

Gas Transmission Entry Charging Review

Draft Meeting Report: 11 November 2009

This report outlines the key discussions of the second GTECR meeting held at Ofgem Offices, 9 Millbank, London, SW1P 3GE on 11th November 2009. Supporting material can be found at www.nationalgrid.com/uk/Gas/Charges/TCMF

Attendees

Tim Davis	TD	Joint Office
Alex Barnes	AIB	Gazprom
Amrik Bal	AmB	Shell
Andrew Pearce	AP	BP
Brendan O'Riordan	BOR	Bord Gáis
Debra Hawkin	DH	National Grid NTS
Eddie Blackburn	EB	National Grid NTS
Guan Yang	GY	Centrica
Clive Woodland	CW	Centrica
John Baldwin	JBa	CNG Services
Justin Jackson	JJ	ExxonMobil
Julie Cox	JuC	AEP
Richard Fairholme	RF	E.ON UK
Richard Miller	RiM	Ofgem
Lisa Waters	RP	WatersWye
Sofia Fernandez Avendaño	SFA	Total
Stefan Leedham	SL	EDF Energy
Shelley Rouse	SR	Statoil

1. Introduction

TD welcomed attendees to the meeting. In regard to the notes of the previous meeting there was one comment. AIB commented that, in connection with section 5.2 in the notes concerning the European comparison, while it may introduce complexity to factor in the likelihood of interruption when calculating an interruptible capacity reserve price, it was not actually clear how the interruptible calculation is done in Europe.

2. Actions

ECR 10/01: Ofgem (RiM) to review the objectives suggested by EDF and National Grid NTS and suggest priorities.

RiM gave a presentation. See item 3 below.

Action Closed

ECR 10/02: National Grid NTS (EB) to provide analysis to support a selection of reserve price options, concentrating on historic data.

See 5.2 below

Action Closed

ECR 10/03: National Grid NTS (EB) to review which of the exit charging principles might be usefully applied to entry.

See 5.1 below

Action Closed

3. Terms of Reference (TOR)

EB presented an updated draft for the terms of reference. RiM then presented Ofgem's views on the objectives. The presentation covered; the primary licence objectives, Ofgem's identified secondary objectives, and further areas for review. The secondary objectives included the recovery of an appropriate amount of revenue through capacity charges, no undue preference for pricing of short-term or long-term capacity products, compliance with EU legislation and directives on charging, and predictability. Ofgem believe the review should also consider the implications for the current model of 'spare capacity', uncertainty in supply scenarios, negative LRMCs, and recent/current developments in electricity charging the following on current model.

AmB asked what 'spare capacity' was. EB stated that forward looking 'spare capacity' could be defined as all unsold obligated capacity which is not necessarily a useful definition and backward looking it could be the minimum unutilised capacity but this would be too late for charge setting purposes. The logical way to approach the problem might be to incentivise use of existing capacity rather than building new and it was logical to create incentives through the long-term QSEC auction.

AmB questioned Ofgem's reference to 'uncertainty in supply scenarios' in the objectives and suggested that the use of supply forecasts for charging purposes was potentially inconsistent with the views expressed in regard to substitution where supply forecasts were not to be considered. CW commented that supply scenarios within a winter could be considered. EB explained that at present within the Transportation Model a single supply scenario was used but that it may be possible to consider multiple scenarios as might be the case for Electricity going forward. AmB stated that National Grid should seek clarity from Ofgem on when it is ok to use supply scenarios in analysis. EB commented that use of the Ten Years Statement (TYS) only for 3 years ahead should be reasonably reliable. TD requested that RiM take an action to clarify the difference in views on supply scenarios for substitution and charging.

TD commented that the principles in the Ofgem review considerations were to do with the mathematics of the modelling and as such could be considered outside of the review. JBa commented that the objective was to reduce the TO commodity charge and that this was getting lost within the mass of objectives. There was a need for more simplicity. EB stated that If the process was simpler and more predictable (i.e. fewer auctions and fewer products) barriers to entry might be removed and hence competition would be promoted. The attendees were consulted and agreed that the primary aim was to try to recover TO allowed revenue through capacity (rather than commodity) charges. There was a strong Ofgem steer towards keeping the auction process rather than moving back towards administered prices.

TD stated that, if the focus was to be kept on the principles, that the draft TOR as provided by EB covered all the issues. AmB commented that it was necessary to check the conformity to EU legislation now and for the future. It was agreed that the TOR covered this. The TORs were agreed by the meeting.

