

Richard Fairholme
Chair, Gas Forum Transmission
Charging Sub Group
Gasforum@gemserve.com
10 Fenchurch Street
London EC3M 3BE

Direct Dial: 020 7901 2782
Email: judith.ross@ofgem.gov.uk

Date: 24 July 2014

Dear Richard

RE: Ofgem Gas Transmission Charging Review

Thank you for your letter¹ of 17 July 2014 about the Gas Transmission Charging Review (GTCR). I am sorry I am unable to attend the Gas Forum Charging Sub Group meeting on 25 July.

I picked up your points briefly at the second GTCR technical working group on 18 July and attach the minutes. I hope it's useful to address them here too.

GTCR: timing

We promised industry a steer on the most suitable gas transmission charging regime for GB by the end of 2014. This timing will help us to influence development of the detail of the EU Tariffs Network Code, including informing DECC ahead of Comitology. Comitology may start as soon as ACER approves the draft Network Code, which could mean any time after 31 December 2014. Some industry stakeholders have noted that this timeline may slip. But equally, it might not, and we think it is best to aim to have an evidenced view in time for discussions whenever they start.

If we recommend any changes to the GB system in Q4 2014, we will formally consult industry and other stakeholders. We will aim to co-ordinate the timing of GTCR changes (if any) with implementing the EU Tariffs Network Code.²

The model

We have asked the technical working group to support us in developing the technical detail of the policy options. It acts as a critical friend, reviewing proposed assumptions and pointing out what factors these will be sensitive to. CEPA/TPA are developing a model of the price responsiveness of demand for NTS capacity and cross-border flows. Model outputs will include booking impacts, including distributional effects, for a set of identified changes on future NTS tariff levels and NTS bookings. As a base case scenario CEPA/TPA will use the current regime: fixed charges at all NTS entry points with a commodity charge.

¹ Gas Forum Transmission Charging Sub Group, Gas Forum, EnergyUK, SSE. Letter published on Gas Forum website, www.gasforum.co.uk.

² Implementation deadline: 1 October 2017, or 18 months from the date of entering into force of the Network Code, whichever is later.

GTCR technical working group arrangements

We've listened to concerns from members of the technical working group. We have asked CEPA/TPA to work to a very tight timetable. We recognise that this places demands on the group members, so we have tried to reduce or streamline these where possible.

- We rearranged the third and fourth meetings to Wednesday mornings, to make attendance easier.
- CEPA/TPA will deliver documents for the working group as far in advance as possible. Due to tight timescales we promised at least two days' notice, but will give more wherever possible.
- At each session, CEPA/TPA will give a taster of the topics discussed at the following session. This will give participants about two weeks' notice of forthcoming topics.
- If it is too challenging for any participants to give a considered view at one of the meetings, we will do our best to take late feedback into account (as we did for the price responsiveness assumptions).

I hope it's also useful to confirm that we don't expect the technical working group to reach formal decisions on the part of industry or of individual members. Given the tight timescale, and the fact that we are still some months away from making any recommendations for changes, we would not ask for anything more than observations at this stage. We will be doing further work on the options for our Impact Assessment and have given the industry early notice that we'll invite their views in Q4 this year.

Our Impact Assessment

The model is a first and necessary step as part of our Impact Assessment. But it is only a first step in assessing proposed policy options: we'll also consider qualitative impacts, in line with our duties, and where relevant, those in NGG's gas transporter licence. So we will factor in potential effects on security of supply and investment, and on the charging system's ability to accommodate general developments in the transportation business. This work may well identify more detailed reform options, or refinements to the changes in the model.

Another important input for our Impact Assessment would be an industry-led report of the GTCR technical working group. This is an opportunity for industry to publicly critique the model and process. It would provide us, and all stakeholders, with an industry view (or views) on the reliability of assumptions in the model.

I hope that this letter addresses your concerns. We welcome your continued commitment to support our review and look forward to industry engagement with the detail of the options for change.

Yours sincerely,

Judith Ross
Head of Network Regulation Policy, Smarter Grids & Governance