

## Enduring Offtake Arrangements Working Group

### Meeting 1

4 January 2006, 10:00 am-1:00pm

Ofgem's office, 9 Millbank

#### Attendees:

Mark Feather	Ofgem (Chair)	Steve Rose	RWE Npower
Bob Hull	Ofgem	Eddie Proffitt	MEUC
Jess Hunt	Ofgem	Conor Purcell	ESB PG
Jason Mann	PA Consulting	Douglas O'Brien	Moffat Agent
Robert Cameron- Higgs	NGN	Shelley Jones	Statoil
Julie Cox	AEP	John Bradley	Joint Office
John Costa	EDF Energy	Nigel Sisman	NG NTS
Liz Spierling	WWU	Bethan Winter	NG NTS
Tory Hunter	SGN	Christiane Sykes	Eon
Paul Roberts	NG NTS	Nigel Cornwall	Cornwall Consulting
Mark Freeman	NGG	Sharif Islam	Total
Mike Young	Centrica/BGT		

#### Introduction

Mark Feather welcomed the group and explained that the purpose of the EOWG was to consider the enduring offtake arrangements (EOA) for National Grid Gas's (NGG) NTS. He said that the group was part of Ofgem's consultation process, and that Ofgem was keen to hear the groups' view on the different options that had been suggested in the TPCR second consultation document. He said that the EOWG would also provide an opportunity for group members to understand the thinking behind Ofgem proposals, and to put forward alternative options to those set out in the second consultation document.

Mark said that the EOWG would meet every 2-3 weeks prior to the release of the third consultation document in March and that Ofgem has adopted an open door policy with regard to membership. He said that Ofgem would prepare a summary note of each meeting. Mark also noted that the EOWG should be regarded as a discussion group, and that nothing said in the EOWG would fetter the discretion of the Authority, for instance in relation to future UNC and licence modification decisions.

#### Terms of reference

Mark asked for feedback on the draft EOWG terms of reference which had been circulated prior to the meeting.

Paul Roberts suggested that Item 1 should be changed to reflect the fact that the EOWG would consider proposals brought forward by any member of group.

**Action:** Ofgem to amend Item 1 of the terms of reference to be changed to reflect the fact that the EOWG would consider proposals brought forward by any member of group.

Julie Cox suggested that the EOWG should also consider the interactions between the NTS EOA and other elements of the access regime such as incentives, baselines and charges. Mark said that group members would be able to bring relevant issues forward for discussion at the EOWG. Mark however emphasised that such discussions would not encroach upon or affect the need for consultation

through other relevant forums, such as the UNC workstreams to the extent that any UNC modification proposals or topics are raised and NGG's charging forum.

Steve Rose asked how the interaction with LDZ offtake would be managed. Mark said that the EOA project was focussed on NTS offtake, however Ofgem would coordinate internally with the work of the gas distribution team, particularly in relation to DN interruptions.

Douglas O'Brien asked whether Ofgem would also consider the interactions with EU legislation, international treaties etc. Mark said that one of the issues that Ofgem had identified was compliance with European law.

Nigel Cornwall said that it would be necessary to consider the impact of proposals on different types of demand, such as generators and DNs, in order ensure consistency with other workstrands.

**Action:** Ofgem to publish amended EOWG Terms of Reference on its website.

### **Presentation on gas offtake**

Jason Mann gave a presentation setting out:

- objectives of the EOA;
- transitional arrangements and rationale for change;
- options for the EOA set out in the second consultation document; and
- further issues.

#### *Objectives of the EOA*

Nigel Cornwall said that the set of objectives set out in the scope of work document were slightly different to those in the second consultation document in that the objective of promoting timely and efficient investment was not included. Mark said that the objective had not been deliberately excluded. Rather, Ofgem considered that promoting timely and efficient investment was implicit in the remaining objectives including the objective relating to efficient network development as set out in the December document.

Christiane Sykes suggested that the non-discrimination objective be amended so that the EOA should only prevent discrimination where appropriate. Jason said that it was unnecessary to include the term 'where appropriate' as this distinction is already made in through the use of the term *undue* discrimination.

Christiane said that it could be duly discriminatory to have different EOAs for DNs and DCs. Mark said that the Authority has endorsed the use of an equivalent set of offtake arrangements for each type of NTS user, and that issues regarding undue discrimination would be explained further during the course of Jason's presentation.

#### *Transitional arrangements and rationale for change*

Robert Cameron-Higgs asked whether there is any scope for NTS stranded assets under the transitional offtake arrangements. Jason said that the potential for stranded assets depends on the outcome of bilateral negotiations between the NTS and the connectee and the level of any financial commitment determined through such a negotiation. Mark said that in determining the level of any financial commitment under the transitional offtake arrangements it was important for NGG to ensure that it is developing an efficient system in

accordance with its statutory obligations. Mark said that this would mean some level of user commitment would be necessary to ensure that the costs of investments are targeted to those who benefit from them. Mark also said that NGG needed to ensure that such arrangements do not unduly discriminate against users. Mark noted by way of example that financial commitments should not impose disproportionate financial burdens on new connectees that do not take account the benefits that an investment may have for other users. Mark said that there may be some circumstances (eg sole use spur lines for a particular user) where a significant financial commitment is appropriate but that the level of commitment would need to be determined having regard to the riskiness associated with the load making the request. He noted that Ofgem's dispute resolution function had the potential to become quite important within the transitional offtake arrangements.

