

Technical group 2, Gas Transmission Charging Review

This group supports the development of the technical modelling of potential options for NTS entry charging arrangements.	From	Tim Aldridge	23 July 2014
	Date and time of Meeting	18 July 2014, 14-16h	Ofgem Millbank
	Meeting materials	https://www.ofgem.gov.uk/publications-and-updates/second-gtcr-technical-work-group	

1. Present

Laura Butterfield (NGG)	Charles Ruffell (RWE)
Jeff Chandler (SSE)	Christiane Sykes (Statoil)
Pavanjit Dhesi (Interconnector)	Colin Williams (NGG)
Kirsten Elliot-Smith (Cornwall Energy)	Nick Wye (Waters Wye)
Francisco Gonçalves (Gazprom)	Ofgem: Tim Aldridge, Alena Fielding, Judith Ross
Graham Jack (Centrica)	CEPA/TPA: Ian Alexander, Debra Hawkin, Patrick Taylor
Thomas Jesshop (Conoco Phillips)	
Natasha Ranatunga (EDF)	

2. Apologies

Lee Bowerbank (Exxon)	Ricky Hill (Centrica)
Julie Cox (EnergyUK)	Andrew Pearce (BP Gas Marketing Ltd),)
David Cox (London Energy Consulting Ltd)	Nigel Sisman (Sisman Energy Consultancy)
Gareth Davies (Statoil)	Ofgem: Victoria Volossov
Richard Fairholme (Eon)	CEPA/TPA: Andrei Vladareanu

3. Role of the group

- 3.1. Judith Ross (JR) reminded the group of its function and its place in the wider GTCR project in light of questions following the first working group. She reminded the group that the consultants' modelling is an input to the review and not of itself there to provide final answers. She also stated that this is not a decision making group and nothing said by attendees will be taken as committing them to a position on behalf of their company or the people they represent. JR reasserted that a report written by industry would be useful to capture the discussions ahead of further consultation on the impact assessment.
- 3.2. JR confirmed that the status quo (ie fixed charges at all points) is the starting point against which the impact of other options will be modelled. The impact assessment will consider wider issues such as impacts on investment, cross-border flows, sustainability etc. The relatively narrow scope of the modelling is a necessary first step to feed into this wider review.
- 3.3. The timing of the review is driven by the plan for the Tariff Network Code to go to comitology in Q1 of 2015. This review is crucial for feeding into that process. While some attendees did not share the same view of timings, JR stated that we cannot plan on comitology being delayed. Work post-2014 will depend on the conclusions of this review. Ofgem will be able to give a clearer position on the post-2014 process later this year.
- 3.4. In response to a question about publishing comments received by stakeholders on the GTCR website, Ofgem replied that it plans to publish all comments. Where the respondent has marked their comment as confidential, it will be anonymised. Ofgem

anticipates that any such comments will also be picked up in the industry-led report that summarises these discussions.

- 3.5. In light of concerns with timing of meetings, Ofgem has re-scheduled the third and fourth meetings which will now be taking place at Millbank from 10-12h on 30 July and 10-12h on 20 August.

Action

Please let us know if you are able to attend meetings on: 30 July am;
20 August am, specifying your availability for each date. Email
Gas.TransmissionResponse@ofgem.gov.uk.

Person – By

All – by 25 July

4. Tariff modelling

- 4.1. Debra Hawkin (DH), with input from Patrick Taylor (PT), presented the Tariff Modelling slides from the presentation circulated prior to the meeting and available on the GTCR website. In short, the group agreed with all of the proposed treatments of different areas of the modelling. What follows is a summary of the key discussion points for each component.

- 4.2. General discussion of the tariff model included:

- confirmation that the booking data underlying the model is on an individual basis but will be anonymised prior to sharing/publication;
- the model will run for each year out to 2030;
- it will predict flows from entry points but assumes flows to exit points are unchanged;
- it will measure against the base case of the current structure of bookings today.

- 4.3. For the **calculation of floating price** the group acknowledge that multiplying adjusted long-run marginal cost (LRMC) by forecast (rather than obligated) levels of supply will get closer to allowed revenue, albeit will be unable to reach that figure exactly.

- 4.4. On the subject of the **Bacton Split**, the consultants considered that the split between CAM/IC and Non-CAM would be immaterial in identifying the underlying LRMC for Bacton. The impact assessment will consider the differential impact on the two entry points. The impact on CAM could, for example, be based on the revenue-adjusted charge whereas the impact on non-CAM could be based on a non-revenue-adjusted charge plus a commodity charge.

- 4.5. While the **inflation** rate applied can be changed in the model, the consultants' are keen to establish a starting point. They propose to use the RIIO-T1 RPI figures for NGG, with a forecast for future years, likely based on 2.5% per annum. The impact of the Tariff Network Code on existing contracts is as yet uncertain. The model will include three options for applying the inflation rate:

- only applied to new contracts;
- apply to all contracts as if new (ie existing contracts going forward);
- apply to all contracts from date signed (ie existing contracts retrospectively and prospectively).

