

## Enduring Offtake Arrangements Working Group

### Meeting 2

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

Ofgem's office, 9 Millbank

#### Attendees:

Mark Feather	Ofgem (Chair)	Steve Rose	RWE Npower
Matteo Guarnerio	Ofgem	Andrew Morris	ILEX
Tim Dewhurst	PA Consulting	Conor Purcell	ESB PG
Jason Mann	PA Consulting	Derek Russell	Viridian
Robert Cameron- Higgs	NGN	Shelley Jones	Statoil
Steve Gordon	Scottish Power	John Bradley	Joint Office
Julie Cox	AEP	Nigel Sisman	NG NTS
Avian Egan	Bord Gais Networks	Bethan Winter	NG Distr.
Tory Hunter	SGN	Christiane Sykes	Eon
Paul Roberts	NG NTS	Phil Broom	Gaz de France
Mark Freeman	NG Distr.	Sharif Islam	Total
Mike Young	Centrica/ BGT	Gareth Evans	Total

#### Introduction

Mark Feather welcomed the group and provided an update on the work related to transitional arrangements. He noted following the Authority's decision to veto the changes proposed to the IExCR, National Grid NTS (NG NTS) resubmitted a revised version of the IExCR which excluded Appendix 2. Mark explained that Ofgem would shortly issue a decision on the IExCR and on modification proposal 046. Asked by Christiane Skyes, Paul Roberts said that NG NTS are currently finalising the report on the ARCA consultation and that it would be published shortly.

**Action:** Ofgem to publish minutes of EOWG 1 meeting on its website

#### Flexibility product

Nigel Sisman gave a presentation on the product definition for flow flexibility. He noted that the current NTS exit flow flexibility product was developed as part of the DN sales process. However, Nigel explained that implementation of the enduring regime was deferred to permit more time to consider the proposed framework and noted that many industry participants have advocated consideration of alternative approaches. Therefore Nigel described the current NTS exit flat flow flexibility proposals and a number of possible refinements and alternatives.

In particular, the alternatives presented were:

- ◆ Flat and "increased tolerance" flexibility. Under this approach the "tolerance level", which in the original proposals was set at 1.5%, could be expanded (for example to 6%) such that users, who might only have a moderately higher offtake flow rate in the first 16 hours than over the full day, might not be required to book flexibility.
- ◆ Expanding flexibility product. Under this option, the flexibility entitlement would expand when a user is not fully utilising his flat holding. Therefore unused transmission capacity would be automatically converted into extra

flexibility availability based on a transmission: flexibility substitution ratio. In the presentation a potential substitution ratio of 4.5:1 was introduced. Several participants asked how this number was derived. Nigel explained that it was based on analysis undertaken for the calculation of DN incentives, but that further analysis would be required to confirm the appropriate level for this ratio.

- ◆ Single product. Under this approach, connectees would be only required to book a single “integrated” capacity product that would give an entitlement to a combination of throughput and flexibility on the peak throughput day. Jason Mann noted that this product may provide incorrect signals, as, for example, someone who needs a large amount of flexibility may have to “overbook” the product.
- ◆ High/low flexibility user choice model. Under this approach users would be offered the opportunity to determine their highest day throughput requirement but to choose whether they would like to purchase a high flexibility or low flexibility dimension to their booking (with “high” users paying a commensurately higher price).
- ◆ NERA model. This model consists of the old NTS exit capacity product, which would permit effectively unfettered access to offtake flow variations by all connectees (including DNs). However, Nigel noted that the system was not designed to accommodate all possible offtake flow rate variations, and that, before DN sales, this was managed via restrictions to DN offtake flow variations. Nigel noted that an unfettered offtake flow rate variation would require a bigger system, alternative arrangements to limit offtake flow variations, or certainty that offtake flow variations would not exceed capability. Nigel explained that, otherwise, with a bundled product, there would be a risk that the system could fail. Julie Cox noted that ramp rates and notice periods are currently specified. Nigel explained that this may help mitigate the problem, but would not resolve it. Some participants did not consider it appropriate that direct connects should be involved in these reforms, given that the issue to be resolved is related to DNs.

Nigel asked participants if they had any preferred option or if they could think of any alternative refinements to the flexibility product. Julie Cox noted that participants would need to undertake some analysis before expressing a preferred option and asked whether NGG had data on flex usage by connectee. Nigel explained that NGG has access to a sample of data at a number of offtake points, but would not be able to provide a complete picture, and noted that in this field data issues are a problem.

Mark noted that one participant had suggested that breakout groups could be formed to discuss various issues between participants, and asked whether the group wanted to discuss this issue in breakout groups. After some discussion, participants considered that, at this stage, break out groups would not be appropriate.

