

Gas Transmission Charging Methodologies Forum

Draft Meeting Report: 06 November 2008

This report outlines the key discussions of the twenty sixth Gas TCMF meeting held at Elexon Offices, 350 Euston Road, London NW1 3AW on 6th November 2008. Supporting material can be found at www.nationalgrid.com/uk/Gas/Charges/TCMF

Attendees

John Bradley	JB	Joint Office
Lorna Dupont	LD	Joint Office
Alex Barnes	AB	BG Group
Andrew Pearce	AP	BP Gas
Andy Marsh	AM	EDF Energy
Audrey Luksicek	AL	Centrica Energy
Brendan O’Riordan	BOR	Bord Gais Eireann
Craig Purdie	CP	Centrica Storage Ltd
Damian Clough	DC	National Grid NTS
Debra Hawkin	DH	National Grid NTS
Eddie Blackburn	EB	National Grid NTS
Ismail Gun	IG	Centrica Energy
Jemma Spencer	JS	National Grid NTS
Jennifer Higgins	JH	RWE Npower
Martin Watson	MW	National Grid NTS
Rekha Patel	RP	Waters Wye Associates
Richard Fairholme	RF	E.ON UK
Richard Miller	RiM	Ofgem
Shelley Rouse	SR	Statoil (UK)
Stefan Leedham	SL	EDF Energy
Steve Rose	SR1	RWE Npower

1. Introduction

JB welcomed attendees to the meeting.

2. Report of Previous Meeting

It was noted that Alex Barnes (BG Group) was present at the previous meeting but had been omitted from the attendees list.

The meeting report of the forum held on 02 October 2008, subject to this change, was then approved.

3. Review of actions.

Action 56: National Grid NTS to consider replicating the current DNO requirements for setting out estimates of price changes.

Update: EB's presentation displayed examples of National Grid's website pages to demonstrate the availability of various reports. The reports available include the NTS Quarterly Reports and the new SO Incentives Performance Reports. For Daily Entry Capacity TO/SO Information a report was being developed to break down daily revenue on a monthly basis; EB would be reporting back to the meeting on the arrangements for the 5 Year Forecast (Mod 0186) **Carried Forward.**

Action 57: Ofgem to consider whether the requirement to conduct a clearing auction can be removed to facilitate a pricing structure which incentivises long term entry capacity bookings.

Update: RM agreed that Ofgem was supportive of a more holistic review of the regime. AB commented on the current clearing auction and zero reserve prices and observed that there was no point further considering moving away from this if Ofgem would not consider changing or removing the clearing obligation. There was also no point in looking at Substitution without looking at the pricing angle. Ofgem should consider this carefully and advise the group immediately if its view was that it could not be removed. If this was not the case then it would be equally useful to be aware that Ofgem considered that there was value in proceeding further.

RM agreed to reconsider the position.

Carried Forward

4. Update on Recent Pricing Consultation and Discussion Papers

4.1. GCM05 NTS Exit(Flat) Capacity Exit Reform

EB reported that following the closure of the consultation period and production of the initial draft of the report, certain points were being clarified with Ofgem. He pointed out that there may be issues in respect of price setting and that it would be 'cleaner' to produce the GCM05 report after the decision relating to the 0116/0195 suite of UNC Modification Proposals was known. RM confirmed that Ofgem would not be expecting the report until after the UNC decision had been published. The report would, therefore, be produced after the next TCMF.

4.2. GCM12 Entry Over Recovery and K Management

Comments received were being addressed and the Final GCM12 Report was nearing completion. The TO credit proposed through GCM12 would be capped at the level of the SO charges paid based on the standard charge. The wording of the final proposal has been simplified to describe the calculation of the (TO) credit as a proportion of standard SO commodity charges paid. RF asked if the change represented a change to the proposal or a change to the description. EB confirmed that it was a change to the description and, after no further questions were received, stated that the report would be submitted to Ofgem shortly.

4.3. GCM13 April Exit Capacity Price Change

EB reported that the consultation was now open and available on the website and would close on 28 November 2008. The Proposal had been reworded slightly such that prices could be reset without updating supply forecast data (rather than by only updating target revenue data) but the original intent of the Proposal is still evident. This should stabilise Exit prices for at least a minimum of 18 months allowing longer term solutions to be investigated.

