

## Gas Transmission Charging Methodologies Forum

### Draft Meeting Report: 04 June 2009

*This report outlines the key discussions of the thirty third Gas TCMF meeting held at Elexon Offices, 350 Euston Road, London NW1 3AW on 4<sup>th</sup> June 2009. Supporting material can be found at [www.nationalgrid.com/uk/Gas/Charges/TCMF](http://www.nationalgrid.com/uk/Gas/Charges/TCMF)*

#### Attendees

Tim Davis (Chair)	TD	Joint Office
Andy Marsh	AM	EDF Energy
Angus Paxton	AP	Poyry
Debra Hawkin	DH	National Grid NTS
Dennis Timmins	DT	RWE
Eddie Blackburn	EB	National Grid NTS
Ismail Gun	IG	Centrica
Jeff Chandler	JeC	Scottish and Southern Energy
John Bradley	JoB	Joint Office
Jemma Spencer	JS	National Grid NTS
James Thomson	JT	Ofgem
Kirsten Elliot-Smith	KES	ConocoPhillips
Mark Dalton	MD	BG
Richard Fairholme	RF	E.ON UK
Richard Jones	RJ	xoserve
Richard Miller	RM	Ofgem
Rekha Patel	RP	WatersWye Associates
Steve Gordon	SG	ScottishPower
Shelley Rouse	ShR	Statoil UK
Stefan Leedham	SL	EDF Energy
Steve Rose	StR	RWE

#### 1. Introduction

TD welcomed attendees to the meeting.

#### 2. Report of Previous Meeting

The meeting report of the forum held on 07 May 2009 was approved.

#### 3. Review of actions

None

#### 4. Update on Recent Pricing Discussion and Consultation Papers

##### 4.1. GCM15 – User Commitment and Entry Capacity Cancellation Fees

National Grid NTS will be issuing a draft final conclusions document based upon its current proposal. Whilst 0246B does not use the term “cancellation fee”, a pricing consultation might not be necessary if 0246B were implemented since the principle is the same from a pricing perspective.

#### **4.2. GCM16 – Supply and Demand Balancing Rules and Supply Source Data**

This had been generally supported with two objections raised. EB suggested that the objections might be addressed by ensuring that the Ten Year Statement included all the required supply data for price setting purposes and that this area of the charging methodology was kept under review. The final proposal is now with Ofgem. RM was unable to indicate whether the proposal was likely to be approved or not.

#### **4.3. GCM17 – QSEC New ASEP NTS Entry Capacity P0 Pricing**

EB indicated that the proposal had been put to Ofgem without amendment. He clarified that the P0 price at a new ASEP would be expected to be similar to that for the closest ASEP. The consultation report is with Ofgem. RM was unable to indicate whether the proposal was likely to be approved or not.

### **5. Optional Shorthaul Commodity Charging**

DH gave this presentation. SL stated that he believed the intention should be making charges cost reflective, rather than to disincentivise Users providing their own pipeline. EB responded that there was a balance to be struck between disincentivising uneconomic investment and cost reflectivity. EB explained that the formula was a curve fit based upon pipeline costs. SL asked why an SO Commodity Charge should be based upon capital, as this would normally be a TO charge. National Grid NTS recognised this argument and considered that this justified holding the review.

Going through the issues, National Grid NTS suggested that, from the options considered, the distance between the exit point and the closest System Entry Point within an ASEP was preferable. This was not contested. EB clarified that shorthaul is based on the lower of the relevant entry and exit daily allocations.

The current assumed load factor is 75% and is fixed for the calculation of rates for all sites. National Grid NTS suggested retaining a fixed load factor but potentially reducing it to nearer the average load factor of 50%. SL questioned whether a load factor was relevant to setting an SO as opposed to a TO charge. TD stated that this again indicated the need for a more fundamental review of this charge. SG saw some benefits of attempting to refine the existing charge. EB noted that while National Grid would continue to investigate options for updating the charge based on the costs of an alternative pipe, it would also investigate an alternative approach of calculating the charge based on allocating SO costs directly to short distances.

DH then demonstrated the difference between assuming 10 years depreciation time against 20 and 45 years. JeC pointed out 10 years was appropriate from a CCGT operator's standpoint. SG pointed out that his observed inflation costs for building a pipeline, and costs in general, were different to those put forward by National Grid NTS.

National Grid NTS also supported retaining a minimum charge, that the charge should be updated annually and the removal of the alternate allocations concept for multiple exit points from a single entry point.

National Grid NTS suggested that the current exclusion for storage should apply to both injection and withdrawal - currently it applies to storage withdrawal (NTS entry) only. SL pointed out that SO Commodity only applies to Storage Own Use Gas. EB

replied that while the UNC definition of the standard SO commodity charge only applies to storage own use gas, the definition of the optional commodity charge is based on each shipper's full allocation (UDQO) and therefore can apply at storage withdrawal.

Turning to whether shorthaul should be a capacity charge, as suggested at the May TCMF meeting, National Grid NTS' initial view was that the complexity of the change to capacity did not justify such a change; however it was prepared to reconsider this and to consider the charge that would apply if shorthaul reflected only SO costs.

It was suggested that some Users would favour a long term fixed charge e.g. ten years for CCGTs, which would enable investment decisions to be taken with confidence. National Grid NTS agreed to consider this.

## **6. Entry Capacity Incentive Mechanisms**

EB gave this presentation as an update to one given in December 2008. He summarised the differences between the old (2002 to 2007) and new (post 2007) NTS entry capacity investment incentive schemes.

Following a discussion on Slide 8, National Grid NTS agreed to the following action:

**TCM06/01: Provide the background to some of the figures that had been quoted in the context of UNC Proposals 0246/0246A/0246B.**

## **7. Charging Information**

EB summarised the five year forecast data which paralleled the information given by the DNs as a result of implementation of Modification Proposal 0186 "Provision of Cost Information". SL pointed out that the large rise in SO under recovery which EB said was in part due to unaccounted for gas. The forum commented that this information was useful and they would welcome its continued publication.

## **8. Any Other Business**

The next meeting will be held on Thursday 2<sup>nd</sup> July 2009 at Elexon, 350 Euston Road, following the Transmission Workstream. This would include an update on shorthaul, and daily capacity pricing principles.

**Action Log – Transmission Charging Methodology Forum 04 June 2009**

<b>Action Ref</b>	<b>Meeting Date(s)</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
TCM 06/01	04/06/09	6	Provide the background to some of the figures that had been quoted in the context of UNC Proposals 0246/0246A/0246B.	National Grid NTS (EB)	