

Gas Transmission Charging Methodologies Forum

Draft Meeting Report: 1 February 2007

This report outlines the key discussions of the tenth Gas TCMF meeting held at Elexon, 350 Euston Road, London on 1st February 2007. All supporting material can be found at www.nationalgrid.com/uk/gas

ATTENDEES

Tim Davis (Chair)	TD	Joint Office of Gas Transporters
Andrew Fox	AF	National Grid NTS
Angela Love	AL	Poyry Consulting
Alex Barnes	AIB	BG
Amrik Bal	AmB	Shell
Andrew Beck	AnB	ENI
Andrew Pearce	AP	BP
Colin Dickens	CD	ExxonMobil
Charles Ruffell	CR	RWE Npower
Christiane Sykes	CS	Statoil
Dominic Harrison	DH	National Grid NTS
Eddie Blackburn	EB	National Grid NTS
Eric Son Lee	ESL	Poyry Consulting
Gareth Evans	GE	Total Gas and Power
John Baldwin	JBa	CNG Services
John Bradley	JBr	Joint Office of Gas Transporters
Jeff Chandler	JC	Scottish and Southern Energy
Kirsten Elliott Smith	KES	ConocoPhillips UK
Mike Young	MY	British Gas Trading
Nigel Fox	NF	National Grid NTS
Nick Wye	NW	WatersWye Associates
Paul Roberts	PR	National Grid NTS
Robert Buckley	RB	Cornwall Energy Associates
Richard Fairholme	RF	EON UK
Roddy Monroe	RM	Centrica Storage Ltd
Shelley Rouse	ShR	Statoil
Stefan Leedham	SL	EDF Energy
Steve Rose	StR	RWE Npower
Wasif Anwar	WA	E.ON UK

1 Introduction

TD welcomed attendees to the meeting.

2 Report of Previous Meeting

The meeting report of the Forum held on 14 December 2006 was agreed as accurate.

3 Actions and Issues from previous meetings

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

This action was closed on the understanding that Ofgem would identify in good time which pricing proposals would require an Impact Assessment. **Closed**

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

National Grid NTS has published indicative prices that incorporate adjustment to achieve target revenue. **Closed**

28 *National Grid NTS to provide example data to illustrate the effect of profiled offtake on compressor usage.*

National Grid suggested that the reason for requesting this data was no longer required at this time as it would not be looking to bring forward a charging proposal to apply a non-zero SO Exit (Flexibility) Commodity Charge **Closed**

29 *National Grid NTS to investigate the feasibility of generating illustrative analysis of different options for TO Exit cost recovery for a range of scenarios.*

Discussion amongst the Transporters had concluded that one further scenario should be investigated – all current DN Interruptible Supply Points going firm. The assumption that had been used to generate previous indicative exit prices was that there will be no change to the DN Interruptible demand. It was agreed therefore to close this action and create a new one. **Closed**

Action 30: National Grid NTS to carry out TO Exit cost recovery analysis based on all DN load being firm.

4 Outcome of Recent Pricing Consultation Papers

4.1 NTS GCM02 – DN Pensions Deficit Charge

Ofgem had not vetoed this Proposal within the twenty eight day time-frame so National Grid would apply this charge from April 2007, subject to Ofgem approval of UNC Proposal 0127.

4.2 NTS GCM03 – NTS SO Storage Commodity Charge

PR stated that National Grid NTS' position was that, as Ofgem had not vetoed the Proposal within twenty eight days, the charging methodology had effectively been modified to include the process for updating the storage SO commodity charges. This decision was taken after taking legal advice that, notwithstanding Ofgem's open letter published on 19 January 2007, there was no right for the Authority to veto a proposal after the twenty eight day deadline included in the licence if an impact assessment was not initiated. PR continued to explain that as Ofgem had rejected the associated UNC Proposal 0121V, National Grid would not apply the methodology and hence would not be levying the revised SO Commodity Rate at Storage Connection Points.

5 New Charges for 1 April 2007.

NF gave a presentation summarising the charges which will apply from 1 April.

6 Forthcoming Conclusions Reports and Consultation/Discussion Papers

6.1 NTS GCM01: Alternative Methodologies for Entry and Exit Capacity Prices

EB gave this presentation and reiterated NG NTS' view that use of a Transportation Model based upon a single year supply/demand analysis that excluded spare capacity and included the benefits of backhaul was the preferred option. The conclusions document had been submitted to Ofgem on 25 January 2007. Timelines were presented that showed the effect of Ofgem carrying out a full thirteen week impact assessment.