5. S & D Balancing Rules for Capacity Price Setting

EB gave a presentation comparing the entry and exit capacity prices generated under the current merit order approach used to achieve a Transportation Model supply & demand balance, and six potential alternative approaches. Supply and Demand scenarios were explained and the varying compositions of the seven S&D balancing rules put forward as options were described. EB then explained the analysis that had been undertaken and presented graphs displaying the impact of the balancing options on both Exit and Entry Price variation.

The results indicated that Rule 3 (three groups consisting of LNG, mid range storage and all other supplies) produced the least variable Entry and Exit prices across the three scenarios. EB then pointed out that the supply/demand scenarios used in this analysis did not require the use of LNG Storage, and there may be a requirement to consider different supply/demand scenarios where LNG Storage forms a greater part.

The results also indicated that Rule 6 (two groups consisting of LNG plus mid range storage and all other supplies) could produce more stable prices in scenarios with more demand variation, and EB suggested that this Rule should be retained for further consideration.

AB commented that LNG Importation may be the odd one out, due to price responsiveness. EB responded that there was an obligation to set prices in a cost reflective way; and while LNG importation may not always occur, it would be required to meet 1-in-20 peak demand and it was this demand level that drove costs. The approaches chosen can cause volatility, but needed to reflect reality. Some potential scenarios produce more variable results. In operational reality there are many variables which change on a day to day basis.

Summarising, EB suggested that based on the analysis undertaken, the choice was between Rule 3 or Rule 6, but more work would be required to establish which produced the most stable prices. He questioned whether a stable rule should be identified and then be consulted on, or whether more analysis should be performed. In trying to set capacity prices on the right flows, were any of these Rules better than the current one?

SL preferred to have predictable prices rather than the price changes that occurred depending on the Ten Year Statement (TYS). Forecasts that are subject to revised Transportation model data (Exit and Entry) mean that sudden changes can impact quite adversely on projects. MW suggested that perhaps the cause of the volatility within the TYS could be looked at and understood.

A timeline was presented to enable discussion, consultation and implementation for 1st October 2009, and it was agreed that a Discussion Paper will be produced.

Action 58: A Discussion Paper to be produced, and the use of the TYS data to be revisited to see if better options could be identified.

6. Constrained LNG (CLNG) Credits

DH gave a presentation outlining the prevailing methodology and associated issues, a proposal for a revised methodology, and a consultation timeline.

Following an overview of the current position and identification of the issues, DH described the proposed methodology which would be based on peak daily CLNG requirement at an LNG facility, LRMCs replacing exit capacity prices, and nodal costs replacing zonal. The proposed methodology for consultation was explained and an example of the indicative effect was demonstrated; the effect on other Transportation charges was described.

It was the intention to issue a consultation paper on the revised methodology for CLNG payments and DH would welcome comments in advance. A timeline was described.

SR observed that the inclusion of further information within the Consultation Paper, including the impact the proposal would have had on the prevailing credits, would be appreciated.

Action 59: Revised methodology for CLNG payments - A Consultation Paper to be produced which would include further information.

7. Any Other Business

None

8. Next Meeting

The meeting will be held on Thursday 4th December 2008 at Elexon, 350 Euston Road, following the Transmission Workstream.

EB and DH would welcome the submission of agenda items (not less than 6 days in advance of the meeting).

[Post meeting note: a request has been received to provide a presentation detailing how the release of incremental capacity and the Licence defined revenue drivers affect NTS allowed and collected revenue. This will be included as an agenda item for the next meeting.]

Action Log

No.	Date Raised	Description	Status	Comments
56	02/10/2008	National Grid NTS to consider replicating the current DNO requirements for setting out estimates of price changes.	Carried forward	04/11/08 Initial information presented. Further work to be presented at December meeting
57	02/10/2008	Ofgem to consider whether the requirement to conduct a clearing auction can be removed to facilitate a pricing structure which incentivises long term entry capacity bookings.	Carried forward	04/11/08 Meeting emphasised the need for an indication from Ofgem so that any work that assumed removal of this requirement would not be abortive. Ofgem agreed to bear this in mind.
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.		
59	06/11/08	Revised methodology for CLNG payments - A Consultation Paper to be produced which would include further information		