

# Gas Transmission Charging Review Technical Group: Terms of Reference

## 1. Group composition

**Chair:** Ofgem

**Minutes:** Ofgem

**Members:** up to a maximum of eight industry representatives (observers permitted)

Contact: [Gas.TransmissionResponse@ofgem.gov.uk](mailto:Gas.TransmissionResponse@ofgem.gov.uk)

## 2. Purpose of the group

The purpose of the group is to support the development of the **technical/modelling detail** of potential options for NTS charging arrangements.

The three core options to be considered are:

### A. Change the structure of discounts applied to short-term capacity products

Entry capacity is sold through a series of auctions spanning a range of time periods; from quarterly blocks up to 17 years ahead, right down to within day sales. All Entry capacity auctions are subject to reserve prices, determined by NGG's Transportation Model. Some capacity products are offered at discounted reserve prices. Specifically, daily reserve prices are calculated by applying the following discounts to the Monthly System Entry Capacity (MSEC) capacity prices: Day Ahead Daily System Entry Capacity (DADSEC) 33.3%, Within Day Daily System Entry Capacity (WDDSEC) 100%, and Daily Interruptible System Entry Capacity (DISEC) 100%.

Part of the rationale for these price differentials is to account for the risk that entry capacity may not be available in the short run. In light of the changing gas market dynamics identified above, Ofgem want to revisit the structure of discounts to ensure cost reflectivity is maintained.

### B. Adjust the payable price on long-term capacity to take account of the inflation effect

The Quarterly System Entry Capacity (QSEC) can be bought in an auction up to 17 years ahead. Users pay for QSEC in the year that the capacity has been allocated for, at the price at which entry capacity has been allocated for (bid price). That is, the price is not adjusted for the effect of inflation if bought in previous years. Consequently, the real value of NGG's revenues from capacity sales deteriorates over time, contributing to the under-recovery of the Allowed Revenue (which is adjusted for inflation).

### C. Move to floating tariffs across all NTS points

EU Framework Guideline on Harmonised Transmission Tariff structures requires, among other things, that at the interconnection points<sup>1</sup> any over- or under-recovery of revenue will have to be recovered through capacity charges only, and that commodity charges should only be used to recover those costs which are associated with flows.

Specifically, any over- or under-recovery of revenue at these interconnection points is to be recouped through an adjustment to the capacity charges in later years, meaning that the capacity charges are “floating” rather than “fixed”. In effect, this means that the price for capacity bought in previous years through a long-term auction will, as a result of these changes, be determined in the year for which the capacity rights are held (payable price different to bid price). The regime currently in place for NTS Exit points<sup>2</sup> follows the principles of floating tariffs.

Ofgem would like to consider whether it would be desirable to extend the floating charges regime (mandatory at the interconnection points from 2017) to all entry points on the network.

### **3. The technical group**

We envisage that the technical group will meet on approximately a fortnightly basis from the week commencing 7 July 2014. At this stage, Ofgem envisages the need for four meetings, over July and August, concluding with the production of a final agreed and accepted written report summarising the group’s discussions and technical conclusions. We expect that this report will provide a valuable contribution to the development of proposals for change that we intend to consult on in Q4 2014.

We expect the group members to nominate a lead party responsible for coordinating and drafting of the technical group report at the inaugural meeting on 8 July.

We are specifically seeking the industry’s expertise and knowledge to develop and refine the three core options. We are also seeking stakeholder input in the design and development of the modelling tool for the quantitative assessment of the impacts these options may have. The impact assessment tool – “GTCR model”, for easy reference – is an Excel based model currently being developed for Ofgem by Cambridge Economic Policy Associates (CEPA) and TPA Solutions (TPA).

We expect the technical group members to play a proactive role in contributing their technical expertise to the group. The work of the group will provide an important input to Ofgem’s policy development process, but the group is not a decision making body. Ofgem retains the responsibility to develop any proposals

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<sup>1</sup> The interconnection points on the National Transmission System are Bacton ASEP and Moffatt ASEP.

<sup>2</sup> See Uniform Network Code, Section Y on Charging Methodologies  
[http://www.gasgovernance.co.uk/sites/default/files/TPD%20Section%20Y%20-%20Charging%20Methodologies\\_18.pdf](http://www.gasgovernance.co.uk/sites/default/files/TPD%20Section%20Y%20-%20Charging%20Methodologies_18.pdf)

for changing the existing charging arrangements and for these to be consulted upon with the full range of interested parties in a transparent and open manner.

We are looking to bring together a small number (around eight) of technical experts who are representatives of the key stakeholder groups. This necessarily rules out every interested party having a seat on the group. We of course appreciate the importance of, and consequent interest in, the subject of charges. Therefore, observers will be permitted to attend the meetings of the group, subject to providing prior notice (by e-mail to [Gas.TransmissionResponse@ofgem.gov.uk](mailto:Gas.TransmissionResponse@ofgem.gov.uk), one week before the meeting) and physical capacity of the room.

All materials presented to, and generated by the group will be published on our website<sup>3</sup>. Views on these materials will be welcome from all parties, including those who do not attend the working group, by e-mail to [Gas.TransmissionResponse@ofgem.gov.uk](mailto:Gas.TransmissionResponse@ofgem.gov.uk). All responses received will be published on the website. In this way we can create a wider virtual forum to enhance the work of the group.

In addition there will be further consultation and stakeholder events in the coming months to provide further opportunity for all stakeholders to engage with the review.

#### **4. Scope of work**

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

#### **5. Commitment**

Between 8 July and 15 August, approximately two days will be required from each member to attend the four technical groups. The successful representative will be required to provide comments in both written and verbal form at meetings on the technical solutions and the form of methodology changes required under the broad options for change.

The members are expected to attend the meetings at Ofgem's offices in London, Millbank.

#### **6. Deliverables**

The key deliverable is a publishable report by 8 September 2014. [last working group is w/c 11 August] This written report should summarise key information

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<sup>3</sup> This is the direct link: <https://www.ofgem.gov.uk/gas/transmission-networks/gas-transmission-charging-review>.

from the working group process in a form which is fit for publication and does not contain any confidential information and is factually correct and accurate. The report will briefly summarise the technical debate at each of the working group meetings and detail the technical solutions agreed and the form of methodology changes required under each of the broad options for change.

## **7. Charging principles and assessment criteria**

Whilst the group will focus on the technical aspects of modelling the impact of alternative charging arrangements, it is important to bear in mind the principles on which Ofgem will make the ultimate decision on future arrangements.

We will assess the current charging arrangements and any options for change against the following criteria:

- economic efficiency in both the short run and the long run (e.g. efficiency in transmission infrastructure investment decisions)
- impact on cross-border trade
- reflection of developments in the transportation business
- impact on security of supply

Furthermore, we note there are some “must do” constraints that must form the baseline assessment of any options associated with legal compliance (including implementation of EU law) and requirements on transparency and non-discrimination.

## **8. Organisation of meetings**

We envisage that the working group will meet on approximately a fortnightly basis from the week commencing 7 July 2014. In the first instance Ofgem envisages the need for four meetings, followed by the production of a final written report summarising the group’s technical conclusions and summary of the discussions.

The first meeting will take place in Ofgem’s offices in London on Tuesday, 8 July 2014.

The meeting will be chaired and minuted by Ofgem. CEPA and TPA will play an active part in the meetings, presenting their progress with the development of the model and engaging in group discussions.

## **9. Proposed meeting schedule**

Meeting 1	8 July 14:00
Meeting 2	18 July 13:30
Meeting 3	w/c 28 July
Meeting 4	w/c 11 August