

Gas Transmission Charging Methodologies Forum

Draft Meeting Report: 5 April 2006

This report outlines the key discussions of the third Gas TCMF meeting held at Elexon Offices, 350 Euston Road, London on 5th April 2006. All supporting material can be found at www.nationalgrid.com/uk/gas

ATTENDEES

Tim Davis (Chair)	TD	Joint Office of Gas Transporters
Amy Martin	AM	Shell Gas Direct
Agnes Peterson	AP	Ilex
Colin Dickens	CDi	ExxonMobil
Chandima Dutton	CDu	National Grid NTS
Christiane Sykes	CS	E.ON UK
Denis Aitchison	DA	Scotia Gas Networks
Dan Roberts	DR	Frontier Economics
Dave Wilkerson	DW	BGT
Eddie Blackburn	EB	National Grid NTS
Eric Sleutjes	ES	Ofgem
Gareth Evans	GE	Total
John Bradley	JB	Joint Office of Gas Transporters
Julie Cox	JC	Association of Electricity Producers
James Dumbelton	JD	Shell Gas Direct
Lorraine Goodall	LG	Scotia Gas Networks
Lisa Waters	LW	Waters Wye Associates
Mick Curtis	MC	$e=mc^2$
Merel Van Der Neut Kolfcholten	MK	British Gas Trading
Phil Broom	PB	Gaz de France ESS
Paul Roberts	PR	National Grid NTS
Richard Fairholme	RF	E.ON UK
Roddy Monroe	RM	Centrica Storage Ltd
Shane Dancer	SD	E.ON UK
Steve Rose	SR	RWE npower
Yasmin Sufi	YS	ENI

1. Report of Previous Meeting

The meeting reports of the Forum 23 February 2006 and the working groups on 2 March 2006 and 9 March 2006 were agreed as accurate.

2 Actions and Issues from previous meetings

- 5 *National Grid NTS to revise Transport Model Variants tables to reflect further Variant and the wording refinements suggested at the working group meeting*

National Grid NTS had revised this table accordingly

Action Closed

- 6 *National Grid NTS to conduct further analysis of Transport Model Variants 1 to 3 plus Variant 5 suggested at the working group meeting.*

National Grid NTS had carried out preliminary analysis and would be presenting the full results on 4th May 2006. **Action Carried Forward**

- 7 *National Grid NTS to advise on which of the current entry and exit points would become negative.*

EB advised that it would be expected that all points with the minimum price (0.0001 p/kWh/day) and constrained LNG storage points could have negative prices were negative prices to be included within the Charging Methodology. This might lead to 6 out of 21 entry points, 4 out of 33 Gas Distribution Network (GDN) Exit Zones and 11 out of 49 Transmission Connected Customers (TCC) becoming negative. **Action Closed**

- 8 *National Grid NTS to establish why scaling produces negative LRMCS on exit with the reference node option where the unscaled LRMCS is positive*

National Grid NTS has confirmed the analysis to be correct and included an explanation in the meeting report as a post meeting note. In the example, the average exit prices were negative and hence a negative scaling factor was calculated for revenue recovery purposes. This led to the positive unscaled LRMCS becoming negative. This supported the theory that using additive adjustment factors rather than multiplicative factors was more appropriate. **Action Closed**

- 9 *National Grid NTS to advise date of next meeting of the forum*

Date advised through the Joint Office **Action Closed**

2. Entry Reserve Price Methodology – Initial Thoughts

CDu gave this presentation. This was a quick run through prior to the full presentation scheduled for the 4th May 2006. In its Transmission Price Control Review: Third Consultation document, Ofgem had suggested a move away from fixed to variable baselines and de-linking Unit Cost Adjusters (UCAs) from reserve prices. CDu saw a benefit of stability in retaining UCAs but this would be at the expense of cost reflectivity. TD asked for views of attendees of this trade-off. It was concluded that shippers preferred stability. TD pointed out that the graph that demonstrated reserve price vs % above baseline capacity only applied to existing entry points – price schedules for new entry points start at zero, not the UCA.

CDu then identified the differences between the use of LRICs and LRMCS for price setting purposes. The LRMCS model had the flexibility to incorporate any of the suggested Transport models whereas the LRIC approach would require the use Falcon for larger increment sizes. CDu suggested that, for large increments, LRIC data tends to be unrealistic. For example, a large increment at an exit point is less credible than the same increment at an entry point.

