

# DECC – Ofgem Stakeholder Group for Gas

## Minutes

---

12/12/14

Chair: Ofgem

### **ENC development and implementation:**

#### GTCR

- [Ofgem's policy position](#) was published 12/12/14. There is a move to fully floating cap charges and reviewing short-term discounts. Further analysis and impact assessment will follow in January, with a consultation running until 7<sup>th</sup> march. A Stakeholder event will be held in February.
- Floating prices will improve certainty over revenue recovery. Short-term booking is becoming prevalent and may not be sustainable due to revenue implications.
- In the policy position document, Ofgem have set out our preferred policy position on future charging arrangements. By the end of January 2015, Ofgem will publish a more detailed document setting out the background to the review, as well as the initial assessment of the potential impact the proposed changes may have on transportation charges, security of supply and potential distributional effect. The document will also set out initial views on the potential implementation options, in the context of TAR NC development. Our starting assumption is that the changes will apply to all contracts, from the agreed implementation date.

#### Tariffs

- Colin Hamilton (NGG) presented slides.
- Stakeholder Support Process update – the tariffs working group have provided a final draft, which has been signed off but conversations are ongoing between ENTSOG, ACER and EC.
- The Commission has published an early timetable for comitology process, and it was noted that this allows less implementation time than for other codes.
- Consultation on SSP has been received. Draft text is not well supported by stakeholders with responses including:
  - o Little attempt to harmonise, concerns about the “dedicated services” definition.
  - o Cost allocation methodologies - 80% did not support. See slides.
  - o Revenue reconciliation - 48% of consultation respondents did not support the draft approach.
  - o There are some concerns around how the GB system, with TO/SO split, will fit with TAR NC requirement. Dedicated services definition also?
  - o 66% of respondents would like fixed price option or obligation.
  - o Many respondents concerned about lack of reset and some were concerned about the provisions for Article 50. Allowed multiplier ranges remain a contentious issue.

### Incremental

- Concerns were raised over the economic test parameters and open season procedures. The current text suggests that ascending clock auctions will be default allocation rule. It has been noted that open season procedures may be used where ascending clock auctions are unsuitable, so to use this as a default allocation rule for open season procedure may not be appropriate. An alternative might be to retain the flexibility to set the allocation rule at individual project level.
- Some stakeholders feel that the value of a booking over several years could be taken into account. The total value of multi-year bookings may be a useful allocation rule for specific projects, as opposed to straightforward “willingness to pay” on a price-per-unit basis.

### Points of note

- The Commission has appointed Strategy& (PWC) (formerly Booz & Co) as consultants to look into the impact of TAR NC.
- Some stakeholders questioned the wisdom of thinking about GB changes when there are other options being considered by EC consultants. Ofgem considered it prudent to explore policy options. We would have to wait to find what is compliant.
- October 2017 is likely to be the soonest there will be GB changes.

### Gas Day update - Eleanor Warburton – DECC

- Many of the stakeholders present also attend the Gas Day Working Group, so this was only a brief update on the interim solutions to the issue of having two different gas days from 1 October 2015 between downstream and upstream.
- There were 5 options for how to proceed and these have now been reduced to Options A and B.
- In Option A the Claim validation process remains on 6-6 day but the 6-6 shipper allocation is changed to become 5-5 allocation. Exact details still need to be worked out, in particular who performs the scaling, implementation costs and timings.
- Option A was seen as the more straightforward option which was more likely to be implemented by Oct 2015. However, there is a risk that shippers trading at the beach would be exposed to imbalance charges due to the difference between allocations 6-6 and 5-5.
- Option B is similar to Option A, but additionally includes a linepack flexibility service (LFS) offered by National Grid to correct the imbalance created by the difference between the allocation in 6-6 and 5-5. This would mitigate the risk for shippers of being exposed to imbalance charges due to the scaling. However, this option is more complicated, more difficult to implement in the timeframe and expected to be more expensive than Option A.
- Although Option A may also require a UNC mod, Option B is more complex, and may present legal issues, as there could be other parties that might want to use linepack and can't. This could be seen as discriminatory or preferential.
- It was noted that either option is seen as better than doing nothing and remain with different gas days upstream and downstream.

- Ofgem noted that as Option A is needed for implementing Option B anyway the industry should focus on implementation of Option A in time for 1 October 2015 and then possibly add a LFS at a later stage.

#### Other European Updates

##### **EU Commission & Gas Security of Supply Regulation - DECC**

- Sue Harrison (DECC) confirmed that DECC was starting to engage with the new Commission and seeking to influence their agenda. Commission thinking is still emerging, but one challenge will be that there are two Commissioners with responsibility for energy; Cañete on climate and energy market issues and Vice President Šefčovič leading on the Energy Union with other Commissioners reporting to him.
- The key statement of the Commission's vision for the Energy Union so far is Šefčovič's to the EU Parliament, in which he set out five pillars:
  1. European solidarity and speaking with one voice
  2. A completed energy market to connect the whole of Europe
  3. Demand moderation to improve security and keep bills in check
  4. Decarbonising the energy mix and making Europe the global leader in renewables; and
  5. Leading efforts in research and innovation and green growth
- The Commission were planning to issue a White Paper on the Energy Union in January/Feb which should provide a clearer indication of their intentions, and review the Gas Security of Supply Regulation in the first half of 2015. DECC thought that the Energy Union concept was likely to be more evolution than revolution, and collective gas purchasing would probably be the most contentious issue.
- The Commission's proposals on this would be included in their review of the Gas Security of Supply Regulation, which might also include proposals to strengthen security co-ordination between Member States. The meeting agreed that it will be important for everyone in the GB market to remain engaged and seek to influence Commission thinking, both on the White Paper and review of 994, particularly to avoid any undermining of the internal energy market. MEPs will also be central to influencing the future direction of policy. DECC are starting to engage with key MEPs and Sue suggested that stakeholders should consider doing the same.

#### **2<sup>nd</sup> list of PCIs – Ofgem**

- Ian Morgan (Ofgem) gave a verbal update on the process to develop the 2nd list of Projects of Common Interest (PCIs). To date the EU Commission has compiled a list of all projects but nothing has been provided yet in terms of costs and benefit analysis needed to compare them.
- In spring, more details on each project will be given to the Commission which will then compile the list. The role of NRAs is to check consistency in evaluating all the projects.
- The new list of PCIs will then be ready in October 2015.

Attendees:

Neville Henderson	BBL
Andrew Pearce	BP
Graham Jack	Centrica
Monda Goodwin	Conocophillips
Eleanor Warburton	DECC
Sue Harrison	DECC
John Costa	EDF
Sophia Eng	EDF
Marta Krajewska	Energy UK
Les Jenkins	Gas Governance
Colin Lyle	Gas Markets Insights
Alex Barnes	Gazprom
Francisco Goncalves	Gazprom
Pavanjit Dhesi	Interconnector UK
David Cox	London Energy Consulting
Chris Logue	NG
Colin Hamilton	NG
Marshal Hall	Oil&GasUK
Name	Organisation
Charles Ruffell	RWE
Amrik Bal	Shell
Prashan Patel	Shell
Peter Bolitho	Waters Wye
Martin Baker	XOServe
Alena Fielding	Ofgem
Andrew Malley	Ofgem
Dora Ianora	Ofgem
Iain Morgan	Ofgem
Rob Mills	Ofgem
David McCrone	Ofgem