Julie asked whether there had been any assessment of the extent to which there are stranded assets or under-utilised assets on the system at the moment. Jason said that this would occur as part of the EOA impact assessment. Mark noted that under the current regime it is difficult to identify potential stranded assets because NGG does not have any signals regarding users' future plans.

Eddie Proffitt said that many users were unable to forecast their future usage as it was contingent on changeable market conditions. He said that if they were forced to commit in advance, customers would end up bearing the cost of stranded assets. Julie agreed that as information regarding future usage requirements is not available, long term user commitments will not help to make investment decisions more efficient.

Jason said that the issue came down to which party was best placed to bear the risk of stranded assets. Mark said that the risk could potentially lie with either NGG NTS, the connecting party or the generality of customers and that Ofgem's view was that the market (i.e. users) are better at understanding capacity requirements than NG NTS.

Julie questioned whether this view necessarily meant that users should bear all the risk. Jason said not necessarily, however the risk needed to be allocated somewhere. Eddie said that requiring users to book capacity in advance had the potential to restrict the availability of capacity because companies would sit on spare capacity to avoid the risk of losing it.

Nigel Cornwall said that risks could only be properly allocated once the access right had been defined. He said that there could be the potential for discrepancies between the periodic price control process and the annual allocation of capacity rights.

Julie noted that the proposed IExCR includes as an appendix a list of ARCA principles. She asked if, in the event that the proposed modification is approved by Ofgem, the template would remove one of the sources of dispute under the ARCA. Mark said that the terms of IExCR should not fetter the discretion of the Authority when settling a dispute. Paul Roberts noted that the IExCR had been drafted in a way that makes clear that the Authority is not fettered by the IExCR.

Eddie said that in the past, if a new customer wants to connect to the system, they are offered interruptible capacity while NGG carries out reinforcement. He said that under Ofgem's proposals, a long term customer may suddenly be required to face much higher charges as a result of the capacity requirements of a new customer. Jason said that this would only occur if the long term customer is not willing to commit to their capacity requirements in advance. Julie said that

the proposed arrangements would not alter the position of new connectees if all existing users decided to book capacity long term.

Julie asked whether Ofgem planned to explore the issue of whether NGG NTS could contract directly with customers as part of EOWG. Mark said that during the DN sales process Ofgem had received legal advice that this could not occur without an exemption from the Gas Act. Julie said that long term contracting for capacity created problems for customers wishing to switch supplier in a different timescale. Mark said that in a competitive supply market arrangements should be able to be developed to resolve these issues, for example, enabling a customer to ensure that a capacity booking also transferred when the customer transferred supplier.

#### *Options for the EOA*

Jason described the options for the EOA that were set out in the second consultation document. He said that the options were intended to be a cross section of those available and that group members were invited to bring forward alternative options.

Mark noted that Ofgem had developed Option Ex3, which involves zonal baselines and nodal product definition, as a result of previous feedback that a nodal/nodal model was too complicated. Julie said that there was support for a nodal/nodal model and that previous concerns related to NGG's proposals on exchange rates.

John Costa said that under the current arrangements, GB could be considered to be a single zone, and that therefore if more restrictive zones were introduced there was a risk of losses of economies of scale. Jason said that this was why Ofgem had included Option Ex3A, which has a single network-wide baseline. Liz Spierling suggested that this option could give rise to disputes because it would be difficult to ascertain which customer had triggered an investment.

Julie noted that under the EU regulations NGG NTS was under an obligation to publish information on network capacity. Mark noted that Ofgem's second consultation document had suggested (in the context of the entry regime) that the onus should be on NGG NTS to publish a transparent methodology for allocating capacity.

Nigel Sisman said that it would be important to clarify how the zones would be established as this would have a major impact on the costs and benefits of each option. Mark said that the EOWG was intended to be an opportunity to explore the different options in more detail. Jason noted that an important related question was how to set baselines. Tory Hunter added that the objective of simplicity should also be borne in mind.

The group discussed the issues that were likely to arise when defining the different options, including:

- the level of substitutability between exit points;
- the extent to which risk allocation can be adjusted through incentive mechanisms;
- the implications of different models for transportation price volatility;
- the interaction between the EOA and the DNs' 1 in 20 licence obligations; and
- how the baselines would be updated to take account of new investment.

### *Further issues*

Mark asked which issues the EOWG should focus on for its next meeting. The following issues were suggested:

- long term capacity bookings, including their effect on supply competition;
- definitions of baseline and zones, including how the baselines would be updated to take account of new investment;
- flexibility product;
- interactions with other jurisdictions and inter-governmental treaties.

### **Next meeting**

Mark said that the next meeting would be held on 18 January 2006.

**Action:** Group to submit suggested agenda items by Friday 6 January.

**Action:** Ofgem to post minutes and presentation on the TPCR website.