

Technical group 1, Gas Transmission Charging Review

This group supports the development of the technical modelling of potential options for NTS entry charging arrangements.	From Date and time of Meeting Meeting materials	Victoria Volossov 8 July 2014, 14-16h	10 July 2014 Ofgem Millbank
		https://www.ofgem.gov.uk/publications-and-updates/first-gtcr-technical-work-group	

1. Present

Laura Butterfield (NGG) Lee Bowerbank (Exxon), dialled in Jeff Chandler (SSE) Julie Cox (EnergyUK) Gareth Davies (Statoil) Kirsten Elliot-Smith (Cornwall Energy) Richard Fairholme (Eon) Francisco Gonçalves (Gazprom) Ricky Hill (Centrica)	Graham Jack (Centrica) Natasha Ranatunga (EDF) Charles Ruffel (RWE) Colin Williams (NGG) Nick Wye (Waters Wye) Ofgem: Tim Aldridge, Alena Aliakseyeva, Victoria Volossov CEPA/TPA: Ian Alexander, Debra Hawkin, Joseph Pilgrim, Patrick Taylor, Andrei Vladareanu
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2. Agreement of Terms of Reference

2.1. Alena Aliakseyeva (AA) presented the Terms of Reference of the group, which are available on the GTCR website.

2.2. The purpose of the group is to support the development of the technical/modelling detail of potential options for NTS entry (not exit) charging arrangements. We'll consider three core options:

- Change the structure of discounts applied to short-term entry capacity products
- Adjust the payable price on long-term entry capacity to take account of the inflation effect
- Move to floating tariffs across all NTS entry points.

2.3. The group will feed into how CEPA/TPA develop a model of these options and their potential impact on future NTS tariff levels, allowed revenue recovery, NTS bookings, given modelling of the price responsiveness of demand for NTS capacity, and cross-border flows. We'll use the model in our Impact Assessment.¹ Industry representatives will have an opportunity to express their views on our policy proposals and their impact when we publish the impact assessment, planned for Q4 2014.

2.4. The scope of the group's working is to:

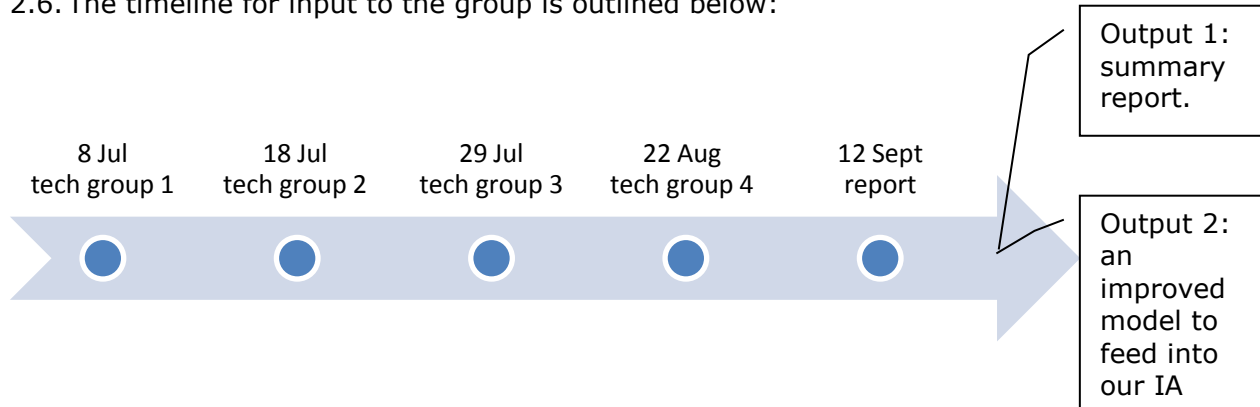
- Comment on and refine assumptions feeding into the model; comment on model design and robustness of outputs
- Comment on and refine scenarios and options to be modelled (eg which discounts to apply, how floating tariffs should be modelled)
- Comment on methodology approach on *price responsiveness of demand for capacity*; and on modelling *impacts of changes on cross-border flows*

¹ The impact assessment will also consider how gas transmission charges influence investment. Influence on investment is outside the remit of technical working group.

- Produce a report summarising the discussions and conclusions of the working group (suitable for publication).

2.5. This group will not discuss contractual arrangements or provisions on existing contracts of the forthcoming European Tariffs Network Code.

