognised that application of entry point substitution would make option 2a more cost reflective and stable. This was due to the fact that whilst substitution would not change the baselines it would change the obligated levels which would tend to approach the maximum base case level.

EB demonstrated the impact of moving from Option 2b to 2a on the 2009/10 reserve price of each entry point. Reductions were observed at Theddlethorpe, Teesside, St Fergus and Barrow.

SL asked about the impact on the TO Commodity Charge. EB suggested that, under Option 2a, this would be higher than 2b but lower than current levels. EB stated that National Grid NTS found commodity charge impacts difficult to analyse and therefore had not produced forecasts for the meeting.

It was argued that, with the proposed entry capacity substitution mechanism in place, the indicated price reductions may not be seen in practice. EB explained that with substitution, reserve prices may even fall further if the volume of capacity substituted away was greater than the "spare" capacity. A number of attendees believed this to be counter-intuitive – substitution would be expected to reduce the amount of spare capacity and so move reserve prices at the affected points back to the 2b level, where spare capacity was not modelled. EB clarified that Prices would not go back to the 2b level under GCM06 when spare capacity is substituted away. What would actually happen is that the 2b prices would move down towards the GCM06 (2a) level as the obligated level falls towards the forecast level. EB also noted that National Grid NTS were not proposing to model spare capacity explicitly, which would lead to low or even zero reserve prices. Instead, it was proposed to set reserve prices that, whilst not discouraging new entrants, would incentivise economic and efficient use of the NTS.

EB explained that the costs associated with transporting gas were largely a function of how far and how much gas had to be moved. The more gas that flowed at an entry point the deeper it flowed into the system and hence the more costs were incurred and the higher the price. Some attendees felt that this amounted to commoditising a capacity charge.

PO reiterated that Ofgem's decision letter had suggested including spare capacity in line with the option 2a proposal and Ofgem still favoured this option – at least in the short term. It was correct that the debate on spare capacity should be had and that there may be a different outcome in the longer term as to how spare capacity could be included in the modelling.

SL asked PO if Ofgem were aware of additional gas that might flow under a 2a proposal. PO replied that in conversations with interested parties, Ofgem had received indications that some extra gas could flow if this option were in place and so it was a real rather than hypothetical issue.

In answer to questions on pricing stability, EB acknowledged that option 2a could lead to greater instability than 2b.

4.2 Update on Entry Transfer/Trade Application Fees

EB said that to implement the proposed application fees, National Grid NTS would need to follow the usual consultation process but with reduced time-scales. However, the initial proposals were likely to be on the basis of a zero application fee. This reflected the minimal cost of carrying out automatic analyses using existing computer simulation programs and the difficulty of attributing costs to specific trades or transfers.

5 Status of Recent Pricing Consultation and Discussion Papers

5.1 NTS GCM04 – Introduction of NTS Exit (Flexibility) Capacity Charges

This consultation paper is currently with the Authority for approval. PO was unable to indicate the likely decision.

5.2 NTS GCD04 – NTS Entry Capacity Reserve Price Discounts

This discussion paper would outline the reasons for and against removing these discounts and the circumstances where it would apply.

6 AOB/Date of Next Meeting

A mid June meeting was suggested

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.		National Grid confirmed that it would include this analysis within a subsequent consultation document Carried Forward
36	01/05/07	Ofgem to consider whether changes to DN Incentives are required in the context of implementation of Proposal 0116V.		Ofgem have proposed extension of the current incentives for a further year. Closed