

Gas Transmission Entry Charging Review

Draft Meeting Report: 16 December 2009

This report outlines the key discussions of the second GTECR meeting held at Ofgem Offices, 9 Millbank, London, SW1P 3GE on 16th December 2009. Supporting material can be found at www.nationalgrid.com/uk/Gas/Charges/TCMF

Attendees

Tim Davis	TD	Joint Office
Alex Barnes	AIB	Gazprom
Brendan O'Riordan	BOR	Bord Gáis
Clive Woodland	CW	Centrica
Debra Hawkin	DH	National Grid NTS
Eddie Blackburn	EB	National Grid NTS
James Thomson	JT	Ofgem
John Baldwin	JBa	CNG Services
Justin Jackson	JJ	ExxonMobil
Richard Fairholme	RF	E.ON UK
Richard Miller	RiM	Ofgem
Rekha Patel	RP	WatersWye
Steve Fisher	SF	National Grid NTS
Stefan Leedham	SL	EDF Energy
Shelley Rouse	SR	Statoil

1. Introduction

TD welcomed attendees to the meeting. There were no comments in regard to the notes of the previous meeting. .

2. Actions

ECR 11/01: RiM to clarify the difference in views on the use of supply forecasts for substitution and charging.

RiM explained that since charging was only using forecast supply data looking two years ahead there was more certainty in the supply forecasts, the forecasts were within the 42 month construction timeline, and there was a level of user commitment, and therefore it was appropriate to use forecast data. In the case of substitution, there was a significantly longer timeframe (greater than 42 months), less certainty, and less user commitment, and therefore using forecasts was considered to be less appropriate. **Action Closed**

Action ECR 11/02: EB to produce draft consultation paper on 'phase one', removing discounts, for discussion at the next meeting.

This draft paper (NTS GCM19) is on the National Grid website. **Action Closed**
<http://www.nationalgrid.com/uk/Gas/Charges/consultations/CurrentPapers/>

Action ECR 11/03: EB to produce draft options for 'phase two' for further discussion.

A presentation is on the National Grid website and was presented later in the meeting. **Action Closed**

Action ECR 11/04: RiM to seek Ofgem views on a phased approach.

RiM said that Ofgem thought that the phased approach was a sensible option although there was concern regarding potential unintended impacts but there was no comment on the actual content of each phase. **Action Closed**

JBa commented that he was aware of companies that were considering taking out retainer options as part of the substitution process and therefore since the options were to be placed in January as much certainty, as possible, regarding the likelihood of removing the discounts would be beneficial.

3. Removal of Discounts

EB presented on the draft consultation paper, which had been prepared for the meeting, proposing to remove the discounts for firm NTS Daily System Entry Capacity.

EB explained that as part of the first phase (which was seeking to reduce the quantity of capacity made available at zero reserve prices) there would need to be a review of the release and calculation of the Use It Or Lose It (UIOLI) interruptible quantities. This would need to be progressed through a UNC Modification Proposal. AIB asked what had been the original rationale for the UIOLI process. TD replied that it was an anti-hoarding measure (at the start of the regime release quantities had been based on forecast supply/Seasonal Normal Demand (SND)) when there had been less firm capacity available. Following some further debate about the process for change of the UIOLI process it was agreed that the UNC process best served this purpose.

SL raised the issue of the timing of the charging and UNC processes. EB asked whether it was necessary for the Charging and UNC timelines to go together. RiM stated that Ofgem would ideally want to consider the charging methodology proposal and the UNC Modification at the same time. In terms of the charging proposal, RiM stated that a discussion paper was preferable to a consultation paper at this time. The discussion paper should cover the interruptible arrangements, TO and SO revenue mapping and neutrality issues and the reasons for discarding other options (as discussed through the earlier review group meetings) in addition to the proposals to remove the discounts. This would provide an opportunity for those who had been unable to attend the review group meetings to give their views. RF was in agreement with this approach. The general consensus of the review group was to issue a discussion paper.

RiM requested more analysis on the increase in capacity revenue that had been suggested could result from removal of the discounts and limiting the release of interruptible capacity. EB commented that the £3m to £71m range resulting from the historic analysis was dependent on shipper behaviour and the level of trading that the removal of discounts would promote, and that this was extremely difficult to model. The £3m figure is a 'fully traded' estimate whereas the £71m figure assumes that Users behave as in the past and buy the same amount of capacity. The most likely outcome lies somewhere between the two.

TD suggested that it would be possible to have a pricing consultation paper that only covered removal of the discounts whilst also having a discussion paper on the other issues. CW commented that the discounts certainly needed to go. AIB stated that he would prefer to keep all the issues together since capacity and prices were directly related. It was generally agreed that discounts were the best first phase and JB commented that this would be entirely consistent with substitution.

