

Gas Transmission Charging Methodologies Forum

Draft Meeting Report: 05 February 2009

This report outlines the key discussions of the twenty ninth Gas TCMF meeting held at Elexon Offices, 350 Euston Road, London NW1 3AW on 5th February 2009. Supporting material can be found at www.nationalgrid.com/uk/Gas/Charges/TCMF

Attendees

Debra Hawkin	DH	National Grid NTS
Eddie Blackburn	EB	National Grid NTS
Ismail Gun	IG	Centrica
James Thomson	JT	Ofgem
Jeff Chandler	JC2	SSE
Jemma Spencer	JS	National Grid NTS
John Bradley	JB	Joint Office
Julie Cox	JC	Association of Electricity Producers
Martin Watson	MW	National Grid NTS
Peter Bolitho	PB	E.ON UK
Rekha Patel	RP	Waters Wye Associates
Richard Jones	RJ	xoserve
Richard Miller	RM	Ofgem
Roddy Monroe	RM	Centrica Storage Ltd
Stefan Leedham	SL	EDF Energy
Steve Rose*	SR	RWE Npower

* by Teleconference

1. Introduction

JB welcomed attendees to the meeting.

2. Report of Previous Meeting

The meeting report of the forum held on 08 January 2009 was approved.

3. Review of actions.

Action 58: *S and D Balancing Rules - A Discussion Paper to be produced and the use of the TYS data to be revisited to see if better options could be identified.*

Some analysis has been conducted that was presented at the January Gas TCMF meeting. A discussion paper will be issued in due course. **Carried Forward**

Action 60: National Grid NTS (EB) to clarify how incremental capacity is incorporated into baseline in respect of GCM05.

EB gave a presentation in response to this action. SR asked for clarification in regard to the revenue drivers. EB replied that the incentive revenue was a £m/GWh/year figure. MW commented that a range for the revenue drivers may be appropriate in

some circumstances. SR replied that it is for this reason that the determination of revenue drivers after the amount to be released had been determined might be preferable. SR asked whether there would be an SO allowance even if there was no TO investment. It was confirmed that this is the case at present. [JC enquired about inclusion of costs within the TO MAR if there was no investment.] MW replied that National Grid may use a contract instead of pipeline investment and there may be a case to include the costs in the TO MAR. SL queried whether there was a check by Ofgem on the capital value of investment projects. This is the case. SL asked what target revenue had been used for indicative price setting in the following formula period. EB replied that a continuation of the formula had been assumed but only for the purpose of generating the prices. JC commented that the SO commodity covers the shortfall in incremental capacity charges versus allowances.

Closed

4. Update on Recent Pricing Consultation and Discussion Papers

4.1. GCM13 April Exit Capacity Price Change

JS gave this presentation. She commented that SR had clarified his response prior to the meeting and that RWE npower were in support of the proposal. JS confirmed that there will be no final proposal in the light of the comments received during the consultation. However, National Grid will issue a report on the consultation shortly.

4.2. GCM14 Constrained LNG Credits

The final proposal has been submitted. Ofgem's decision is expected by 17th February.

5. Charging and UNC Exit Reform Decision

5.1. GCM05 NTS Exit (Flat) Capacity Re-consultation

JC raised an issue regarding the TO exit commodity charge with regard to who should be paying it. EB replied that the UNC defines the charging arrangements and the charging methodology defines the charge rates i.e. the prices. Therefore there would be no need for a UNC mod since an exit commodity charge is already defined. The exit commodity rate would be made up of a TO exit commodity rate plus an SO exit commodity rate. JC commented that the Ofgem response to UNC mod 195AV stated that the DNs pay capacity and shippers pay commodity. JC further commented that the TO commodity charge is in effect a capacity charge and that this was not the case at the time of consultation on the UNC mod (the decision on 195AV was essentially to keep 'interruptibles'). JC agreed with EB's view that the question of which Users paid the commodity charge was not a charging methodology issue. EB commented that the TO commodity is related to unsold baseline capacity and that there would be no benefit in charging the DNs since they could not influence demand and would only pass the costs on to Shippers.

SL asked whether there was any effect on the DN incentive. If DNs were able to make bookings safe in the knowledge that there would be no impact on incentives then their actual bookings may be affected. EB replied that the

incentive should be to book the level of capacity required. Charging DNs commodity would not affect this and indeed there may be a perverse incentive to interrupt. SL queried the timing of the introduction of an exit commodity charge as it was not clear in the consultation. EB replied that it would be introduced from October 2012 and it would be clarified.

