

Gas Transmission Charging Methodologies Forum

Draft Meeting Report: 24 January 2006

This report outlines the key discussions of the second Gas TCMF meeting held at National Grid House, Warwick on 24th January 2006. All supporting material can be found at www.nationalgrid.com/uk/gas

ATTENDEES

Richard Court (Chair)	RC	National Grid NTS
Denis Aitchison	DA	Scotia Gas Networks
Alex Barnes	AB	BG Group
Eddie Blackburn	EB	National Grid NTS
Phil Broom	PB	Gaz de France
Mark Buckthorpe	MB	Statoil UK Limited
Jeff Chandler	JC	SSE
Julie Cox	JCox	AEP
Mick Curtis	MC	EMCC
Colin Dickens	CD	ExxonMobile
Chandima Dutton	CDu	National Grid NTS
Stuart Easterbrook	SEa	National Grid NTS
Steve Edwards	SE	Wales & West Utilities
Karin Elmhirst	KE	National Grid NTS
Ben Farrington	BF	Ilex Energy
Mark Freeman	MF	National Grid UKD
Lorraine Goodall	LG	Scotia Gas Networks
Damian Gray	DG	National Gray NTS
Matteo Guarnerio	MG	Ofgem
Dominic Harrison	DH	National Grid NTS
Fergus Healy	FH	National Grid NTS
Rochelle Hudson	RH	British Gas
Shelly Jones	SJ	Statoil UK Limited
Mark Manley	MM	Centrica
Tricia Moody	TM	Xoserve
Mark Pearce	MP	Corona Energy
Agnes Petersen	AP	Ilex Energy
Paul Roberts	PR	National Grid NTS
Steve Roser	SR	Portland Gas Limited
Charles Russell	CR	RWE npower
Yasmin Sufi	YS	ENI UK Limited
Christiane Sykes	CS	E.on UK
Dennis Timmins	DT	RWE npower
Alan Willingale	AW	Statoil
Nick Wye	NW	Waters Wye

1. Minutes of Previous Meeting

These were agreed as accurate.

2. Actions from previous meeting

None.

3. Terms of Reference

Paul Roberts suggested two changes to the TOR :

1. that the Gas TCMF Chair be changed from National Grid NTS, to that the Chair will be appointed by National Grid NTS.
2. that the TOR will contain only the first two pages of the draft version i.e. that Appendix 1 is removed as it contains a proposed work plan that will be require amendment on a routine basis.

On the basis that the suggested changes be included, the TOR were agreed.

4. Objectives of the TCMF

PR described the key objectives of the meeting as being to provide an overview of the current charging arrangements, and to develop an initial work programme.

5. Overview of Charging Arrangements

PR gave a presentation that described the regulatory and commercial framework that National Grid NTS operates within the context of developing transportation charges. The presentation set out the main licence obligations and contractual requirements. A copy of the presentation can be found on National Grid's website at www.nationalgrid.com/uk/gas No issues were raised.

Chandima Dutton gave a presentation on Transportation Charging Methodologies, which covered the setting of entry and exit TO and SO charges.

Mick Curtis queried whether PC76 (Entry Capacity Reserve Prices and Exit Capacity Charges), if implemented, would affect the maximum allowable revenue of TO exit capacity revenue, or just affect a re-balancing of exit capacity charges. It was confirmed that it was the latter, with MAR unaffected within a Price Control period.

Alex Barnes questioned why the daily entry capacity reserve prices were discounted vis a vis the annual & monthly reserve prices, and Christiana Sykes enquired as to the rationale for the 33.3 % discount ahead of the day. Dominic Harrison explained that the discounts were consistent with National Grid NTS' licence obligation to maximise the release of entry capacity, and that the levels of discounts at the time they were introduced following Industry consultation were considered to be an appropriate level taking into account the nature of the products.

Nick Wye & Steve Roser questioned the determination of incremental NTS costs arising from new Embedded System Entry Points (ESEPs) within DNs, and in particular how UCAs would be set, bearing in mind that physical gas flows would not enter the NTS. Paul Roberts responded by stating that National Grid would take into account information we receive from the site developer, such as expected gas flows. Eddie Blackburn explained that although the gas flows from the ESEP may remain at DN level, any consequential costs on the NTS would be determined by modelling the new ESEP gas flows to assess how they would affect the NTS gas flows. NW acknowledged this, but considered that the interaction between DN and NTS for ESEPs needed to be understood better and requested that the issue be included in the TOR.

Action : TOR to include impact of ESEPs on the NTS and how reserve prices and LRICs should be determined for new ESEPs.

