

## Gas Transmission Charging Methodologies Forum Meeting Report: 3 December 2007

*This report outlines the key discussions of the eighteenth Gas TCMF meeting held at Elexon, 350 Euston Road, London on 3<sup>rd</sup> December 2007. All supporting material can be found at [www.nationalgrid.com/uk/Gas/Charges/TCMF](http://www.nationalgrid.com/uk/Gas/Charges/TCMF)*

### Attendees

Tim Davis	TD Joint Office
Alex Barnes	AB1 BG
Amrik Bal	AB2 Shell
Audrey Luksicek	AL Centrica
Andrew Pearce	AP1 BP
Andrew Pester	AP2 Ofgem
Christiane Sykes	CS Statoil Hydro
Clive Woodland	CW Centrica
Debra Hawkin	DH National Grid NTS
Eddie Blackburn	EB National Grid NTS
John Baldwin	JB1 CNG
John Bradley	JB Joint Office
Jeff Chandler	JC1 Scottish and Southern Energy
John Costa	JC2 EDF Energy
Jemma Spencer	JS National Grid NTS
Nick Wye	NW WatersWye Associates
Phil Broom	PB Gaz de France
Richard Fairholme	RF E.ON UK
Richard Miller	RM1 Ofgem
Roddy Monroe	RM2 Centrica Storage
Sofia Fernandez Avendaño	SFA Total
Steve Rose	SR RWE Npower

### 1. Introduction

TD welcomed attendees to the meeting

### 2. Report of Previous Meeting

The meeting report of the forum held on 6 November was circulated and will be presented for agreement at the next meeting.

### 3. Review of actions.

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

This action remains on hold pending progress on the exit regime.

**Carried Forward**

37 Ofgem to consider producing a document, prior to the first substitution auction, setting out its rationale for approving substitution applications.

PO advised at the previous meeting that Ofgem was considering this further. It had not been included in the review of baselines but will be included when the work on substitution commences.

**Carried Forward**

39 RM1/AP to raise issue regarding timeframe for issue of GCM10 consultation report and any necessary impact assessment.

Ofgem responded that it would wish to see a report in the second week in January. It was not able to indicate at this stage whether an Impact Assessment would be required or not but was mindful of the implementation date.

**Carried Forward**

40 EB to seek views within GCM11 on appropriate minimum level at which to pay rebates

This has been included in the GCM11 consultation

**Closed**

41 RM1 to check history regarding Ofgem acknowledgement that storage provide a "benefit" in relation to a storage commodity charge

RM1 referred to previous relevant decisions;

- PC70 non veto letter,
- PC73 non veto letter,
- Transco Network Code 0532 rejection letter,
- Transco Network Code 0545 rejection letter,
- Transco Network Code 0547 rejection letter,
- GCM03 non acceptance letter.

**Closed.**

42 DH to look at data presented on compressor fuel usage and throughput specifically at low throughputs. Also to check whether St Fergus compression had been included.

DH confirmed St Fergus compression was included but would be excluded. The data is still being obtained.

**Carried Forward**

- 43 *Draft discussion paper on Storage commodity charging to be issued to the next TCMF.*

EB confirmed this paper will be sent out shortly

**Carried Forward**

*[Post meeting note: the draft paper is now available on the National Grid website in the Gas> Charges> Consultations> Current Papers> GCD05 section <http://www.nationalgrid.com/uk/Gas/Charges/consultations/CurrentPapers/> ]*

- 44 *RM1 to provide update on Ofgem's position with regard to an SO commodity charge and its application to storage for the next TCMF*

RM1 said that Ofgem's thinking had not changed since the issue of the GCM03 veto letter.

**Closed.**

- 45 *National Grid to provide information on SO allowed revenue and its components in relationship to the recent indicative notice for the SO commodity charge.*

See Agenda item 4 below.

**Carried Forward**

- 46 *In parallel with GCM10 and GCM11, EB to consider options to manage any potential over recovery separately for entry and exit.*

See Agenda item 8 below.

