

## Gas Transmission Charging Methodologies Forum

### Draft Meeting Report: 5 April 2007

*This report outlines the key discussions of the twelfth Gas TCMF meeting held at Elexon, 350 Euston Road, London on 5<sup>th</sup> April 2007. All supporting material can be found at [www.nationalgrid.com/uk/gas](http://www.nationalgrid.com/uk/gas)*

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#### ATTENDEES

John Bradley (Chair)	JBr	Joint Office of Gas Transporters
Alexandra Campbell	AC	E.ON UK
Andrew Pearce	AP	BP Gas
Charles Ruffell	CR	RWE Npower
Christiane Sykes	CS	Statoil
Clive Woodland	CW	BGT
Dennis Rachwal	DR	National Grid Transmission
Eddie Blackburn	EB	National Grid Transmission
Jeff Chandler	JeCh	Scottish & Southern Energy
John Baldwin	JBa	CNG Services
Joy Chadwick	JoCh	ExxonMobil
Julie Cox	JCo	AEP
Martin Watson	MW	National Grid Transmission
Mike Piggini	MP	TPA Solutions
Mike Young	MY	BGT
Nick Wye	NW	WatersWye Associates
Richard Fairholme	RF	EON UK
Richard Miller	RM	Ofgem
Roddy Monroe	RM	Centrica Storage
Sofia Fernandez Avendano	SFA	Total E & P
Stuart Waudby	SW	Centrica Storage
Yasmin Sufi	YS	Eni UK

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#### 1 Introduction

JBr welcomed attendees to the meeting.

#### 2 Report of Previous Meeting

The meeting report of the Forum held on 1 March 2007 was agreed as accurate apart from minor correction to the numbering of actions.

#### 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*

Will be part of the NTS Exit (Flat) Capacity Consultation GCM05 (item 5.2) **Carried Forward**

*31 National Grid NTS to clarify occurrence of Unaccounted For Gas in the relevant cost apportionment tables*

Item 6 below refers to a presentation that provided clarification in the context of the SO Storage Commodity charging debate. **Action Closed**

32 *National Grid NTS to provide a simple breakdown of TO/SO revenue*

EB presented two slides to provide this breakdown which the Forum accepted.

**Action Closed**

33 *National Grid NTS to investigate whether SO costs for storage related activities on an Activity Based Model approach are available*

EB stated that an Activity Based Model was not available however the presentation for item 6 on SO Storage Commodity Charge did provide some breakdown of costs.

**Action Closed**

34 *National Grid NTS to provide a breakdown of TO entry revenue capacity/commodity split based on prevailing and future entry prices*

EB presented two slides that showed prevailing reserve prices and TO commodity charge for the six main beach terminals and those forecast from implementation of the GCM01 proposal to introduce a charging methodology that excluded spare capacity where TO commodity would be expected to reduce. **Action Closed**

## 4 Entry Capacity Regime

### 4.1 Entry Capacity Transfer/Trade Application Fee

MW explained that, prior to the morning session of the Transmission Workstream, National Grid had developed some thinking on application fees for the National Grid Transmission proposals. EB then gave a short presentation that set out charging principles that may be developed for application fees for Entry Capacity Transfer and for Trades, based on prevailing National Grid proposals. Thus the Trade application fee would be simpler providing a sequential process was used. In discussion it was noted that this may not be the case if an alternative Trade process was developed. RM enquired why the Transfer auction service might attract a separate charge in contrast to other auctions. MW responded that there may be a case for application fees to be refundable to successful applicants – the intent being to manage demand for the service by requiring a financial commitment. Cost recovery might be through OPEX and be covered by the incentive regime. If this arrangement transpired there would be an efficiency driver to do only the work that was needed, and to do it efficiently. Further work on application fees would be dependent on licence drafting and development of UNC processes.

### 4.2 NTS GCD04 – NTS Entry Reserve Price Discounts: Discussion Paper.

DR gave a presentation that provided more recent auction data for the six main beach terminals, drew observations from this and the previously presented data, and set out four options for discussion. Baseline capacity was selling out, daily auctions allocated 10-70% of the total and these generated 0-30% of auction revenue. Maximum end of day energy was, with the exception of Easington, substantially below baseline (and therefore sold) capacity. Revenue under-recovery has led to high TO Entry Commodity charge. JBa commented that the latter was undesirable in that it could inhibit efficient utilisation of the NTS e.g. UK transit gas flow and high load factor consumers may be deterred. CS enquired whether conditional application of discounts might be seen as discrimination between terminals. The countering view was that there were the differing levels of competition at terminals. SW expressed a view that QSEC capacity was for investment

triggers and that other capacity was purchased for what was needed. DR responded that whilst there may be differing reasons for purchasing capacity, full baseline capacity was generally not being used and purchasing behaviour may be different if substantial quantities were not available at zero prices. MY and others noted that other initiatives may increase revenue recovery from auctions, such as introduction of a charging methodology that excluded spare capacity and it may be difficult to determine what commercial changes led to which changes in behaviour. DR noted this but affirmed that National Grid had an obligation to review charging methodologies and it should seek to ensure timely change. MW suggested that two aspects were emerging - the principles regarding competition in auctions, and the problem of TO commodity charge being too high. There was support to proceed with consultation on a discussion paper.