- 4.6. The group discussed the prospect that moving from 'pay-as-booked' to retrospective inflation has the potential to undermine confidence. It was noted that, in Germany, the

shipper can terminate a contract if the floating charge rises above inflation. The group discussed the possibility of modelling a scenario with no existing contracts, an idea that the consultants will consider if it will be possible/helpful to model. Ofgem reiterated that the functionality of the model will not prejudice the outcome of the policy review. Ofgem will consider implementation and other wider issues as part of a full impact assessment.

- 4.7. The discussion of **discounts** considered some rules in existing tariff codes as a possible starting point. There is the potential for higher multipliers with fewer bookings. Extreme multipliers will be a good test of the robustness of the model. The model will have functionality for multipliers to be applied to fixed and floating charges but the consultants' are not considering seasonal options. The multiplier functionality will be flexible but there should be a rationale for the multipliers ultimately considered in the impact assessment, including one of <1 for interruptible capacity.
- 4.8. The consultants set out a number of reasons not to model **short-haul** tariffs as part of this project. It was also noted as part of the discussion that short-haul will affect the SO charge so the impact of short-haul should be consistent across the policy options. The consultants' will take account of short-haul in the price responsiveness of interconnectors; modelling of tariffs, however, will exclude short-haul.
- 4.9. The consultants have welcomed comments received so far (in working groups and over email) and will continue to incorporate in their modelling as far as possible. They are also happy to respond to specific questions. They will take silence on proposals as agreement to proceed as they need to make assumptions to get the first version of the model working. CEPA/TPA will report back on changes to the model that happen as result of responding the comments.

Action

Consultants to consider responses including the possibility of modelling a scenario with no existing bookings.
Send CEPA/TPA the inflation figures to use, in line with the Licence

Person – By

CEPA/TPA – by 25 July
NGG – by 25 July

5. Price responsiveness modelling

- 5.1. PT ran through the Price Responsiveness Modelling slides from the presentation circulated prior to the meeting and available on the GTCR website. He acknowledged that for some supply sources the price responsiveness may be zero. The key impact will be on those with flexibility e.g. around cross-border flows. The model will examine relativities rather than absolute numbers. The model seeks to identify a manageable number of quantifiable inputs that can never be exhaustive of all factors. This modelling will be discussed more extensively at the next working group but some of the key points made by members of the group in the discussion are listed below.
 - The consultants' will quantify the opportunity cost at entry points based on different supply sources. The group noted that Bacton reserves 10 per cent of capacity to be available short-term (within year). Post meeting note: clarification that all ASEPs, not just Bacton, reserve 10 per cent of capacity to be available short-term.
 - The need to consider virtual reverse flow at Bacton and Moffat. It was also noted that Norwegian gas can switch flow (ie not just interconnectors can switch).
 - The short-term costs will influence arbitrage decisions. Some participants suggested that, with a floating capacity charge, the opportunity for arbitrage may decrease. Data on historical behaviour should help inform the modelling.

- Arbitrage has a tendency towards short-term booking to avoid missing out on opportunities and to manage associated trading risks. The group commented that either a significant penalty or the threat of a constraint would be needed to change this behaviour.
- The impact of bundled capacity at Bacton from 2018 will need to be taken into account.
- The model will be based on the Gone Green NG scenario but with scope to change the inputs to any of the three other scenarios. The IA will look at extremes in terms of the input scenario to identify the impact of the different scenarios on the modelling results. It was noted that the scenarios are updated annually. Some members proposed that all four scenarios national Grid produce should be modelled.
- The group noted that Belgium is considering the ZIGMA model. One attendee suggested that it was too early to factor in this development, as the particular details of the new arrangement are not yet clear. Ofgem reiterated that the IA will look at wider issues than this modelling exercise but will not be able to model these wider issues. The group noted that some of the options considered in this exercise have the potential to result in wholesale changes to the GB regime. Ofgem provided reassurance that such impacts will be taken into account as part of the wider GTCR project.

6. Industry-led report

- 6.1. Alena Fielding (AF) reiterated that Ofgem would welcome an industry-led report as one of the outputs of these working groups. This would give the opportunity for industry to publicly critique the model and the process. No volunteers had yet been received to 'hold the pen' on the report.
- 6.2. AF suggested an outline structure for the short report to help divide up the work, including sections on: options, price responsiveness, tariff modelling and the robustness of the outputs.
- 6.3. The group expressed reluctance to write this report, indicating that Ofgem should take responsibility. Attendees also stated it will be easier to critique the model once they have had a chance to review the product.

Action

Volunteer(s) to hold the pen for different sections of the summary report, email Gas.TransmissionResponse@ofgem.gov.uk. The submission date for the report is 12 September.

Person – By

All – by 25 July

7. Next steps

- 7.1. Next meetings (all at Ofgem/Millbank): 30 July 10-12h; 20 August 10-12h. For the meeting on 30 July, Ofgem will upload materials at the latest by close on 25 July.
- 7.2. Ofgem will email participants when uploading new documents, and you can also subscribe to the GTCR RSS feed: <https://www.ofgem.gov.uk/feeds/87224/rss>.