



# Audit of the Interim Transfer and Trades Process

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A presentation to the Gas Forum

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## What was it?

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- **Audit of the Interim Methodology Statement**
  - Independent review of NGGs generation of ex-ante exchange rates
- **Examination of the Network Analysis Models**
  - Overcoming information asymmetry – NGG, Ofgem, Shippers
  - Checking the “test scenarios” were reasonable
- **Informing the enduring regime**
  - Facilitating a better outcome for the industry

## Confidentiality concerns

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- Utilities Act
  - Places obligations on NGG & Ofgem regarding confidential information
- Confidentiality agreement
  - Executed by Ofgem and Pöyry Energy Consulting
  - Significant penalties
- Ofgem Information Request, report to Ofgem, Ofgem publication
- Only a few items in the report ‘blacklined’ by NGG
  - Most of the Network Analysis results, certain pressures, and one particular supply pattern

## Key findings

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- **No material problems**
  - NGG, on the whole, followed the Methodology Statement (MS)
  - Supply scenarios appeared reasonable in historic and future contexts
- **Some minor findings**
  - Demand levels were not as per MS
    - Levels used (350 & 400) were pragmatic given the time available
  - **Pressure constraints**
    - Consider revising alarm pressures to reflect design pressures
    - Consider renegotiating AsOP with DNOs (considering cost)
    - Consider renegotiating ANOP with direct connects (considering cost)
  - Interpretation of no “material increases in cost”
    - No numerical risk assessment to translate risks to costs
- **Capacity transferred was limited**
  - Concept of a zone, and 1:1 transfers within zones, limited the level of transfer
  - Requirement for ex-ante exchange rates, with hindsight, also limited transfer

➤ **The loss of zones 1:1 transfers in the enduring regime should facilitate more transfers**

## Discussion – alarm pressures

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- Network analysis models have parameters called “alarms”
  - Under a given set of flow conditions, pressure will rise above X
- X is set at the point at which the System Operator *might* take action
  
- X is typically lower than design pressure
- System Operator is required to take action before design pressure
  
- **How much lower should X be?**
  
- X is applied consistently across other network analysis models for other uses e.g. capex planning
- This is not a feature specifically of T&T
- It would very slightly increase NAMs, ZAMs, baselines, etc.
- It would have a minor effect on exchange rates

## Discussion – Assured Offtake Pressures & Anticipated Normal Operating Pressures

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- AsOPs and ANOPs *sometimes* presented a constraint within the network analysis
- They are associated with increased flow along a particular pipe
  - i.e. they are a local problem
- Could it be renegotiated with DNOs/direct connects?
- What might the cost of changing (lowering) be?
  - What could/should they be lowered to?
  - Will this be different in different months?
- However, the approach consistent with other uses of network analysis
- Implications are the same as for alarm pressures, i.e. little benefit, 'top and bottom'
- The problem will be just moved to the next offtake...

## Learning points for enduring T&T

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- Within-zone 1:1 exchange rate limits effectiveness
  - Removal in the enduring arrangements a positive change
- We found no evidence that NGG has sought to materially lower its risks through T&T
  - Participants should have some confidence going forward
- The enduring scheme may need some form of oversight to ensure no inappropriate shift of risk
  - Audit by Ofgem
- The methodology statement needs to be clear
  - Very complicated set of interactions
- The materiality of costs may act to limit the extent to which capacity is transferred
  - This could be further reviewed by NGG, Ofgem and/or industry



## Learning points from audit process

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- **Positives**

- NGG were quite helpful
- Summary material prepared/presented covering substantive points
- (Models originally well summarised and documented – NGG appeared to expect an audit)
- Openness and preparedness of NGG
- Very little actually confidential
  - Minimal blacklining of report

- **Negatives**

- Utilities Act is restrictive
- Ofgem should do (or at least commission) the audit
- Risk involved in Ofgem/Consultant confidentiality agreement potentially massive
  - Probably best for Ofgem to do?

## Further audits

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- Most of the information that lead to restrictive decisions could be published by NGG prior to audit (e.g. insufficient surrender)
  - Could levels be made clearer prior to auction
- Audit then needs to only check a few details from the network analysis models
  - Stress test exchange rate calculations
  - Confirm alarm parameters (pressures, temperatures) consistent with other analyses (e.g. capex planning)
  - Confirm underlying assumptions
    - A check-list or hit-list could be used by an Ofgem employee (PD or replacement)
- Remedies might need to be identified
- If “materiality” is refined to be numerical, audit will also need to happen of the conversion of network analysis capabilities to risks and costs



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