

Gas Transmission Charging Methodologies Forum

Draft Meeting Report: 16 November 2006

This report outlines the key discussions of the eighth Gas TCMF meeting held at Elexon, 350 Euston Road, London on 16th November 2006. All supporting material can be found at www.nationalgrid.com/uk/gas

ATTENDEES

Tim Davis (Chair)	TD	Joint Office of Gas Transporters
Alex Barnes	AB	BG
Adam Cooper	AC	Merrill Lynch
Andrew Pester	AP	Ofgem
Chandima Dutton	CD	National Grid NTS
Charles Ruffell	CR	RWE Npower
Christiane Sykes	CS	Statoil
Chris Wright	CW	BGT
Dominic Harrison	DH	National Grid NTS
Denis Aitchison	DS	Scotia Gas Networks
Dennis Timmins	DT	RWE Npower
John Baldwin	JBa	CNG Services
John Bradley	JBr	Joint Office of Gas Transporters
Julie Cox	JC	AEP
Lorraine Goodall	LG	Scotia Gas Networks
Nick Wye	NW	WatersWye Associates
Peter Bolitho	PBo	EON UK
Phil Broom	PBr	Gaz de France
Paul Roberts	PR	National Grid NTS
Richard Fairholme	RF	EON UK
Roddy Monroe	RM	Centrica Storage Ltd
Steve Armstrong	SA	National Grid Distribution
Stefan Leedham	SL	EDF Energy
Shelley Rouse	SR	Statoil

1 Introduction

TD welcomed attendees to the meeting.

2 Report of Previous Meeting

The meeting report of the Forum held on 10 October 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. **Carried Forward**

24 National Grid NTS to advise forum of how much allowed revenue would be recovered under flat capacity charging. See 5.3 below **Closed**

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

AP stated that Ofgem was considering this aspect in respect of all the current pricing proposals. **Carried Forward**

4 Pricing Consultation Papers – update

PR summarised the current and imminent consultation documents. PR was not intending to extend the deadline for the pricing consultations even though Mod 0116 consultation had been extended. Some members of the forum believed that an extension would be appropriate although not necessarily to 6th December 2006. PR agreed to consider an extension.

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

PR gave this presentation that outlined the key issues drawing on some of the discussion that took place in previous meetings and asked that comments be made promptly.

NW asked whether the single year forecast used for the Transportation Model (Option 2) would set reserve prices in the long term. PR confirmed that it would. PBo asked whether this could be characterised as “Short Run Marginal Cost”. CD stated that with the economic model used, it was still valid to term the analysis as LRMC as with the equivalent electricity model. PBo suggested that the electricity model didn’t always give stable results but they were predictable and this gave Users some comfort.

JC raised the prospect of non zero exit baselines in respect of storage connection points. CD clarified that on the 1 in 20 peak scenarios, storage points would be modelled as entry points, when exit flow would be zero. CD confirmed that National Grid NTS were considering this aspect.

JC stated that the enduring regime should be considered as applying an incremental change to the structure being currently formulated and that sunset clauses in the charging methodology would not be appropriate. This was generally agreed.

4.2 NTS GCM02 – Revisions to NTS Entry Capacity Reserve Price Discounts

CD gave this presentation. CD identified some of the issues with the current regime which removal of discounts would alleviate.

AC suggested that more flexibility, from for example capacity transfers, as proposed in the recently withdrawn UNC Modification Proposal 0118, should alleviate these concerns. PBo asked about current capacity held back. PR stated that it was currently 20% but discussions with Ofgem were likely to result in this being reduced to 10%. RM asked about the origins of the discounts. CD believed that this was due to National Grid NTS’ interpretation of its clearing obligations and was taken on the basis that there was competition at each Entry Point. CD suggested that only St Fergus and Barrow bookings were generally made long term and demonstrated this with a series of slides. This was affecting the TO commodity charge, which was used to recover the shortfall from auction revenue. JC acknowledged the cross subsidy implications and suggested that the TO commodity charge could be focussed on those who had taken most advantage of low short-term capacity prices. Other forum members foresaw complications if this principle were adopted.