The alternatives to the removal of the discounts, which had been discussed at earlier meetings, were raised. The alternatives identified were to change the entry/exit split, and to have a variable commodity charge, dependant on capacity holdings, as suggested and previously presented on by Centrica. EB commented that the entry/exit change had been dismissed as it did not address the fundamental problem of entry capacity revenue, could cause unforeseen exit issues, and was difficult to justify in terms of exit cost reflectivity. In regard to the Centrica commodity proposal, EB believed that the intent was to overcome the entry capacity discounts based on a view that the clearing obligation would remain. CW agreed with this summary. EB commented that changes to commodity arrangements could be complex and expensive in terms of systems changes whereas capacity price changes might be achieved at minimal cost.

In order to sum up TD asked those present if the discounts on firm capacity should be removed. Everyone present (except RF who gave a partial agreement feeling that more clarity around auction processes was also necessary) agreed that this was so. TD asked a second question: should there be less interruptible available while firm capacity remains available? The response to this was not so certain. RiM was asked whether more discussion would remove the need for an impact assessment. RiM replied that an impact assessment would definitely be required in any case.

EB presented on the potential timelines for the charging proposals and UNC changes. It was noted that the UNC Mod timeline needed to take account of Easter. TD commented on the timing of the charging proposal (4 March 2010) as indicated in the timeline presentation. This would be just after the QSEC auction. CW questioned whether it would be possible to release the charging proposal earlier (mid February). EB confirmed that it was possible. JBa suggested that the timetable for potential change could be flagged to Users by issuing a letter or notice earlier in the year prior to the QSEC and substitution processes. RiM was asked whether the timeline, as presented, would be acceptable to Ofgem. RP asked why there was no impact assessment in the timetable for phase two. AIB suggested that the UNC timetable could start in January. SL commented that this was still a very tight timetable for the UNC modification. SF suggested that the issue could be raised at the January 2010 Transmission Workstream. There was general support for this approach. It was noted that the UNC timetable was tight.

EB asked for feedback on the draft paper on the charging proposals. AIB asked if the impact on the TO commodity charge could be included within the paper. Also, could the new demand figures available from the new Ten Year Statement (TYS) be used? This would then display the potential benefits or 'lack of risk' associated with making the change to the discounts. CW pointed out a few minor typing errors which will be corrected. 'Shippers views' as stated in the draft are to be reworded as 'views from the review group' to add clarification.

ECR 12/01: EB to update draft paper and issue as a discussion document.

4. Analysis

EB gave two presentations. Firstly an update on removal of the capacity discounts following the outcome of the 2009 QSEC auction and secondly on the potential for price multipliers as part of the phase two of the review.

4.1 Update on Removal of Capacity Discounts

SL asked what had been assumed regarding storage. EB replied that no forecast had been made for storage and only the actual purchases to date had been included. SL asked about the assumptions regarding substitution. EB replied that incremental capacity met through substitution would be treated as TO revenue and hence would reduce the TO commodity charge. JB asked if the analysis could be updated for the December 2010 TYS. EB confirmed that it could.

JBa asked if it would be possible to unbundle the effects and provide analysis assuming (i) keep interruptible and (ii) remove interruptible. TD commented that the two proposals (removal of firm discounts and limiting interruptible release to when firm capacity had sold out) were interrelated and there may be little benefit of one without the other. EB agreed.

4.2 Phase Two – Price Multipliers.

JB commented that Users will book in advance of any change that is planned. It was questionable whether the QSEC prices would be changed. RF stated that if Users were buying in the QSEC then there was the potential for more hoarding, therefore the UIOLI availability needs to be determined with this in mind. JB said that it was necessary to check the timing of price changes relative to the availability and timing of the release of capacity. SL said that it might be possible to use a scaled factor for the availability of interruptible, for instance 0.9 (i.e. 90% threshold for firm sold before release of interruptible).

5. Date of Next Meeting

The next meeting has been scheduled for Wednesday 26th January at Ofgem. This meeting will focus on interruptible arrangements.

6. Any Other Business

None.

Action Log – Gas Transmission Entry Charging Review 16 December 2009

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
ECR 11/01	11/11/09	3	Clarify the difference in views on the use of supply forecasts for substitution and charging.	Ofgem (RiM)	RiM clarified the position Closed
ECR 11/02	11/11/09	5.3	Produce draft consultation paper on 'phase one', removing discounts, for discussion at the next meeting.	National Grid NTS (EB)	Closed
ECR 11/03	11/11/09	5.3	Produce draft options for 'phase two' for further discussion.	National Grid NTS (EB)	Closed
ECR 11/04	11/11/09	5.3	Seek Ofgem views on a phased approach.	Ofgem (RiM)	Closed
ECR 12/01	16/12/09	3	EB to update draft paper and issue as a discussion document.	National Grid NTS (EB)	