

# **Ofgem Consultation TPCR - Initial Proposals Industry Workshop 5th July 2006**

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Price Control - A User Perspective

# Objectives of the Price Control

- Appropriate Level of Funding
- Consistency of approach
- Appropriate Exposure to risk

# Appropriate Level of Funding

- Price Control -
  - The size of the cake



- Transportation Charges -
  - How the cake is divided



# Mr Micawber view of economics

from David Copperfield by Charles Dickens

Annual income of £20 0s 0d  
coupled with expenditure of only  
£19 19s 6d was, he mused,  
happiness itself.

But spend say Twenty pounds no  
shillings and sixpence, result  
misery.

# Appropriate level of Funding

- The system of the Transmission Operator facilitates the operation of our businesses
- It will also influence the market on which the respective commodity is traded
- Users do not want to see a “Gold Plated System”
- But we do want a system which is (reasonably) free of constraints
- The Transmission Operator has to be properly funded to achieve this

**Therefore, if under funded the “misery” of the Transmission Operator may be experienced by us all!**

# Consistency

- The requirement is for consistency of approach
- This will not always lead to consistency of outcome
- But with a consistent approach this will provide a balanced position between reflectivity of costs and stability of revenue streams affecting pricing
- Examples in relation to Price Control Review
  - the changing pattern of gas deliveries to UK the NTS has to be flexible
  - the requirement for significant replacement of the Transmission Assets, particularly in Power

# Exposure to Risk

- Sharing of risk between parties
- Price Control sets the revenue for the regulated party
- Exposure to risk is limited
  - Routine operation to Licence Objectives is within Price Control Allowance and recovered through Use of System charges
  - Enhancement of the System can involve some additional exposure to risk
    - where this is also backed by User Commitment, this exposure is mitigated

# Conclusions

- Transmission Companies must be adequately funded
- Consistency of regulatory approach can improve stability and predictability
- Transmission Companies are in a generally low risk business

# Appropriate Reward

- Study undertaken
  - In liaison with major Shippers and Suppliers
- Ian Rowson, IMR Solutions
  - to present an overview and findings of his study