PB stated that the costs are going back to interruptibles in the revised GCM05 consultation and that this was counter to the view that capacity charges should recover fixed costs whereas commodity should recover variable costs. EB replied that capacity costs are TO of which some are variable. The principle was to minimise the change of introducing exit reform. The original proposal had the disadvantage that the less capacity that was booked the higher the charges would become and that this would put more pressure on firm customers. The revised proposal overcomes this by recovering TO costs from baseline capacity sales and commoditising the costs associated with unsold baseline. PB commented that this is different to the 95/5 capacity/commodity split in the DN charges. We are artificially defining the split that occurs within the GCM05 revised proposal. Fixed costs should come from baseline and the user commitment should define the baseline. EB replied that NTS arrangements were more complex than the DN's and would include the off-peak service.

SL commented that the resulting DN charges showed only a small change between the two proposals and that there was therefore no need to look at the capacity charges at this precise time. EB replied that the expectation was that indicative prices are required by 1 April 2009 and that they would be required to feed into the user commitment financial quantity and SDN incentive processes. Concerns raised by Ofgem have highlighted the issue now and that we need a proposal that does not get vetoed.

SR stated that the consultation paper suggests that we can forget over recovery for now. He also commented that there is no need to look at commodity now. EB replied that National Grid needed a proposal to allow the recovery of allowed revenue and therefore a TO commodity charge may be required.

[Post meeting note: Over recovery is less likely to be a problem than under recovery since capacity charges are on an administered basis rather than via auction. Over recovery should only occur through unforeseen daily capacity revenue.]

PB commented that responses to the 195/195AV Modification Proposals were on the basis of the proposals existing at the time. He questioned whether the revised GCM05 proposal would have been proposed without Ofgem's comments in the 195AV decision letter. EB stated that National Grid needed cost reflective charges that meet Licence obligations. The TO commodity charge simply replaces the revenue forgone as collected via the SO commodity charge. The question is whether the costs associated with unutilised firm would be recovered appropriately. MW commented that we are simply keeping the status quo in retaining an interruptible product. There was no suggestion in the responses to UNC Modification Proposals 195/195AV that any interruptible product would result in lower prices for those using the product.

SR asked whether the information as used in the network models for future years would be shared. It was agreed that it would be appropriate to share such information after the auction but potentially not before due to confidentiality issues.

6. Charging Information

6.1. TO and SO Revenue Data (Five Year Forecast)

EB stated that National Grid had an action to look at providing up to 5 years of forward looking information to be consistent with the DN charging information published as a result of UNC Mod 186. Both TO and SO data has been provided, which is broadly consistent with the information produced by the DNOs, up to the end of the price control. EB suggested that the data can be extrapolated into the next price control but this does not necessarily represent National Grid's view of likely allowed revenue. EB stated that the information is now available on the National Grid website at;

<http://www.nationalgrid.com/uk/Gas/Charges/TCMF/>

Comments were invited prior to or at the next TCMF.

6.2. DADSEC Report

This is now on the National Grid website at;

<http://www.nationalgrid.com/uk/Gas/Data/CMR/>

7. Entry Capacity Reserve Price Setting

7.1. QSEC and AMSEC Timing: UNC 0230 and 0230AV

EB gave this presentation.

7.2. 2009 AMSEC Prices

The Forum noted that this presentation was available on the National Grid website and had no comments. However, EB commented that it does support the need to look at the use of supply and demand data within the model. EB invited questions and comments on this prior to or at the next Gas TCMF meeting.

8. Gas TCMF Survey 2009

A reminder was given that the Gas TCMF survey is available for completion and that responses would be appreciated by 13 February. Responses will be presented at the next TCMF.

9. Any Other Business

RM informed the meeting that Ofgem could provide a presentation to the Gas TCMF covering the Ofgem Governance Review. This was welcomed by the meeting and will be added to the agenda for the March meeting.

10. Next Meeting

The next meeting will be held on Thursday 5th March 2009 at Elexon, 350 Euston Road, following the Transmission Workstream.

Action Log

No.	Date Raised	Description	Status	Comments
58	06/11/08	S and D Balancing Rules - A Discussion Paper to be produced and the use of the TYS data to be revisited to see if better options could be identified.	Carried Forward	Analysis presented at meeting 08/01/09. Discussion paper to be produced summarising the analysis and potential methodology changes.
61	08/01/09	National Grid NTS (EB) to clarify how incremental capacity is incorporated into baseline in respect of GCM05.	Closed	Presentation made at meeting 05/02/09