

06/08/2002

**TERMS OF REFERENCE**  
"Reform of Energy Balancing Regime"  
Version: 1.0

**Group Composition**

*Transco*

Nigel K Sisman

Paul A Roberts

Richard Hewitt

*External Parties*

**Network Code References**

Section(s):

Paragraph(s):

**Nature of Review Proposal**

With NGTA and NETA now firmly established, it is appropriate and timely to undertake a review of the gas balancing regime. This is supported by both Ofgem and Transco, who both have significant concerns about the operation of the regime. The Review will identify the key success criteria for the regime, against which the dynamics and features of the current regime can then be tested. If significant weaknesses are identified through this review, the Group are tasked with developing options for reform together with a recommended preference.

The Review Group anticipate three phases in the work programme:

Phase I	Historical development and conceptual framework for current regime
Phase II	Assessing the historic and current regime performance against objectives
Phase III	Identify alternative proposals to enhance efficiency of regime operation

It is anticipated that there will be some overlap between the above phases and indeed some iteration. It is intended that an early Review Meeting will develop a more detailed timetable.

**Scope**

The following areas are within the scope of the review:

**Phase I – Historical development and conceptual framework for current regime**

- To consider the inherent capability of the physical system to transport gas including the underlying design assumptions for the physical system assets and operation, and any conflicts with market dynamics.
- The evolving objectives and features of gas balancing from Network Code inception to present day. This to include:

- identification of the key steps in regime development, and an assessment of the effectiveness of each significant change
  - definition and evolution of Transco's role, and the role and effectiveness of the incentive arrangements
- Identify the key objectives for the regime and establish success criteria
- Establish inherent strengths and successes of the current regime and assess the importance of preserving such features eg trading at the NBP
- Establish inherent weaknesses and problems of the current regime and assess the importance, benefits and costs of improving or eliminating such features
- Establish the relationship between NETA and NGTA that might be considered to yield the possibility of
  - favourable market interactions
  - problems and inefficiencies in the gas market and gas regime operation.

### Phase II - Assessing the historic and current regime performance against objectives

- Specifically consider the intent and effectiveness of:
  - the commercial incentives on Users in respect of:
    - cash-out regime, including the appropriateness of daily cash-out given the current allocation period and related processes and issues associated with cost targeting
    - the scheduling charge regime
  - other Network Code and Licence requirements for Users including in particular the effectiveness, or otherwise, of the "uniform flow rate" requirement
  - Transco's system balancing tools
  - Transco's incentives
  - the regime to deliver gas flows in line with system design assumptions.
- Assess the risks to the short term safe operation of the regime associated with the weaknesses both perceived and prospective within the gas balancing regime.
- Prioritise any concerns expressed in the light of the objectives.

### Phase III – Where the need has been identified, develop alternative proposals to enhance efficiency of regime operation

- Investigate and identify possible regime changes to address prioritised concerns. Such considerations to include:
  - assessment of impacts into other regime areas, particularly capacity and demand estimation
  - assessment of the potential for incremental costs and an assessment of potential benefits (to include both costs and benefits arising from both operational & capital costs for Transco and other industry players)
  - consideration and preliminary establishment of potential Safety Case issues and timing issues should material changes be necessary
  - assessment of impact on the longer term UK supply position
  - assessment of barriers to market entry / exit
  - IT developments
  - additional metering requirements (if any).

The above considerations must be compatible with the physical system current available to provide transportation services. However the Review Group should recognise that, given appropriate lead times, the system could be designed and enhanced to meet requirements for different flow rate patterns than have been used for system sizing considerations.

The Review should identify gas balancing arrangements that are not unduly discriminatory and that should not distort local, national or cross border forward or spot gas markets.

### **Terms of Reference**

This document was endorsed by the 21st February 2002 Modification Panel.

### **Representatives:**

Chair	Transco	
Ofgem	Paul Smith, Ayesha Uvais and other specialists as required	
Transco –	Nigel Sisman, Ritchard Hewitt, Paul Roberts & other specialists as required	
Users –	All current RGTA workstream attendees plus invitees, as requested by the Modification Panel, to include:	
	DTI	CVSL
	IGTs	Gas Producers
	Customer & consumer groups	Interconnector Operators
	Gas Suppliers	Terminal Operators
	EnMO and other potential Market Operators	Storage Operators
	Scottish Electricity Transmission Operators	NGC
	UKOOA	HSE
	AEP	Elxon

### **Timetable**

#### Phase I

- Agree Review Group plan of work on 7th March 2002
- Commence Review Group discussions at meeting on 7th March 2002
- Ofgem to complete series of presentations to indicate the historical development of the regime, and the effectiveness or otherwise from a regulatory perspective 7th and 14th March
- Transco, Users and other industry players to provide perspective on above analysis by 28th March
- Review group to agree regime objectives by end of March

#### Phase II

- Review of existing material by end of March
- Identification of areas for further research/consideration by early April
- Assessment of regime performance against objectives by early May

#### Phase III (should requirement for change be confirmed)

- Identify form and structure of proposals for regime change
- Evaluate alternative proposals against objectives
- Identify preferred solutions

- Report progress to May Modification Panel
- Complete discussions by 1st August 2002.
- Finalise Review Group Report by 11th August 2002.
- Submit Review Group Report to the August Modification Panel on 18th August 2002.