

Gas Transmission Charging Methodologies Forum

Draft Meeting Report: 02 July 2009

This report outlines the key discussions of the thirty fourth Gas TCMF meeting held at Elexon Offices, 350 Euston Road, London NW1 3AW on 2nd July 2009. Supporting material can be found at www.nationalgrid.com/uk/Gas/Charges/TCMF

Attendees

Tim Davis (Chair)	TD	Joint Office
Andrew Pearce	APe	BP
Brendan O’Riordan	BOR	Bordgais
Craig Purdie	CP	Centrica Storage
Clive Woodland	CW	Centrica
Debra Hawkin	DH	National Grid NTS
Eddie Blackburn	EB	National Grid NTS
Guang Yang	GY	Centrica
Jeff Chandler	JeC	Scottish and Southern Energy
John Bradley	JoB	Joint Office
Joy Chadwick	JoC	ExxonMobil
Jamie Paul	JP	RWE
Jemma Spencer	JS	National Grid NTS
Julie Cox	JuC	Association of Electricity Producers
Tom Jesshop	TJ	ConocoPhillips
Richard Fairholme	RF	E.ON UK
Richard Jones	RJ	xoserve
Richard Miller	RM	Ofgem
Rekha Patel	RP	WatersWye Associates
Sofia Fernandez Avendaño	SFA	Total
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 report of the forum held on 04 June 2009 was approved.

3. Review of actions

TCM 06/01 Provide the background to some of the figures that had been quoted in the context of UNC Proposals 0246/0246A/0246B.

EB clarified that for the first two years of Fleetwood, the collar of £33m applied as this was higher than the auction revenue of £27m. The allowed revenue was based on the UCA to reflect the price control at that time. In future it would be based on investment.

4. Update on Recent Pricing Discussion and Consultation Papers

4.1. GCM15 – User Commitment and Entry Capacity Cancellation Fees

National Grid NTS are awaiting a response from the Proposer of 0246B on whether the fee defined within that Proposal can be dealt with in the same manner at the cancellation fee referred to in the other two Proposals.

4.2. GCM16 – Supply and Demand Balancing Rules and Supply Source Data

This has been implemented.

4.3. GCM17 – QSEC New ASEP NTS Entry Capacity P0 Pricing

This has been implemented.

National Grid NTS intending reflecting methodology changes in the early August release of the Transportation Model.

5. Entry Charging

5.1. Daily Capacity Charging Principles

EB gave this presentation. He clarified that National Grid NTS had a licence obligation to deliver a clearing allocation, which takes precedence over other principles that would normally underpin a charging methodology. He explained that, in the early days of entry capacity auctions, over-recovery was the norm and there were no baselines or clearing allocation obligation. The principle of zero within-day reserve price arose in February 2002 with PC72 and was implemented in PC76 (November 2002). In addition, reserve prices were no longer adjusted for allowed revenue. RM was asked whether Ofgem's view on zero reserve prices for within day entry capacity, as set out in their decision letter regarding PC76, still applied. He undertook to seek a current Ofgem view.

TCM 07/01: Advise whether Ofgem's views on the principle of zero reserve prices (as set out for PC76) still apply.

EB summarised that the position had changed from over-recovery to under-recovery and that Users were incentivised to wait until the last opportunity to buy capacity. However, where long term capacity is bought, it could leave such Users with no ability to obtain daily capacity. This had occurred at Easington. CW suggested that, if Users profiled their booking, under-recovery was always likely. EB emphasised that National Grid NTS should incentivise long term booking against medium and day ahead and this implied pricing it lower. JuC suggested that this could not be taken forward until Ofgem had indicated its willingness to discard the clearing auction principle. RM responded that Ofgem would consider discarding the principle if a robust case was made for doing so. A number of attendees were concerned at the sequential nature of this approach. RM clarified that a certain degree of parallel progress could be made but Ofgem would leave the final decision on maintaining or discarding the principle to the approval stage of any charging methodology change proposal.

Asked about next steps, EB proposed bringing further analysis to the next TCMF rather than putting forward a proposal for change at this stage.

5.2. TO Entry Charging

CW gave this presentation on behalf of Centrica. It was acknowledged that concerns had been raised by a number of parties regarding the level of TO commodity charges. CW suggested that a TO commodity rate of 0.0251 p/kWh disincentivised landing gas in the UK. SL challenged this, as this charge was small compared to the wholesale market price for gas.

CW was also concerned that a high incidence of Users purchasing interruptible capacity at zero price was leading to prices that were not cost reflective. He acknowledged that the same argument could be applied to exit charges. However, StR pointed out that Ofgem had approved 0195A rather than 0195 and this embodied the principle of a zero charge for interruptible capacity. There was some debate about whether a zero price was cost reflective or not where supply exceeds demand – certainly on a marginal cost, rather than a historical cost basis.

CW suggested that a possible way forward was that a variable TO commodity charge should be applied to all flows not supported by QSEC and AMSEC holdings. The second alternative would be to target revenue in order to drive a variation in reserve and commodity prices on a monthly or quarterly basis. The third alternative was to limit the interruptible capacity available. SL expressed caution at this as it may incentivise capacity hoarding on the part of Users that had no intention of delivering gas into the NTS on the Day.

JeC commented that some of Centrica's proposals would lead to complexity. He questioned whether a single price would be more efficient and mused that administrative prices rather than auctions merited consideration given what was being seen in practice.

RP raised the issue of the uncertainty these discussions and other prospective developments, such as capacity substitution, produce. This would influence a User's bidding strategy. TD commented that even if one of CW's options was implemented as quickly as possible, this was unlikely to be before October 2010 and so would probably not be until the March 2011 QSEC Auctions, inevitably levying a significant period of continuing uncertainty.

EB offered to include analysis of options for the TO commodity charge with the material on reserve process for discussion at the next TCMF. CW agreed to consider the feedback received before deciding if and how to pursue the potential changes to TO commodity charge structures, which could involve raising a UNC Modification Proposal.

6. Optional "Shorthaul" Commodity Charging

DH gave this presentation: National Grid NTS had previously agreed to map NTS SO costs directly onto short transportation distances. Identifying the SO costs that should and should not be included led to the conclusion that 34% of SO costs should be applied to shorthaul. She demonstrated two indicative charges per unit distance of 0.0013 p/kWh/km and 0.0024p/kWh/km based on load factors of 75% and 40% respectively. SL supported this approach in principle but questioned why it was distance related. TD suggested that in principle charges based on distance bands could be developed as a means of simplifying the approach. However, there is a potential issue with bands when the distance is close to the threshold of a band. It was agreed that National Grid NTS would develop a discussion paper that considered two alternatives – the current methodology and the distance related commodity charge described at this meeting. A draft paper providing more detail

would be published ahead of the next TCMF to facilitate discussion before a formal document is issued.

7. Any Other Business

It was agreed that the next meeting will be held on Thursday 3rd September at Elexon, 350 Euston Road, following the Transmission Workstream.

Action Log – Transmission Charging Methodology Forum 02 July 2009

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
TCM 06/01	04/06/09	6	Provide the background to some of the figures that had been quoted in the context of UNC Proposals 0246/0246A/0246B.	National Grid NTS (EB)	Background given Closed
TCM 07/01	02/07/09	5.1	Advise whether Ofgem's views on the principle of zero reserve prices (as set out for PC76) still apply	Ofgem (RM)	