Tory Hunter expressed some concerns about the choice of a capacity allocation/auction solution, which was implicitly taken as a given in all the options presented. Tory was not convinced that such a complex set of arrangements need to be established. Mark replied that it was essential that capacity was allocated between offtakes in a manner that is not unduly discriminatory.

Avian Egan noted that there is a need to understand in more detail the meaning of undue discrimination. Mark noted that prima facie both DNs and direct connects are using the same NTS offtake capacity services and therefore these should be allocated in a not unduly discriminatory manner. A number of participants expressed concerns and noted that DNs are DCs are different types

of users. Mark noted that the concept of preventing undue discrimination was one of the building blocks of the proposed exit reform and was in line with NGG's statutory duties and licence obligations. Mark stated that Ofgem would be interested in further understanding from industry participants the basis on which they considered that it would be acceptable or legitimate for NGG to discriminate amongst different classes of users (such as DNs and direct connects), and invited participants to prepare a presentation outlining their views. Some participants noted that there might be a resource issue, but stated that they intended to respond to this request.

**Action:** EOWG participants to get back to Ofgem on potential presentation on undue discrimination

### **Preliminary impact assessment - overview of data pro forma cost survey**

Tim Dewhurst gave a presentation explaining the aim and content of the cost survey published on Ofgem's website on 12 January 2006. Tim explained that the intention is to include a preliminary impact assessment of the high-level models in the March 2006 third TPCR consultation document. However, Tim noted that further impact assessments will be undertaken once the details of the arrangements have been developed further. Tim explained that separate pro-forma requests have been prepared for:

- ◆ Shippers and transmission connected customers (including interconnectors and storage operators); and
- ◆ Gas transporters and the DN agency.

Tim then explained the structure of the pro-forma, which consists of three documents: spreadsheet, guidance note and assumptions paper. Tim then provided some high level guidance on how to complete the pro forma. In particular, Tim noted that, when completing the pro forma, respondents should:

- ◆ Consider the impact on their business alone;
- ◆ Quantify the cost implications of those measures as described in the assumptions paper;
- ◆ Quantify costs of the user commitment models relative to the status quo (the transitional arrangements);
- ◆ Where decisions have yet to be made, assume the lowest cost solution, detailing assumptions in the commentary;
- ◆ Ensure cost estimates are efficient and necessary; and
- ◆ Provide sufficient detail, where possible adding commentary on any assumptions that have been made.

Asked by some participants, Tim explained that, whilst recognising that numerous aspects of the arrangements require further detailed development, where decisions are yet to be made, respondents should make a clear note of the assumptions used, and provide as much data as possible. Julie Cox explained that she had spoken with a number of AEP members and stated that the proposals are not developed to a sufficient detail to provide meaningful cost data. Mark Feather said that this is intended to be an iterative process and this initial cost survey would form the basis for an initial impact assessment but that further data would be requested subsequently as the impact assessment was developed and as the details of the regime were developed through consultation.

Julie noted that it would be difficult to provide any additional data from that provided as part of the cost survey during the DN sales process. In addition, Julie said that it would be inappropriate to eliminate options at this early stage, and

was concerned that the December price control document appeared to imply that the outcome of this cost survey would be used to indicate a preferred option. Mark said that he recognised the concerns being raised, but noted that the alternative would be to develop all possible options in a high degree of detail and ask for cost surveys on each option. Mark indicated that it was important that the impact assessment was developed on an iterative basis and that this would maximise consultation rather than presenting for impact assessment a series of detailed models which had not been consulted upon.

Julie asked whether, if alternative options were developed in the next few months, they would be included in any cost benefit analysis. Mark stated that if alternative options emerge, they would be taken into consideration. Tory Hunter reiterated that other approaches different from the allocation/auction model should be considered.

Some participants also asked whether the only costs that should be considered are running costs (i.e. IT and staff costs) or whether any consequential costs (such as changes in exit charges and effect on balancing markets) should be taken into account. Jason explained that the survey is focused on running costs, but it would be useful to have thoughts on additional costs, and Ofgem would then decide whether it would be appropriate to include them in the cost survey.

Julie Cox asked whether, if participants were not able to provide absolute estimate of costs, a relative assessment of options could be included. Tim noted that, whilst this would provide valuable information, for the cost benefit analysis an absolute estimate of costs would be needed, and suggested that a range of estimates could be included.

Christiane Skyes noted that there might be different interpretations of the cost survey among participants and this may provide Ofgem with misleading data. Tim reiterated that the assumptions made need to be stated clearly.

### **Next meeting**

Mark explained to the group that the presentation on baseline methodologies, initially scheduled for this meeting, would be given at EOWG3.

**Action:** Ofgem to present on baseline methodologies at EOWG3

Tory requested that EOWG3 starts at 10 am rather than 10.30am. The group agreed with this request.

**Action:** Material from EOWG2 to be published on Ofgem website.