

Gas Transmission Charging Methodologies Forum

Draft Meeting Report: 5 March 2007

This report outlines the key discussions of the eleventh Gas TCMF meeting held at Elexon, 350 Euston Road, London on 5th March 2007. All supporting material can be found at www.nationalgrid.com/uk/gas

ATTENDEES

Tim Davis (Chair)	TD	Joint Office of Gas Transporters
Andrew Pearce	AP	BP Gas
Charles Ruffell	CR	RWE Npower
Christiane Sykes	CS	Statoil
Clive Woodland	CW	BGT
Dominic Harrison	DH	National Grid NTS
Eddie Blackburn	EB	National Grid NTS
John Baldwin	JBa	CNG Services
John Bradley	JBr	Joint Office of Gas Transporters
John Costa	JC	EDF Energy
Martin Watson	MW	National Grid NTS
Nick Wye	NW	WatersWye Associates
Paul Roberts	PR	National Grid NTS
Richard Fairholme	RF	EON UK
Stuart Waudby	SW	Centrica Storage

1 Introduction

TD welcomed attendees to the meeting.

2 Report of Previous Meeting

The meeting report of the Forum held on 1 February 2007 was agreed as accurate.

3 Actions and Issues from previous meetings

30 National Grid NTS to carry out TO Exit cost recovery analysis based on all DN load being firm

Will be part of the NTS Exit (Flat) Capacity Consultation GCM05

Carried Forward

4 Outcome of Recent Pricing Consultation Papers

4.1 NTS GCM01 – Alternative Methodologies for Entry and Exit Capacity Prices

Ofgem has decided to issue an Impact Assessment with a six week consultation period. National Grid has submitted updated prices for inclusion in the consultation paper and has issued them as part of the briefing documents and included them on the information website.

4.2 NTS GCM04 – NTS Exit (Flexibility) Capacity Consultation

National Grid NTS raised NTS GCM 04: “Introduction of NTS Exit (Flexibility) Capacity Charges under the enduring offtake arrangements” on 23rd February 2007 for close-out on 23rd March 2007. This should ensure the resulting consultation report containing the final proposals is prepared as soon as is practicable after a decision on the 0116 series of UNC Modification Proposals. Should GCM04 not be vetoed within the 28 day periods and assuming no Impact Assessment was required, this would allow NTS Exit (Flex) Capacity reserve prices to be published two months ahead of the anticipated July 2007 Auction in the event that 0116V 0116BV or 0116VD is directed for implementation. GCM04 proposes that all NTS Exit (Flexibility) Capacity reserve prices are set to zero as this option had unanimously received support or conditional support in response to charging discussion paper GCD02. It was recognised that previous industry support for this charging approach did not necessarily represent support for the introduction of the flexibility product.

5 Future Pricing Consultation and Discussion Papers

5.1 NTS GCM05 – NTS Exit (Flat) Capacity Consultation

National Grid NTS had not issued this as a decision had been anticipated on GCM01 which might have made the proposal simpler. Ofgem’s decision to issue the Impact Assessment on GCM01 has resulted in a delay while the proposal is restructured to take into account the potential outcomes. The consultation paper will be issued during w/e 16 March 2007. National Grid outlined the revised scope of the consultation which will cover nodal rather than zonal pricing, the removal of interruption payments and alignment of investment costs within the methodology to three years prior to capacity release. There will be two sets of prices in the document reflecting GCM01 acceptance or rejection. There was some discussion on Ofgem’s rationale for issuing an Impact Assessment. National Grid believed Ofgem regarded the proposal as meeting the “sufficient importance” criteria.

5.2 NTS GCMxx – Further Proposals for NTS SO Storage Commodity Charge

PR gave this presentation. PR explained that the tabulated cost allowances reflected the new price control period. – this explained the apparent discrepancy with the later table which reflected the published consultation paper. DH was unsure about the Unaccounted For Gas term and undertook to clarify this.

Action 31: National Grid NTS to clarify occurrence of Unaccounted For Gas in the relevant cost apportionment tables

JBa emphasised the usefulness of a simple TO/SO breakdown. National Grid NTS agreed to produce a breakdown for the next meeting for 2007/8 costs, adopting the approach that had been used for illustrating the 2006/7 SO costs.

Action 32: National Grid NTS to provide a simple breakdown of TO/SO revenue

PR then outlined the principles that justified storage flows picking up 4% of the potential SO charges, summarised responses to the proposal and Ofgem’s reasons for rejection. JBa was unsure on the rationale for deciding on the TO/SO capacity/commodity split and believed this should be explained prior to any break-down of the SO split.

NW suggested that storage conveys a benefit to all Users, for example by reducing the compression usage, and avoided costs should be reflected in charges. EB recognised

that a benefit could be argued on certain days, although this was equally true of some non-storage sites, but this could only be determined by reviewing flows for every day of the year, which might reveal some days where there would be a compression costs and a benefit on others. PR summarised that a variety of views had been expressed in terms of compression fuel – from applying the same charging rate as for other System Points to storage providing a system benefit.