2.6. The timeline for input to the group is outlined below:



Action

Please let us know if you are keen and able to attend meetings on: 18 July pm; 29 July am; 22 August am, specifying your availability for each date. Email Gas.TransmissionResponse@ofgem.gov.uk. Volunteer to hold the pen for the summary report, email Gas.TransmissionResponse@ofgem.gov.uk. The submission date for the report is 12 September.

Person – By

All – by 11 July

All – by 11 July

3. Options for change (CEPA/TPA)

3.1. CEPA/TPA (Patrick and Ian) presented their approach to understand the impact of options for change, and to assess the price responsiveness of demand for entry capacity. Their presentation is available on the GTCR website.

3.2. CEPA said that their aim is to understand the key drivers of price responsiveness of demand, and where there is discretion for shippers to decide to flow.

3.3. Market structure: participants asked CEPA/TPA to use all of National Grid’s scenarios. CEPA answered that they’ll try and use more than one scenario if possible, but that their time and budget were limited. CEPA asked the group to identify a priority scenario.

3.4. Sharing the model: at the end of the contract CEPA/TPA will hand over the model to Ofgem. They’ll explore ways to blank out commercially sensitive data, so that we can share the model as much as possible.

Topic	Participants’ views	Answer
Use historical flow data?	Participants had different views on this question. <ul style="list-style-type: none"> - CEPA/TPA should model shipper decisions based on past flows - Booking strategies are made on a day-by-day basis. How will the model handle this uncertainty? - Past flows are no predictor of the future, UK sources of supply have changed too significantly. 	CEPA/TPA are grateful for written submissions. The model will give a view on shipper behaviour based on current flows and capacity

Topic	Participants' views	Answer
	<p>Need to use NGG scenarios.</p> <ul style="list-style-type: none"> - It is sensible to use NGG scenarios to replicate shipper behaviour. It will provide only one view of potential impacts, but it will be a good starting point. 	<p>bookings, and under future NGG scenarios (the proposal is to use 'Gone Green', industry views are welcome).</p>
Which flows to model?	<p>Participants thought it will be worth exploring this further.</p> <ul style="list-style-type: none"> - Certain flows (eg UKCS) are flat and may have no impact on model outcomes. - Flows that the model should include: storage, LNG, interconnection, Norway. - However, need to be careful that the model is not too sensitive/ volatile. - The price responsiveness of demand at individual entry points will also need to account for capacity already being fully booked at certain entry points (eg Milford Haven). 	<p>CEPA/TPA are grateful for written submissions. CEPA/TPA are developing the model to take account of existing bookings in modelling price responsiveness of demand for NTS capacity and future changes in market structure.</p>
Supply sources	<p>p.12 of the CEPA/TPA presentation gives a first view of how the model might rank different entry points.</p> <ul style="list-style-type: none"> - A participant thought that IUK should rank as medium, not high, because flows depend on Belgian and German contracts more than on GB transmission charges. - Isle of Grain should rank as low, not high. 	<p>CEPA/TPA would like further comments on this. The list of entry points in the slide pack is not yet complete.</p>
Discounts	<ul style="list-style-type: none"> - Will the group discuss discounts? 	<p>Yes, at our second meeting.</p>

Action

Identify a base scenario (Gone Green or Slow Progress) to be used in the model

Give your view on whether the model should use diversified or undiversified demand

Answer the questions in the price responsiveness paper (available on the GTCR website and circulated before yesterday's meeting). We welcome views from both an individual or company perspective. We will not attribute names.

Gather views on what is a predictable charge, what is a volatile charge

Send out email with immediate next steps to participants

Person - By

All – by 16 July

All – by 16 July

All – by 16 July to Debra Hawkin, Patrick Taylor and Gas.TransmissionResponse

All – date TBC

Ofgem – 9 July

4. Contact details

4.1 Ian Alexander (ian.alexander@cepa.co.uk); Patrick Taylor (patrick.taylor@cepa.co.uk); Debra Hawkin (debra.hawkin@gmail.com); Andrei Vladareanu (andrei.vladareanu@cepa.co.uk).

5. Next steps

5.1. Next meetings (all at Ofgem/Millbank): 18 July pm; 29 July am (tbc); 22 August am (tbc). For the meeting on 18 July, Ofgem will upload materials at the latest by close on 15 July.

5.2. We will email participants when we upload new documents, and you can also subscribe to our RSS feed: <https://www.ofgem.gov.uk/feeds/87224/rss>.