## **5 Exit Capacity Regime**

The forum was aware of Ofgem's decision to approve UNC Modification Proposal 0116V NTS Exit Reform with an effective date of 1 April 2008.

### **5.1 NTS GCM04 – NTS Exit (Flexibility) Capacity Consultation**

National Grid Transmission raised NTS GCM 04: "Introduction of NTS Exit (Flexibility) Capacity Charges under the enduring offtake arrangements" on 23<sup>rd</sup> February 2007 and representations closed out on 23<sup>rd</sup> March 2007. DR gave a short presentation, confirming that 5 out of the 6 respondents, whilst not supporting the flexibility product, did support the proposal for zero reserve price discounts. Ofgem approval of UNC 0116V means that the charging methodology change does need to proceed but would not now be needed in July 2007.

### **5.2 NTS GCM05 – NTS Exit (Flat) Capacity Consultation**

EB stated National Grid NTS's view that it was now more appropriate to delay and have a simpler consultation on NTS (Exit) Flat capacity in light of the decision for delayed implementation of NTS Exit Reform and the awaited decision by Ofgem (expected in the last week of April) regarding National Grid's charging proposal for a Transportation model (GCM01).

### **5.3 UNC Mod 0116 NTS Exit Reform**

Following on from Ofgem's decision to direct implementation of Proposal 0116V on NTS Exit Reform in April 2008 it was clear there was a need to pursue changes to Exit capacity charging. Regarding SO flexibility commodity charging EB stated the present view was to monitor behaviours and costs prior to any potential consultation given that commodity changes would not be implemented until 2011.

## **6 SO Storage Commodity Charge – next steps towards further consultation**

EB gave this presentation which sought views for incorporation in a discussion paper, following on from Ofgem's rejection of charging proposal GCM 03 and UNC Modification Proposal 0120. The presentation included argument that metering uncertainty might justify allocation of costs from Un-Accounted for Gas (addressing action 31) although it might be argued not at the same level as other offtakes. SW did not accept this but agreed to disagree. Different factors may affect meter uncertainty but these could be complex to administer. In response to action 33 EB explained that no activity based costing analysis was currently undertaken below the level required for compliance with Regulatory Forms of Control. The Activity Based Costing (ABC) analysis was replaced by an allocation methodology in 2004, with regulatory approval. EB went on to provide some breakdown of SO costs and set out options (by number of meters or throughput) for more transparent cost targeted allocation of these to a storage charge. Views were invited on which SO costs should be included, how

these should be apportioned to storage, and on options for application of the charge to gas allocations. There was recognition that storage was unlikely to offtake at times of high demand. JBa suggested the paper might include the average pressure going in and coming out of storage to help assess whether there is a compression benefit provided by storage that might offset some costs. Ofgem's previously stated view on whether this should be treated separately may help guide debate on compression costs. JCo argued there should not be discrimination between storage and directly connected consumers to be consistent with NTS exit reform. There was a query on the calculation of allocated K on the last but one slide.

**Action 35: National Grid Transmission to clarify or correct allocation of K to storage charge in its summary slide.**

EB agreed with the suggestion from MP that only a proportion of K might be allocated to the storage charge but a range of views could be argued on revenue foregone from deemed interruption. If revenue foregone was considered to be the cost of providing interruptible capacity then it might be argued that storage Users should incur some of the costs. If revenue foregone was considered to be the cost of providing an interruption service that was used to maintain capacity for peak flows then it might be argued that storage Users should not incur any costs.

JBa enquired how the cost pot might vary if storage flows or number of storage sites substantially increased.

EB/MW clarified that whilst inviting views, National Grid had to formulate and submit charging methodology proposals. Nevertheless licence compliant ideas would be welcomed and could potentially form part of a National Grid NTS charging methodology consultation.

**7 Date of Next Meeting**

To be arranged for early May, following on from Ofgem's decision on GCM 01 "Alternative Methodologies for Determination of NTS Entry and Exit Capacity Prices".

## 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 NTS committed to providing this and other analyses as part of the Exit Capacity Consultation	Carried Forward
31	05/03/07	National Grid NTS to clarify occurrence of Unaccounted For Gas in the relevant cost apportionment tables	Included in SO Storage Commodity presentation, item 6, 05/04/07	Closed
32	05/03/07	National Grid NTS to provide a simple breakdown of TO/SO revenue	Slides presented 05/04/07	Closed
33	05/03/07	National Grid NTS to investigate whether SO costs for storage related activities on an Activity Based Model approach are available	Related material included in SO Storage Commodity presentation, item 6, 05/04/07	Closed
34	05/03/07	National Grid NTS to provide a breakdown of TO entry revenue capacity/commodity split based on prevailing and future entry prices	Slides presented 05/04/07	Closed
35	05/04/07	National Grid Transmission to clarify or correct allocation of K to storage charge in its summary slide		