

## Gas Transmission Charging Methodologies Forum

### Draft Meeting Report: 14 December 2006

*This report outlines the key discussions of the ninth Gas TCMF meeting held at Elexon, 350 Euston Road, London on 14<sup>th</sup> December 2006. All supporting material can be found at [www.nationalgrid.com/uk/gas](http://www.nationalgrid.com/uk/gas)*

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#### ATTENDEES

John Bradley (Chair)	JB	Joint Office of Gas Transporters
Charles Ruffell	CR	RWE Npower
Christiane Sykes	CS	Statoil
Chris Wright	CW	BGT
Denis Aitchison	DS	Scotia Gas Networks
Dennis Timmins	DT	RWE Npower
Eddie Blackburn	EB	National Grid NTS
Dennis Rachwal	DR	Joint Office of Gas Transporters
Julie Cox	JC	AEP
Lorraine Goodall	LG	Scotia Gas Networks
Nick Wye	NW	WatersWye Associates
Oliver Wolgast	OW	DONG Energy
Phil Broom	PB	Gaz de France
Paul Roberts	PR	National Grid NTS
Steve Armstrong	SA	National Grid Distribution
Shelley Rouse	SR	Statoil

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#### 1 Introduction

JB welcomed attendees to the meeting.

#### 2 Report of Previous Meeting

The meeting report of the Forum held on 16 November 2006 was agreed as accurate.

#### 3 Actions and Issues from previous meetings

*23 National Grid NTS to publish results of typical scenarios which model spare capacity adjustments.*

Examples have been included in consultation papers and will be included in further papers as appropriate. **Closed**

*25 Ofgem to advise whether it believes an Impact Assessment will be required for the SO Commodity Charge changes.*

No Ofgem representative was in attendance. **Carried Forward**

*26 National Grid NTS to produce a clarification note to demonstrate how the Transportation Model would be adjusted to achieve the 50:50 split.*

This would be included in the report on the GCD01 consultation. **Closed**

*27 National Grid NTS to investigate scaling options for Exit Capacity and publish an analysis.*

Options and nature of analysis identified, as discussed under item 6 below. **Carried Forward**

#### **4 Pricing Consultation Responses**

##### **4.1 NTS GCM01 – Alternative Methodologies for Entry and Exit Capacity Prices**

EB gave a presentation that highlighted key industry responses and concluded that the Transportation Model was favoured and spare capacity should be excluded. EB reported that calculation of prices on the revised baselines would be undertaken in the new year. The presentation included analysis that suggested there were mitigating factors regarding the risk of stranded assets. CS contended one element, asserting that entry price and its certainty was a significant factor influencing selection of gas reception terminal.

Following on from this consultation, NG NTS intended to send its final proposals to Ofgem before Christmas. If Ofgem instigate an Impact Assessment, then revised prices for 1 April 2007 would not be attainable and PR asked parties to highlight any issues for rolling over the current prices to 1 October 2007. In discussion, it was thought that scaling might be needed for the new Price Control period. By one means or another, prices were needed 2 months ahead of the autumn QSEC auctions.

PR indicated an IExCR consultation was planned for January to address decoupling of the NPV test from UCAs – the likely replacement was a number of years of capacity bookings, i.e. similar to Exit.

PR pointed out that a Constrained Period Capacity Transfer Methodology Statement needed to be developed and it was likely this would be consulted on in February.

##### **4.2 NTS GCM03 – NTS SO Storage Commodity Charge**

PR gave a presentation that showed that respondents, including parties with storage interests, were opposed to this increase in transportation costs to storage sites. Whilst acknowledging the stated views, PR wondered whether the redistributive effect of the proposal had been fully considered against whole portfolios. Regarding the concern about differentiation between storage and other sites, PR reported that Ofgem had recently confirmed it felt this was still appropriate. Regarding the concern about use of commercial rather than physical flows, PR explained that NG was seeking to maintain alignment with the bi-directional arrangement for the IUK Interconnector. Also PR believed the materiality would be limited. The concern about what costs were included was under consideration but NG NTS felt it needed to put forward a discounted but non-zero charge.

Following on from this consultation, NG NTS also intended to send its finalised proposal to Ofgem before Christmas.

#### **5 Pricing Discussion Responses for Enduring Exit Gas Charging**

EB gave a presentation that summarised responses to the following 3 discussion papers.

##### **5.1 NTS GCD01 – NTS Exit Capacity Charges for Enduring Arrangements**

There was support for the Transportation model, no capping of annual price movements and the removal of zones for NTS/LDZ offtakes. Respondents requested adjustment of capacity charges to minimise commoditisation. Options for addressing capacity scaling were discussed under item 6. Regarding removal of zones, SA stated that a consultation

paper from DNs was envisaged for February to address how they might deal with this change.

## **5.2 NTS GCD02 – NTS Exit Flexibility Charges**

There was opposition not only to the flexibility product, but specifically to the proposed Flex SO commodity charge.