JC asked whether the LRMCS approach was analogous to the two options (load absorption and supply substitution) outlined in Ofgem's TPCR Third Consultation document. EB confirmed there were some similarities, as an increment at an entry point would have to be matched by demand increases and/or supply reductions to maintain a system balance before the LRMCS could be calculated. JC stated that even 3mcm was significant at an offtake point. EB responded that while a 3mcm increment might be significant at the offtake, it would only represent a proportion of the feeder to which the offtake was connected. TD asked when the issue of load absorption vs supply substitution would be discussed at the forum, as requested by Ofgem = would this be prior to consultation close-out. PR stated that he would seek to schedule an additional meeting. **Action PR**

TD suggested that LRMC based price curves for incremental entry capacity would tend to exhibit the opposite behaviour to the equivalent LRIC based curves used to date. DR responded that LRIC would exhibit a smoothing effect compared with LRMC but, on the whole, LRMC would be the more stable.

CDu raised the question on whether the industry was looking for stability or predictability. TD asked National Grid if it was looking for an answer on this and other questions today. PR said that he was looking for responses at the next meeting rather than this one. JC stated that predictability was of value but only if associated with low price variation from year to year. All these measures should be viewed in the context of Ofgem's suggested user commitment of up to eight years. PR responded that there would always be some price uncertainty but moving to more transparent models would assist the industry in investment decisions. JC agreed but added that there must be some element of accountability for major changes in prices. PR acknowledged this but maintained that it was still a step forward for a user to be able to see the reasons for price changes whether major or minor.

3. LRMC Methodology Update

EB summarised the progress of the two working groups that had met since the last TCMF meeting. He began by outlining the Transport Model options. JC asked whether the concept of spare capacity exists in the context of the maximum practical physical capacity, which is the methodology proposed within Ofgem's Third TPCR Consultation paper. PR suggested there was a difference between a baseline setting process and pricing methodology but acknowledged a linkage between the two. TD reminded the meeting that the working group consensus had been that spare capacity should be considered.

JC asked when new entry points enter the National Grid NTS analysis. EB responded when National Grid NTS first included the entry point within its ten year forecast. CDu related this to the TBE process.

On the Tariff model, SR pointed out that flows to an exit point close to an entry point were only beneficial when gas was flowing. This was acknowledged. EB notified the meeting that, with the exception of Option E, he would be able to bring results of the analyses to the next meeting. PR asked what level of detail was required. JC suggested a full analysis was required. SR asked whether this would be based on just one of the TBE supply/demand options. PR confirmed this. JC requested some sensitivity analysis around the base case but accepted that this could be conducted once the number of options had been reduced.

4. Gas Expansion Factor

EB gave a presentation covering estimation of the gas expansion factors that would be required for any of the alternative Transport models to Transcost. The presentation covered methods of calculating gas expansion factors (£/GWh.km) based on various pipeline and compressor assumptions. JC asked whether the smaller diameter pipes had been excluded from the pipe length/unit cost graph because very few of these pipes were being laid. EB confirmed that the smaller diameter pipes represented a very small proportion of the NTS. TD reminded the forum that originally a single expansion factor had been proposed. If National Grid NTS had concluded that this was an over simplification and that only a multiple expansion factor model was acceptable, the benefit of adopting this model would be reduced. EB responded that analysis would be carried out for both a single expansion factor and for pipe diameter specific expansion factors. TD asked, also, why the costs would change each year. EB responded that updating prices would ensure the accuracy of the factors was retained as project costs changed as a result of steel price changes.

In summary, EB suggested it was not worth proceeding with the Flow Model, which would also have required the use of expansion factors. This was because, unlike Transcost or a pure

Transportation Model, it would not find the cheapest route through the system. This was agreed.

5. AOB

It was requested that the data be provided in an Excel spreadsheet. This was agreed. To allow the industry sufficient time to consider the results, National Grid would aim to circulate the results at least one week prior to the next meeting.

6. Dates of Next Meetings

The next meeting was provisional proposed for 4 May, following the Transmission Workstream. However, National grid would consider whether this would allow sufficient time to discuss the results. Also National grid would consider whether to arrange an additional meeting to consider issues identified in Ofgem's TPCR and UCA consultation documents before the consultation periods close.

Action Log

No.	Date Raised	Description	Status	Comments
5	02/03/2006	National Grid NTS to revise Transport Model Variants tables to reflect further Variant and the wording refinements suggested at the working group meeting.	Closed	Table updated.
6	02/03/2006	National Grid NTS to conduct further analysis of Transport Model Variants 1 to 3 plus Variant 5 suggested at the working group meeting.	Carried Forward	Full analysis to be circulated a week prior to TCMF meeting
7	09/03/2006	National Grid NTS to advise on which of the current entry and exit points would become negative.	Closed	Numbers given at meeting 05/04/2006
8	09/03/2006	National Grid NTS to establish why scaling produces negative LRMCs on exit with the reference node option where the unscaled LRMC is positive.	Closed	Explanation included as a post meeting note in the minutes
9	09/03/2006	National Grid NTS to advise date of next meeting of the forum	Closed	Meeting arranged for 05/04/2006
10	05/04/2006	National Grid NTS to arrange meeting to discuss issues identified by Ofgem in its Third Consultation document.	Open	