NW asked about booking level assumptions. CD stated that National Grid NTS took the known LTSEC and AMSEC bookings and assumed that 2005/6 RMSEC and DSEC booking levels would continue into 2007/8 and 2008/9. The assumptions would be described in the consultation paper NTS GCM02. AC and NW believed that it was

premature to remove the discounts but would be sympathetic to reductions. PR stated that National Grid NTS would not be against such an approach,

4.3 NTS GCM03 – NTS SO Storage Commodity Charge

PR summarised this proposal. CS questioned whether the proposed charge should apply to net physical storage flows, rather than commercial flows as proposed in the consultation paper. DH responded that this approach was consistent with the treatment of flows at other bi-directional offtakes, and that in practice there would be few occasions when there would be reverse flows within a gas day at storage sites.

5 Pricing Discussion Papers – update.

5.1 NTS GCD01 – NTS Exit Capacity Charges for Enduring Arrangements

PR summarised this document that relied on NTS GCM01. JC asked whether the concept of a one year Transcost model was an option. PR said that this would be feasible but due to the Spare Capacity assumption could be a very volatile model. National Grid NTS were considering removing the concept of Exit Charging Zones. As the Enduring Exit Regime is node based these would have no value and may cause confusion with respect to some of the zone concepts incorporated within the Enduring Exit Regime. PR emphasised that adjustment to 50:50 entry:exit was incorporated within the charges but all other adjustments to allowed revenue would be through a TO commodity charge.

PR agreed to produce a clarification note to demonstrate how the model outcome would be adjusted to achieve the 50:50 split. **Action**

JC was concerned that the 10 Year Statement forecast demand for 2010 was not being defined as she had unsuccessfully attempted to obtain information on this, particularly with respect to interruption assumptions. PR responded that investment would, under the proposed enduring regime, be triggered on the basis of firm bookings and that these would inform pricing assumptions.

5.2 NTS GCD02 – NTS Exit Flexibility Charges

PR summarised the position. Whilst recognising industry concerns about the introduction of a Flexibility Commodity Charge, National Grid NTS restated its view that a Flexibility Commodity Charge is required. PR would correct the slides to correspond with the published document.

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

JC was not convinced that it was correct to discard the concept of scaling and that large commodity charge rates might ensue. She had asked about the percentage of allowed revenue being recovered through capacity charges. DH advised that the current National Grid NTS estimate was that 45% of target exit revenue would be recovered through exit capacity charges. JC felt that this reinforced her concerns and believed that further scaling should be considered. DA suggested that the disadvantages of scaling should be explored.

PR agreed to investigate other scaling options and publish an analysis. **Action**

6 Availability of Transportation Model

In order to publish the Transportation Model, National Grid NTS would avoid the confidentiality issues by issuing the model populated with public domain data e.g. data from Ofgem consultation documents. An opportunity to use this model would occur prior to the end of

November 2006 – although it should be borne in mind that this would not be based on the actual data used to calculate indicative charges.

Those wishing to use the model were asked to sign a standard software licence agreement with National Grid, which would be published on the website in the near future. The model would then be provided free of charge.

7 DN Pensions Deficit Charge

DH gave this presentation. National Grid NTS believed that deficit costs related to former DN Employees should be recovered through a specific transportation charge that would be levied on DNOs only. The monthly charge would be based on the annual allowances that would be contained in Ofgem's TPCR final proposals and subject to agreement on the GT Licence modifications. These allowances would be "hard-coded" in both the NTS GT Licence and the individual DN licences. It was anticipated that a Pricing Consultation Proposal would be published in the near future, and a UNC Modification Proposal would be raised at the December Modification Panel.

8 Way Forward

9 AOB/Date of Next Meeting

To be arranged in December 2006

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	Carried Forward	
24	10/10/06	National Grid NTS to advise forum of how much allowed revenue would be recovered under flat capacity charging	Closed	National Grid NTS advised its current estimate was that 45% of target exit revenue would be recovered through exit capacity charges.
25	10/10/06	Ofgem to advise whether it believes an Impact Assessment will be required for the SO Commodity Charge changes.	Carried Forward	Ofgem advised that it was considering this aspect in respect of all the current pricing proposals
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.		
27	16/11/06	National Grid NTS to investigate scaling options for Exit Capacity and publish an analysis.		