

Gas Transmission Charging Methodologies Forum

Draft Meeting Report: 1 May 2007

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

ATTENDEES

Tim Davis (Chair)	TD	Joint Office of Gas Transporters
Andrew Morris	AM	Poyry
Andrew Pearce	AP	BP Gas Marketing
Christiane Sykes	CS	Statoil
Clive Woodland	CW	BGT
Dominic Harrison	DH	National Grid NTS
Eddie Blackburn	EB	National Grid NTS
Eric Sleutjes	ES	Ofgem
John Bradley	JB	Joint Office of Gas Transporters
Jeff Chandler	JC	Scottish and Southern Energy
Martin Watson	MW	National Grid NTS
Paul O'Donovan	PO	Ofgem
Richard Fairholme	RF	EON UK
Richard Miller	RM	Ofgem
Roddy Monroe	RoM	Centrica Storage
Rekha Patel	RP	WatersWye
Rohan Thuraiatnam	RT	Nexen Inc
Stefan Leedham	SL	EDF Energy
Steve Rose	SR	RWE

1 Introduction

TD welcomed attendees to the meeting.

2 Report of Previous Meeting

The meeting report of the Forum held on 5 April 2007 was agreed as accurate.

3 Actions and Issues from previous meetings

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

National Grid NTS confirmed this will be included in the consultation document **Carried Forward**

35 National Grid NTS to clarify or correct allocation of K to storage charge in its summary slide

The slide was confirmed to be correct

Closed

4 Status of Recent Pricing Consultation and Discussion Papers

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

RM gave the first presentation outlining Ofgem's decision. Whilst deciding not to veto the document, Ofgem had expressed concern in respect of excluding any spare capacity in the model.

CS asked how National Grid NTS might implement a spare capacity element. EB responded that it has discarded the idea of an Economic Test as too complicated. It therefore looked again at three further options as discussed previously with TCMF. These involved the forecast flow based approach consulted on in GCM01 ("Option 2a"), applying a specific discount to entry points where there was deemed to be spare capacity or applying a discount to the expansion constant used in sections of the network where there was deemed to be spare capacity. EB commented that the last two options would involve significant development due to the requirements to identify a transparent definition of when spare capacity was available and a non arbitrary discount to apply. EB noted that while National Grid NTS had proposed option 2b, if spare capacity were to be factored in then its preferred approach was option 2a as set out in GCM01. TD asked Ofgem for its definition of spare capacity. PO responded that it would be looking for a definition based upon either average or peak capacity. TD pointed out that, if the average were taken, there would be spare capacity at every Entry and Exit Point. ES recognised the difficulty of defining the parameter but nevertheless wanted to establish a definition which reflected recent decline in flows at certain Entry Points. PO stated that Ofgem had not excluded a similar concept at Exit but was concentrating at Entry. CS accepted the difficulty of defining spare capacity but agreed with Ofgem that something should be done. SR preferred to await the results of the forthcoming LTSEC Auctions and subsequent transfers.

Following a comment within the meeting, TD asked whether all present agreed that ideally the TO Commodity Charge should be zero. There was general consensus on this point.

EB then concentrated on how National Grid NTS might implement Ofgem's spare capacity wishes. He compared options 2b and 2a in turn. 2b, which is the current methodology, involved carrying out Entry Point specific analysis by substituting the baseline flow for the base case flow modelled and carrying out subsequent adjustments at other Entry Points to maintain a supply and demand balance. 2a would only adjust where the maximum base case level was different to the base case flow modelled and would therefore have less impact on the analysis.

He concluded by identifying that National Grid NTS intended to conduct a further methodology consultation which would propose introducing option 2a to factor in spare capacity. EB also noted the potential impact on the Charging Methodology of the anticipated introduction trades, transfers and substitution between ASEPs which might make the use of forecast maximum flows rather than baselines more reflective of the level of capacity released. It was also identified that there were more supporters of the spare capacity aspect in responses to Ofgem's IA consultation than to the original pricing consultation.