**Closed**

#### **4. NTS Charges at Storage Sites**

DH gave this presentation. RM2 referred to National Grid NTS's statement that charging on physical flows is complex and Ofgem's decision letters that charging should be based on physical flows. EB related this to the use of compression and acknowledged that if compression costs were included, then there was a good case to be made for basing charges on physical flows. However, National Grid NTS has acknowledged that it may not be appropriate for compression costs to be included and believed that it was appropriate to charge the remainder of SO costs (i.e. administration costs) on commercial flows. RM2 also referred to the work presented by NW at the last meeting and asked how this had been absorbed into National Grid NTS's proposals. EB replied that direct reference had been made because the benefits outlined by NW applied to the UK gas industry as a whole rather than to the NTS SO. EB commented that the paper showed that storage was an alternative to greater beach supplies and associated NTS entry capacity and that storage is therefore part of the wider system, helping to show why storage flows had avoided commodity charges to date as EB mentioned that National Grid NTS paid directly to Storage Users for Operating Margins and Transmission Support, so some of the benefits of storage were taken into account directly. NW maintained that Storage should be treated as part of the system. Whilst acknowledging National Grid NTS's view, other attendees also believed that recognition of the paper should be included in the document. EB replied that National Grid would be happy to include references to the paper in the GCD05 discussion document.

NW asked whether National Grid NTS had addressed all Ofgem's views in its decision letter. EB replied that it believed that it had but recognised the importance of compression costs and the consequences of excluding it on the decision as to

whether any charge should be based on commercial or physical flows. Whilst the discussion document does not make any firm proposals, it did indicate SO internal costs were the only costs that could be linked directly to storage and that a charge based on SO internal costs implied a movement of £2.5m costs between non storage use and storage use. RM2 pointed out that many Users are Storage Users so few would see the pro-rata benefit of the £2.5m. DH asked for comments on this draft paper by 14 December.

**Action 45: National Grid to provide information on SO allowed revenue and its components in relationship to the recent indicative notice for the SO commodity charge**

CW expressed some disappointment on the information published by National Grid NTS. He was looking for a breakdown of the categories. EB agreed to consider providing this further level of data, under this action, but identified that some of this might be commercially sensitive data. **Action Carried Forward**

**5. Update on Current Pricing Consultation and Discussion Papers**

**5.1. GCM10 TO Entry Commodity Rebate Mechanism**

EB gave this presentation and began by outlining the proposed timetable and responses received to the consultation. Dealing with the objections received, National Grid NTS believed that there was a greater risk of Entry over-recovery than under-recovery and for that reason was concentrating on an over-recovery mechanism. National Grid NTS did not believe that the Proposal was discriminatory – in fact it should reduce any discriminatory effect of the current methodology. In respect to an objection on the notice period, National Grid NTS believed that there was a distinction between charges and rebates – and this was a rebate consistent with those made under the buy-back offset mechanism as introduced by PC65. National Grid NTS also believed that rebates could only be practically provided retrospectively at the end of the period but the notice requirements would prevent National Grid applying charges retrospectively. On the aspect of Interest, National Grid NTS did not believe that it would hold any revenues that it should apply interest to and there was no provision in the licence for interest on such items. In relation to the £1m threshold, National Grid NTS commented that it believed the threshold was required but had not wanted to set an arbitrary threshold and that the £1m figure was based on the minimum commodity rate of 0.0001 p/kWh having applied over the formula year representing the minimum granularity for charge setting. National Grid, after taking into account views, was proposing deferring the consultation report until January 2008.

**5.2. GCM11 Retrospective Negative TO Entry Commodity Charge**

This consultation will close-out on 8 December 2007 and EB asked for questions. None were received.

**6. Rebates for Entry Points with Negative LRMCs**

RF gave this presentation and began by referring to the Transportation Model introduced in April 2007. EON was proposing that locationally beneficial ASEPs should be rewarded on the basis of measurable benefit provided by incremental

flows. It would apply to ASEPs with a negative LRMC that were flowing on peak Days. RF then outlined the suggested calculations and definition of “qualifying capacity” based upon a number of alternative peak flow criteria. AB2 asked which ASEPs have negative LRMCS. The meeting identified up to four of which one was Avonmouth LNG, where Transmission Support was provided by Constrained LNG.

SR asked about extending the principle to Exit. This extension would be considered. EB expressed the concern of “double counting” at ASEPs where Constrained LNG applied and also the potential for double counting if locational actions were accepted by National Grid. National Grid NTS was asked if it would be bringing forward this change as a charging proposal. EB replied that it was not proposing to adopt this proposal at this stage. EB commented that the general principle was that charges were defined within the UNC and the methodology for defining the charge rate was included in the charging methodology. National Grid NTS would therefore bring forward charging proposals in response to any UNC proposals raised in this area. RF, however, stated that it would seek to develop its proposal based on the comments received.