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

4. Review Timeline

RiM confirmed that, if a proposal to remove the clearing obligation and hence zero reserve price auctions for firm entry capacity were not vetoed following an Impact Assessment, a licence derogation regarding the clearing obligation could be issued and that therefore there would be no need for a further 2 months in the timeline to change the Licence.

5. Analysis

5.1. Comparison of Entry and Exit Charging

EB presented on this topic which covered action ECR10/03. EB summarised by saying that if there was an annual entry product and no 'free' firm entry capacity (as there was for exit) there would be significantly lower TO entry commodity charges. There followed a debate around administered prices. AmB stated that this would not happen at entry because of EU rules. SL commented that entry and exit are different and there was therefore no reason for the same rules to be applicable. It was agreed that a move to administered prices was not necessarily required within the entry regime to recover all TO entry allowed revenue from capacity charges and that reserve prices could be set to aim to have the same affect.

JBa commented that the only solution was to remove 'free' products since changing QSEC auction prices would not work as shippers would buy ahead of the change in prices. EB suggested leaving the QSEC prices but changing the monthly and daily prices.

5.2. Removing Capacity Discounts

EB gave a presentation which covered the revenue that would have been collected from April 2008 to March 2009 if entry capacity discounts had not existed. The range in revenue associated with daily capacity is from £135m to just over £3m depending on the assumptions made regarding the volumes sold and the level of trading. In addition the presentation covered the future entry capacity revenue if there were no entry capacity discounts. Removing the capacity discounts would lead to increased revenues (assuming behaviours did not significantly change) and the gap between allowed and collected would fall over time. JBa asked what timeline was relevant in relation to the March 2010 QSEC. EB suggested that a draft paper could be available prior to the 2010 QSEC but implementation for the March 2011 QSEC was a realistic target. It was noted that interruptible pricing might need to be addressed if firm discounts were removed. SL suggested that interruptible capacity should only be available when there was a likelihood of interruption. JJ agreed and suggested that interruptible entry capacity should only be released if firm capacity had sold out.

5.3. Further Analysis

EB suggested ways in which multipliers to the monthly and daily auction reserve prices could be applied and asked for views on what further analysis might be required. JC said that she believed that multipliers would need to be justified against the charging objectives whereas no further analysis would be necessary to simply remove the existing discounts and have a flat unit price for capacity. RF asked whether this would cause problems for new entrants. It was noted that this would not be a problem in regard to new ASEPs as new entrants could only trigger incremental capacity via the long term auctions. It was generally agreed that keeping the zero reserve price for interruptible capacity would be appropriate but only if the availability was restricted.

There was general agreement that a consultation on the simple solution of removing the discounts whilst detailing potential fuller options would be the way forward. This could be implemented (subject to consultation) by October 2010 or March 2011. Removing the discount could be regarded as phase one of a multi-stage process. RiM was asked to seek Ofgem views on a phased approach. Phase one would be removing the discounts for firm capacity whilst potentially retaining zero priced interruptible capacity (with reduced availability). Phase two would cover applying multipliers to monthly and daily products. AmB commented that retaining cheaper prices for the short term might assist in security of supply. It was suggested that the links with Project Discovery be considered.

Action ECR 11/02: EB to produce discussion paper on ‘phase one’, removing discounts, and options for ‘phase two’.

Action ECR 11/03: RiM to seek Ofgem views on a phased approach.

5.4. Information provision on storage bookings/flows

EB presented on this topic. Information was provided showing gas flow allocations compared with entry capacity bookings at storage sites. This information was consistent with the presentation given for non-storage ASEPs at the previous meeting.

6. Any Other Business

Subject to room availability, it was agreed that the next meetings should be held on 16 December 2009 and 26 January 2010 in London.

Action Log – Gas Transmission Entry Charging Review 10 October 2009

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
ECR 10/01	06/10/09	3	Review the objectives suggested by EDF and National Grid NTS and suggest priorities	Ofgem (RiM)	RiM presented on this. Closed
ECR 10/02	06/10/09	6	Provide analysis to support selection of reserve price options, concentrating on historic data	National Grid NTS (EB)	Redrafted Closed
ECR 10/03	06/10/09	6	Review which of the exit charging principles might usefully be applied to entry	National Grid NTS (EB)	Analysis presented Closed
ECR 11/01	11/11/09	3	Clarify the difference in views on the use of supply forecasts for substitution and charging.	Ofgem (RiM)	
ECR 11/02	11/11/09	5.3	Produce discussion paper on 'phase one', removing discounts, and options for 'phase two'.	National Grid NTS (EB)	
ECR 11/03	11/11/09	5.3	Seek Ofgem views on a phased approach.	Ofgem (RiM)	