In parallel, National Grid NTS would be carrying out an IECR consultation involving the setting of incremental prices based on the Transportation Model approach introduced via GCM01 – also to be released on 4 May 2007¹. EB clarified that 150 days notice of price changes had already been given so this did not need to be incorporated in the implementation plan. It was also looking at refinements of its Transportation Model spreadsheet so that it could take into account these proposed changes.

¹ Post Meeting note: The IECR and Option 2a (GCM06) consultations were subsequently released on 8th May 2007.

4.2 NTS GCM04 – Introduction of NTS Exit (Flexibility) Capacity Charges

National Grid NTS stated it continued to propose that these charges would be based on a zero reserve price.

4.3 NTS GCD04 – NTS Entry Capacity Reserve Price Discounts

National Grid NTS stated that the paper would be issued during w/c 7 May 2007 based upon three options for each relevant auction: retention, removal or conditional retention of the discounts. CW suggested that instead of an ASEP specific retention condition, it could be based upon an aggregate condition. EB recognised this as an option and invited CW and any other respondents to include alternate options in their responses.

5 NTS Entry Regime Charging

5.1 Update on Entry Transfer/Trade Application Fees

National Grid was awaiting resolution of the trade/transfer UNC Modification Proposals prior to making suggestions in this area. National Grid NTS intended to post any charge rates prior to the auction taking place.

6 NTS Exit Regime Charging

6.1 Update on status and development plan for enduring regime

EB gave this presentation. The final proposals based on NTS Exit (Flexibility) Capacity reserve prices (GCM04) will be sent to Ofgem shortly. National Grid NTS outlined its case for the setting of a negative TO Exit (Flat) Commodity charge to take into account revenue from Flexibility capacity. A further consultation on NTS Exit (Flat) Capacity charge setting would be issued later in the year. No responses supported the concept of a SO Exit (Flex) Commodity Charge, however, National Grid NTS identified the benefit and risks associated with a non-zero flex Commodity Charge. National Grid suggested that the usage of flex was to some extent dependent on DN incentives and a non-zero charge rate may be required if there was a material change in NTS flexibility utilisations and resulting costs. NTS proposed monitoring usage and would publish information in accordance with Modification Proposal 0116V. TD asked whether Ofgem was looking at DN incentives in the light of this potential charge. RM agreed to investigate.

Action 36: Ofgem to consider whether changes to DN Incentives were required in the context of implementation of Proposal 0116V.

The issues with the TO and SO Exit (Flat) Commodity Charges centred on storage flows and hence National Grid NTS would bring forward further proposals covering such a charge once issues relating to a proposed SO Storage Commodity charge had been resolved.

The meeting also agreed that no action was required at this stage in respect of TO Under/Over Recovery.

EB outlined a timeline for further NTS Charging Methodology changes resulting from the implementation of UNC Modification Proposal 0116V based on no requirement for an Ofgem Impact Assessment. RM stated that Ofgem could give no undertaking on this so National Grid NTS agreed to consider bringing forward the consultation dates in order to reflect this possibility.

7 NTS Storage Regime Charging

7.1 SO Storage Commodity Charge – progress update towards a Discussion paper

DH identified that a Discussion Paper is being drafted and should be issued within the next three weeks. He invited members to submit any further comments prior to National Grid NTS issuing the paper.

8 AOB/Date of Next Meeting

SR requested a run-through of the Transportation Model at the meeting following the implementation of Modification Proposal 0134. EB responded that this was unlikely to be resolved this month but there may be value in discussing the merits of 2a versus 2b. The meeting suggested that an existing day could be utilised for this. It was provisionally agreed to meet on 18 May, following the inaugural Review Group 140 meeting. EB suggested that if a May date was not feasible, TCMF could meet after the June Transmission Workstream.

Action Log

No.	Date Raised	Description	Status	Comments
30	01/02/07	National Grid NTS to carry out TO Exit cost recovery analysis based on all DN load being firm.		National Grid confirmed that it would include this analysis within a subsequent consultation document Carried Forward
35	05/04/07	National Grid Transmission to clarify or correct allocation of K to storage charge in its summary slide.		Closed
36	01/05/07	Ofgem to consider whether changes to DN Incentives are required in the context of implementation of Proposal 0116V.		