*[Post meeting note: National Grid can confirm that the following ASEPs have negative LRMCS within the Transportation Model based on the data used to set the incremental (2009/10) prices; HUMBLBY\_GROVE\_(MRS), ALBURY\_(MRS), WYTCH\_FARM\_TERMINAL, BURTON\_POINT\_TERMINAL, HOLEHOUSE\_FARM\_(MRS), ISLE\_OF\_GRAIN\_TERMINAL, PARTINGTON\_LNG, AVONMOUTH\_LNG, CHESHIRE\_(MRS)]*

## **7. SO Capacity Incentives and Charging**

EB gave this presentation, which set out some of the issues associated with the treatment of incremental capacity revenue. He believed that the current charging methodology was appropriate but could be clarified. EB intended to seek views on a revised description within the Charging Methodology in January for inclusion in the April 2008 update.

## **8. K Mechanism Management**

EB gave this presentation, which summarised the total (Entry plus Exit) aspect of the current K calculation. National Grid NTS had considered whether K could be applied separately to Entry and Exit. National Grid NTS identified some implications e.g. for interest rate used in the calculation, but nonetheless was proposing that the options identified could be further discussed in 2008. NW was uncertain of the benefit of separate calculations as other solutions were being pursued that would lead to a reduction in the quantities being recovered through K. JB1 did see some benefit as he anticipated that the scale might increase in future years. However, he didn't see that separation of K was the best solution to these issues. TD asked whether any person present believed action was required. No support was given so National Grid identified that it would not be pursuing this at this time.

## **9. Any Other Business**

National Grid identified that it had updated the Transportation Model User Guide in line with the version used to set recent prices. Other additions to the User Guide would be included later. A number of people expressed an interest in a demonstration session which National Grid agreed to organise.

SFA asked about the progress on interruptible discounts at Entry. EB responded that it intended to report on this shortly. There had only been a few responses which were on the website. JB1 believed that TO under recovery may return in the next few years and that the entry capacity discounts and interruptible pricing should be revisited. EB replied that if this was an area of high priority with the industry then National Grid could include it on future TCMF agenda. There was general support from the attendees.

SFA asked if the spare capacity issue would be revisited. EB believed that work on substitution, trades and transfers would reduce the instances of spare capacity and hence further charging solutions might not be required, however national grid would review the situation later in 2008.

#### **10. Next date**

A further forum meeting would be arranged in late January 2008, preferably on the same day as the Transportation Model teach-in

### 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.	Carried Forward	National Grid NTS confirmed that it would include this analysis in its consultation document, which it intended to issue to reflect progress on the exit regime.
37	05/07/07	Ofgem to consider producing a document, prior to the first substitution auction, setting out its rationale for approving substitution applications	Carried Forward	Ofgem was considering this further but was expecting to encompass the main principles in its review of baselines.
39	06/11/07	RM1/AP to raise issue regarding time frame for issue of GCM10 consultation report and any necessary impact assessment.	Carried Forward	Ofgem suggested GCM10 consultation should commence in January 2008. It was unable to comment at this stage in respect of any impact assessment.
40	06/11/07	EB to seek views within GCM11 on appropriate minimum level at which to pay rebates.	Closed	This has been included in the consultation
41	06/11/07	RM1 to check history regarding Ofgem acknowledgement that storage provided a "benefit" in relation to a storage commodity charge.	Closed	Ofgem outlined list of relevant decisions.
42	06/11/07	DH to look at data presented on compressor fuel usage and throughput specifically at low throughputs. Also to check whether St Fergus compression had been included.	Carried Forward	National Grid NTS confirmed St Fergus compression was included but has now been excluded. The data is still being obtained.
43	06/11/07	Draft discussion paper on Storage commodity charging to be issued for the next TCMF.	Closed	National Grid NTS confirmed this paper will be sent out shortly
44	06/11/07	RM1 to provide update on Ofgem's position with regard to an SO commodity charge and its application to storage for the next TCMF.	Closed	Ofgem identified that Ofgem's thinking had not changed since the issue of the GCM03 veto letter.
45	06/11/07	National Grid to provide information on SO allowed revenue and its components in relationship to the recent indicative notice for the SO	Carried Forward	Some information provided but more requested.

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		commodity charge.		
46	06/11/07	In parallel with GCM10 and GCM11, EB to consider options to manage any potential over recovery separately for entry and exit.	Closed	National Grid NTS gave a presentation on options.
47	3/12/07	National Grid to arrange NTS Charging Transportation Model training session		
48	3/12/07	National Grid to confirm the ASEPs with a negative LRMC within the Transportation Model.		