Following discussion on the impact of Exit Reform on among other things, Operating Margins Costs, and whether the proposed charge should be delayed until Exit reform, National Grid NTS commented that, in its view, any further delay to the introduction of a commodity charge on Storage Users would not be viewed lightly by Ofgem, and would not be consistent with National Grid NTS' licence obligations to continually review its methodology. The meeting concurred that setting the Operating Margins to zero based on storage site injection being on an interruptible basis should not be dependent on the outcome of the current 0116 consultation.

JC expressed the view that storage provided a benefit to the System Operator, which was reflected in its incentive revenue.

The meeting discussed the uncertainties and metering biases that would be associated with meters at System Entry and Exit Points. PR suggested that there was no convincing reason why storage should be treated differently to other points. JBa suggested that as the storage flow was bi-directional there was a case for halving the impact for storage rates.

JBa suggested that internal costs were fixed and so should be associated with TO activities rather than SO. Whilst it was recognised that a case could be made, it was pointed out that the Licence had deemed this to be an SO cost. JBa acknowledged this but suggested that a commodity charge was less cost reflective than a capacity charge. He wasn't however suggesting that National Grid NTS introduce a SO Capacity Charge.

EB confirmed that the "revenue foregone" term would disappear if Exit Regime Reform went ahead. PR mentioned a suggestion that the number of meters might be used as a cost allocation criteria but pointed out that this would lead to a larger allocation to storage users than if throughput were the criteria. PR also pointed out that the DN Offtake Meters were not included and acknowledged that this would affect the allocation. DH pointed out that no SPA or Invoicing costs were associated with DN Offtakes. NW responded that there were still SO costs involved at the interface.

PR stated that the revenue foregone term might be associated with peak flow instead of annual throughput. This would, again, lead to a higher allocation to storage users. NW expressed opposition to the principle – interruption benefits the system and therefore should not be charged by this route.

PR then turned to the rate question. National Grid NTS had prepared three options. SW favoured option 2 as the most reflective of the physical situation at a storage facility. Others were initially in agreement with this but would need to consider the matter. Another alternative was to use an allocation agent.

Following a question from National Grid NTS to the Group whether any further data should be provided, SW requested an activity based breakdown of internal costs to enable them to consider appropriate apportionment of these costs to the proposed SO charge.

It was agreed that National Grid NTS should issue a consultation document based on this discussion providing that it developed further detail on the areas discussed. This would include the rationale of why TO commodity would not be applied to storage flows.

5.3 NTS GCD04 – NTS Entry Capacity Reserve Price Discounts

EB gave this presentation. He clarified that “Daily Capacity” in the graphs was the sum of Day Ahead and Within-Day capacity. National Grid’s analysis was based on Gas Years (i.e. October to September). JBa stated that a breakdown would be helpful of where under recovery occurred i.e. a capacity/commodity split based on prevailing and future entry prices and a Terminal-by-Terminal Entry split. This was agreed.

Action 33: National Grid NTS to provide a breakdown of TO entry revenue capacity/commodity split based on prevailing and future entry prices

EB went through the pros and cons of entry discounting although there was some debate on whether some of the criteria should be viewed as pros rather than cons.

JBa stated that a secondary market was currently undermined by the presence of a free product. This was acknowledged. There was then a discussion on the effect this would have, particularly on new entrants. EB responded that National Grid would emphasise in the consultation paper the impact on new entrants and hence the impact on Security of Supply. In putting forward its initial views, National Grid NTS acknowledged some of the shortcomings – particularly a 100% discount for daily interruptible capacity. JBa suggested that such a discount should be conditional of all firm being sold-out first.

In addition to the above, JBa asked if National Grid NTS had explored the possibility of rebasing Entry charges in a similar way to that proposed for Exit. EB replied that this would be extremely difficult given that Entry capacity is released up to 16 years ahead of the gas day and this had led to the approach where entry capacity prices were set based on marginal costs and residual entry revenue recovery was managed via the entry commodity charge

6 Any Other Business

None

7 Date of Next Meeting

To be arranged for approximately four weeks time.

Action Log

No.	Date Raised	Description	Status	Comments
30	01/02/07	National Grid NTS to carry out TO Exit cost recovery analysis based on all DN load being firm.	National Grid NTS committed to providing this and other analyses as part of the Exit Capacity Consultation	Carried Forward
31	05/03/07	National Grid NTS to clarify occurrence of Unaccounted For Gas in the relevant cost apportionment tables		
32	05/03/07	National Grid NTS to provide a simple breakdown of TO/SO revenue		
33	05/03/07	National Grid NTS to investigate whether SO costs for storage related activities on an Activity Based Model approach are available.		
33	05/03/07	National Grid NTS to provide a breakdown of TO entry revenue capacity/commodity split based on prevailing and future entry prices		