NG NTS felt that the Flex SO commodity charge was needed to incentivise appropriate usage because of the risk of behavioural change. Regarding the level of charge, a simplistic approach, given that many respondents had commented on the complexity of the approach in GCD02, suggested the ratio of flow/flex maximum capability from a typical pipe section was 10:1 and this could be used to set the SO flex commodity rate at ten times the flat SO commodity rate. PR explored the reasons for opposition to the introduction of the flex commodity charge and JC referred to interaction with the electricity market, operational monitoring and allocation of flexibility utilisation and the administrative burden of obtaining data and using it to check invoices. SA and JC felt incurrence of cost from use of Flex had not been adequately demonstrated. PR believed there were costs appropriate to commodity charge treatment and would seek to demonstrate this.

NG NTS to provide example data to illustrate the effect of profiled offtake on compressor usage and therefore costs. **Action**

## **5.3 NTS GCD03 – Recovery of TO Allowable Revenue from Exit Users**

The proposed approaches for under and over recovery both received support. PR pointed out that Ofgem's TPCR Final Proposals no longer included an allowance for exit capacity buy back - it had argued that baselines and Maintenance Days obviated the need. One consequence was that the Exit Buy-back offset mechanism was not needed. PR noted that the proposed Exit Capacity Neutrality mechanism would be limited to the redistribution of over run charges in the absence of a buy back allowance.

## **5.4 Way Forward**

PR reported that he did not expect a decision from Ofgem regarding Reform of NTS Exit Arrangements until March and that Ofgem did not require Pricing Final Proposals for consideration at the same time. NG NTS nevertheless felt this was desirable in readiness for proposed July Exit Capacity auctions. Thus, for pricing consultation purposes, NG NTS may need to set out options and/or state assumptions early next year. JCox suggested that it might be workable to just seek an outcome on GCD01 (NTS Exit (Flat) Capacity) in this timeframe.

## **6 Options for adjusting Enduring TO Exit (Flat) Capacity Charges to recover allowed revenue**

EB ran through a presentation that included two possible options for recovery of allowed revenue – Option 1 Reset prices each year and Option 2 Only set prices once. There was an issue as to what assumptions should be made for calculations that involved the years in the next Price Control period (i.e. after 2012). NW observed that Option 2 was simpler but wanted a view on the size of the commodity correction. EB suggested this may be small but it depended on the outcome of auctions and usage. In response to a question, EB explained that the network expansion cost factor would be similar to Entry i.e based on the cost 100km pipe (with index linkage to steel prices), with compression to 85bar. SA established that the option put forward by NG UKD in its representation differed from Option 2 and asked that this "Option 3" should also be explored. NG UKD and Scotia were seeking fixed prices for all relevant years at the time a User commitment was made. PR

noted that this might be inconsistent with the prevailing charge concept as it could lead to different prices for the same annual capacity product at the same location.

NG NTS had concerns about the effects of cumulative network change over a 7 year period. It was felt that illustrative analysis would be useful for evaluation of the different options. NG NTS noted that it would be difficult to provide illustrative analysis of different options for TO Exit cost recovery for a range of scenarios as the analysis could only be backward looking and exit prices had not been re-balanced for the last five years.

NG NTS agreed to investigate the feasibility of generating illustrative analysis of different options for TO Exit cost recovery for a range of scenarios. **Action**

## **7 NTS Entry Capacity Reserve Price Discounts**

EB reported that Ofgem were not minded to remove the licence obligation for a clearing auction and this would constrain what NG NTS could put forward at this time as it could not put forward a charging proposal that was clearly not consistent with its Licence. Nevertheless a discussion paper was envisaged to explore this area further, based on using the Transportation model, with spare capacity excluded.

## **8 Availability of Transportation Model**

The process for interested parties to obtain a copy of the Transportation Model from National Grid is now available on its web site. Two copies have been issued and another request was in progress. NG NTS invited feedback.

## **9 DN Pensions Deficit Charge**

On 24 November pricing consultation paper NTS GCM 02 was issued and representations were invited by 22 December. UNC Modification Proposal 0127 was raised on 13 December for consideration by Panel on 21 December. The aim was, subject to National Grid acceptance of TCPR Final Proposals, that the charge would commence 1 April 2007, or as soon afterwards as possible with a catch up mechanism, if it was needed for full recovery in the first year.

## **10 AOB**

None.

## **11 Date of Next Meeting**

To be arranged in late January 2007. The primary business would be to inform finalisation of pricing consultation papers for the Enduring Exit regime, but an update on all other matters was also envisaged.

## Action Log

No.	Date Raised	Description	Status	Comments
23	10/10/06	National Grid NTS to publish results of typical scenarios which model spare capacity adjustments	Closed	Examples have been included in consultation papers and will be included in further papers as appropriate.
25	10/10/06	Ofgem to advise whether it believes an Impact Assessment will be required for the SO Commodity Charge changes.	Carried Forward	
26	16/11/06	National Grid NTS to produce a clarification note to demonstrate how the Transportation Model would be adjusted to achieve the 50:50 split.	Closed	This would be included in the report on GCD01 consultation.
27	16/11/06	National Grid NTS to investigate scaling options for Exit Capacity and publish an analysis.	Carried Forward.	Options and nature of analysis identified.
28	14/12/06	NG NTS to provide example data to illustrate the effect of profiled offtake on compressor usage.		
29	14/12/06	NG NTS to investigate the feasibility of generating illustrative analysis of different options for TO Exit cost recovery for a range of scenarios.		