6. Overview of Charge Calculation Models

Transport Models

CD gave a presentation on the Transport Models used to generate entry and exit capacity charges, and described the LRMC and LRIC methodologies (presentation can be found on National Grid's website at www.nationalgrid.com/uk/gas)

CS asked how the bids at entry auctions informed the setting of LRMCs/LRICs. In response, it was stated that entry prices revealed in long term auctions informed the decision on whether to release additional incremental capacity, but that LRICs were based on the initial UCAs and the IECR methodology.

Julie Cox commented that the UCAs and LRICs appeared to be dependant on the supply-demand assumptions. Steve Edwards enquired what determines when Transcost is run, and how often this is undertaken. In response, CD explained that, for entry, it was run every year prior to the long term auction invitation letter, and that on exit it was last run in 2001 (consistent with PC76).

Charles Ruffell asked whether the fact that Transcost had not been re-run for exit LRMCs has affected the validity of entry price LRICs as determined by Transcost. CD responded that there was no cross-over between entry & exit, and that they were effectively de-coupled. Chandima suggested further that there may be benefits in setting both exit LRMCs and entry LRICs simultaneously by using the same base network for Transcost and that this is something that could be explored going forward.

Action : Issue of potential for generating LRICs and LRMCs simultaneously to be recorded for consideration as part of charging review work.

In response to a question from SE, PR explained that adherence to the IECR methodology rather than Transcost, is audited annually as required under National Grid NTS's Licence obligations. However, Transcost had been independently audited at the time it was introduced and since then benchmarked against Graphical Falcon analysis. Richard Court reminded the meeting that LRMCs had not been updated since 2001.

On the subject of the LRMC matrix (of entry-exit pairs), JC asked whether certain routes should not be removed, prior to application of the solver, if they clearly did not reflect gas flows (e.g Bacton to St.Fergus flows). In response, it was explained that if certain routes are very unlikely, then there would be no investment identified, and hence charges generated for the route would be zero. Further discussion took place on the apparent variation in exit prices of neighbouring offtakes, and the factors that affected the reinforcement costs over the last few kilometers of pipeline (e.g location of feeders, compressors). It was agreed that this should be investigated as part of the review.

Action : Issue of price variations between neighbouring offtakes to be considered as part of the review.

Graphical Falcon and Transcost Models

Damian Gray and Fergus Healy gave presentations on the above models, including a demonstration of a typical Transcost run to generate LRMC charges for each entry-exit combination. No issues were raised. (Copy of presentation can be found on National Grid's website at www.nationalgrid.com/uk/gas)

Tariff Models – Solver

CD gave a presentation on Solver. SR asked how gas flows that benefited the system (by deferring or offsetting reinforcement), such as back-haul or ESEPs were taken into account. In response, EB explained that Solver was a purely capacity model that generates capacity charges only. In order to reflect the benefit of such flows, for example by introducing negative capacity charges, the User would need to ensure they always flowed according to the capacity they had acquired. However, as long as the capacity and energy regimes were disaggregated, and there is no obligation on Users to flow according to their capacity entitlements, negative charges would be inappropriate.

J.C. requested an illustrative example of how solver generated the LRMC costs by way of a less complex scenario e.g fewer entry & exit points, that would more clearly explain the end to end process and help track the costs through the process.

Action : National Grid to prepare illustrative example of how solver generates the LRMC costs by way of a less complex scenario e.g. fewer entry & exit points.

NTS Exit Capacity Charge Scaling and re-balancing

CD gave a presentation on the approach taking for scaling to allowed revenue and the re-balancing rules. Only questions of clarification were raised.

7. 1 April Charge Revisions

DH gave a brief overview of the timetable for annual revisions to charges and the anticipated charges to be implemented from 1 April 2006.

8. Way Forward

PR took the group through the indicative work plan for the charging reform for 2006 and 2007, including a review of current arrangement, future enhancements, and options for exit and entry.

9. AOB

SE suggested that there would be merit in an impact assessment of how changes to NTS charges would impact on DN transportation charges, and that the interactions between NTS & DN regimes following changes to the respective charging methodologies should be taken into consideration.

NW requested access to a library of previous pricing consultations on those areas that are to be reviewed by the charging group to allow the history and arguments for certain changes to be better understood.

Action : National Grid to prepare and circulate a list of relevant pricing consultations and Network Code modifications.

❖ Date of Next Meeting

The next meeting will be held at 1.30pm on 23rd February 2006 at the Elexon offices at 350 Euston Road, London.

End of Report