

The background of the slide features a blurred image of a gas meter and associated electrical components, including a meter box and wiring, in shades of blue and white.

Gas Distribution Network Sales Offtake arrangements: Conclusions document

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NTS exit capacity rights: Summary of options

Option 1



NTS booking model

Option 2



DN booking model

Option 3



Shipper *and* DN booking model

Option 4



Shipper *only* booking model

NTS exit capacity rights: Summary of options

Option 1

- Closest to status quo
- No pricing of NTS exit capacity
- NTS determines allocation, based on DN requests

RIA Summary

- Simplest / lowest cost to implement
- Potential for undue discrimination
- Inefficiencies, as DNs over-request capacity
- Increased regulatory intervention

Option 2

- NTS connectees (DNs and NTS direct connects) determine levels required
- DNs retain 1 in 20

RIA Summary

- No undue discrimination between NTS and any NTS connectees
- Incentive scheme on DNs promotes efficiency
- Reduces regulatory intervention
- Some competition benefits

NTS exit capacity rights: Summary of options

Option 3

- As Option 2, but DN shippers request NTS exit capacity from NTS
- DNs retain 1 in 20

RIA Summary

- Enables shippers to signal value placed on NTS exit capacity directly to NTS
- Promotes competition
- Most complex and costly option

Option 4

- 1 in 20 removed from DNs
- Only shippers request NTS exit capacity

RIA Summary

- Gives sharpest market based signals to NTS
- Promotes competition
- Security of supply concerns
- Large change from *status quo*

NTS exit rights: RIA responses

Option 1

- Preferred by 6 out of 15
- Some concerns that this option may be unduly discriminatory

Option 2

- Preferred by 7 out of 15
- Reduce risk of undue discrimination
- Less complex than Options 3 and 4
- Incentive mechanism may be complex

Option 3

- Opposed by 12 out of 15, preferred by none
- Costly and complex
- Benefits overstated
- Poor investment signals

Option 4

- Opposed by 13 out of 15, preferred by none
- Many security of supply concerns
- Investment signals may be very poor
- May damage retail competition

NTS exit rights: Conclusions

- Adopt pure Option 2 model for allocation of NTS exit capacity rights as part of DN sales process
- This will:
 - reduce risk of undue discrimination that exists in Option 1;
 - avoid the cost and complexity of Option 3; and
 - captures the majority of the quantitative benefits of Option 4.
- Recognise that there may be benefits from allowing users to signal their exit capacity requirements, hence Ofgem will:
 - keep arrangements under review; and
 - ensure appropriate governance arrangements are implemented.

1. NTS exit capacity rights: options, RIA responses and conclusions
2. Diurnal storage: options, RIA responses and conclusions
3. Governance: options, RIA responses and conclusions

Diurnal storage: Summary of options

Option A

- Closest to status quo
- “Planning” approach
- Allocated to DNs by NTS



RIA Summary

- Simple to implement
- Risk of undue discrimination
- No pricing of flexibility at NTS offtake
- Increased regulatory intervention?

Option B

- Market based approach to NTS offtake flexibility
- Priced product



RIA Summary

- No undue discrimination
- Value of NTS flexibility revealed, hence better investment signals
- More costly and complex

Diurnal storage: RIA responses

Option A

- Favoured by 11 out of 15 responses
- Most respondents wanted to retain the *status quo*
- 1 respondent favoured a variant of Option A, with administered prices being specified for an operator-to-operator product

Option B

- Favoured by 1 respondent
- Potentially costly and complex
- A full “linepack service” approach could undermine the NBP
- NGT believed a commercial approach to diurnal storage and operational flows could be developed for the medium term

Diurnal storage: Conclusions

- Option A is not appropriate, given:
 - risk of undue discrimination, and
 - no potential for users to signal value they place on flexibility
- The Authority has granted 4 weeks to develop an alternative “Option A*”, in which:
 - NTS offtake flexibility will be allocated to DNs and NTS direct connects only;
 - allocation of flexibility to NTS connectees will be through market based approach (where flexibility is scarce)
- This should deliver most of the benefits from Option B, yet avoid the risk of undue discrimination involved in Option A

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Governance: options and RIA responses

Options

Governance under Network Code

- All signatories to network code may propose modifications
- Ensures consistency



Governance under separate Code

- Offtake code a network operator agreement
- Danger of inconsistent evolution

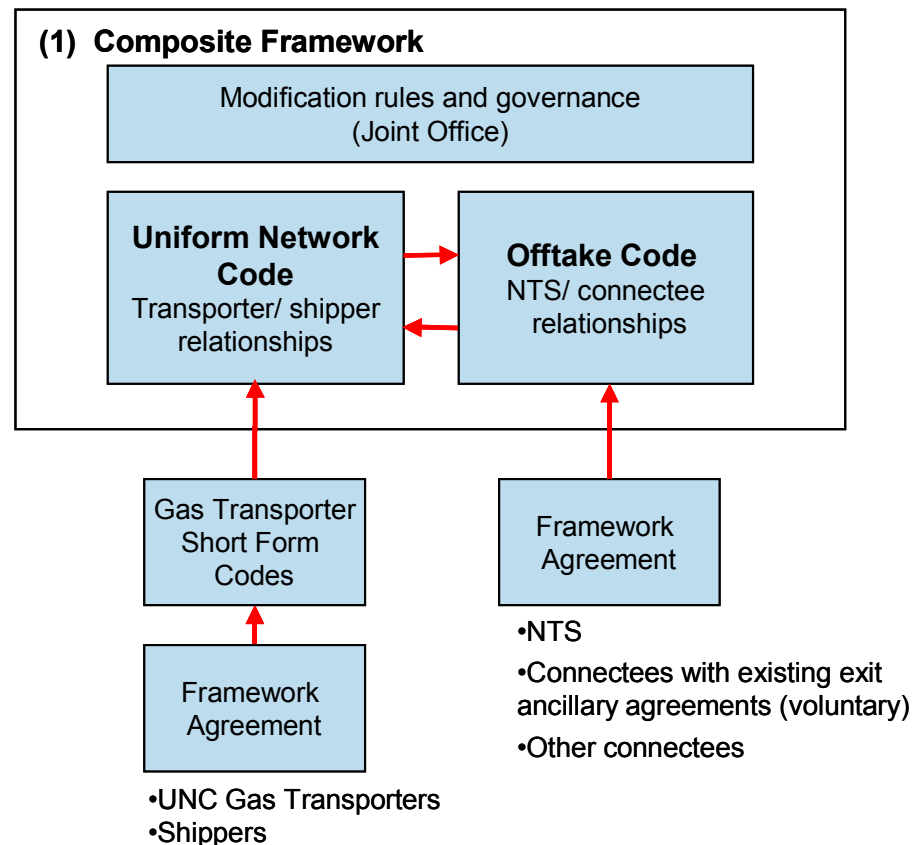


Summary of responses

- Generally less comment than on other issues
- Favoured by 3 out of 15
- Consistent with “good governance”
- Favoured by 4 out of 15

Governance: Transco proposal

- “Composite” approach
- Single governance / mod rules for Network Code and offtake arrangements
- Offtake arrangements retain separate identity, enabling different signatories to two documents
- Requires less change, and delivers most benefits of favoured option
- Need legal opinion on whether model can evolve to enable shippers to be signatories to Offtake Code



Governance: Conclusions

- Governance
 - Given the Decision to adopt Option 2 for offtake arrangements, further consideration is necessary on appropriate governance arrangements.
 - The Authority considers that all interested parties should have the opportunity to participate in the governance arrangements.
 - Explore hybrid proposed by Transco, and seek legal advice