EB explained that NG NTS was no longer including changes to the determination of NTS Entry Capacity Incremental Step Prices. It would instead be consulting simultaneously on the user commitment model and incremental step price determination currently contained within the IECR. A revised IECR would be issued within the next three months

CR pointed out that the model now available to industry parties did not contain "real" exit data and asked when this would be rectified. NG NTS responded that it would be raising a UNC Proposal in order to populate this part of the spreadsheet with real data.

JBa expressed an ongoing concern that, due to the current revenue shortfall from entry capacity, a substantial TO Commodity Charge had been applied. This had shown year on year increases. JBa expressed the view that a Commodity Charge was not by its nature cost reflective and action was required to address this as a matter of priority. EB acknowledged the issue and NG NTS were seeking to issue a discussion paper shortly. It was emphasised that any radical change in methodology in order to address this issue could require changes in charging methodology, licence and Uniform Network Code. Other members of the forum agreed that this issue deserved attention as a matter of priority.

6.2 NTS GCDxx – NTS Entry Capacity Reserve Price Discounts

NG NTS wished to record that a paper would be published on this subject in the near future.

6.3 NTS GCD01 - Exit (Flat) Capacity Charges for Enduring Arrangements

EB gave this presentation and reminded the forum that indicative flat exit capacity charges included within GCD01 were set based on raw LRMCs and would have only recover 45% of the TO Exit allowed revenue. Respondents had uniformly not supported this approach and favoured an approach, which would set NTS Exit (Flat) Capacity prices to recover all or the majority of TO Exit allowed revenue. EB stated that NG NTS would therefore be bringing forward a revised flat capacity proposal, which would seek to recover 100% of TO Exit allowed revenue.

6.4 NTS GCD02 – NTS Exit Flexibility Charges

EB reminded the forum that NG NTS had proposed a zero exit flexibility capacity reserve price within GCD01, and noted that respondents had uniformly supported this approach. EB stated that NG NTS would therefore be bringing forward a zero flexibility capacity reserve prices proposal.

EB noted that there had been a uniform lack of support for the proposed introduction of a non zero SO flexibility commodity charge contained within GCD02 due to a lack of understanding of the justification for the charge and concerns that the charge may not be cost reflective. EB stated that, while GCD02 had noted the difficulties in attributing costs to flexibility utilisation, a mechanism to incentivise the appropriate usage of NTS flexibility post exit reform might be required. EB stated that NG NTS would therefore not be bringing

forward a zero flexibility commodity charge proposal at this time. NG NTS would however consider proposing the introduction of a non zero charge rate if a material change in flexibility utilisation and associated costs could be demonstrated and no alternative methodology for Incentivising the appropriate usage of NTS flexibility had been identified.

6.5 NTS GCD03 – Recovery of TO Allowance Revenue from Exit Users

EB noted that if NTS Exit (Flat) Capacity charges were set to recover all TO Exit allowed revenue then a TO Exit commodity charge might only be required to redistribute any revenue received from the auctioning of NTS Exit (Flexibility) Capacity. EB stated that comments had been received in regard to how the charge might be levied at Storage sites and noted that this was unclear given the rejection of UNC Modification proposal associated with GCM03.

EB noted that changes to exit commodity charging were not required until 2010 and that the requirement for any changes might only become clearer post a decision on UNC modification proposal 0116 or one of its alternates. EB proposed that as a result the commodity issues might be considered by the Gas TCMF as part of a wider commodity review at a later date hence allowing the prioritisation of other issues such as entry capacity reserve price discounting.

EB presented a timeline that indicated that NG NTS would need to bring forward proposals to cover NTS Exit (Flat) Capacity prices and NTS Exit (Flexibility) reserve prices by 19th February 2007.

7 AOB/Date of Next Meeting

To be arranged

Action Log

No.	Date Raised	Description	Status	Comments
25	10/10/06	Ofgem to advise whether it believes an Impact Assessment will be required for the SO Commodity Charge changes.	Closed	Forum accepted that Ofgem would in future identify promptly, pricing proposals that required an impact assessment
27	16/11/06	National Grid NTS to investigate scaling options for Exit Capacity and publish an analysis.	Closed	The current proposals include an adjustment mechanism to ensure that recovery will be approximately 50% of allowed revenue.
28	14/12/06	National Grid NTS to provide example data to illustrate the effect of profiled offtake on compressor usage.	Closed	It was agreed that this was no longer required as National Grid will not be applying a charge at Storage Connections Points
29	14/12/06	National Grid NTS to investigate the feasibility of generating illustrative analysis of different options for TO Exit cost recovery for a range of scenarios.	Closed	The Transporters had agreed that a different action was more appropriate
30	01/02/07	National Grid NTS to carry out TO Exit cost recovery analysis based on all DN load being firm.		