

Gas Transmission Charging Review: stakeholder workshop

4 December 2013

ofgem

AGENDA

- Welcome and introductions
- Consultation responses
- Refined aim and scope of the GTCR
- Update: European developments
 - Tariff Framework Guidelines
 - Potential impact of EU Framework Guidelines
- Breakout groups
- Next steps
- AOB

AGENDA

- Consultation responses
- Refined aim and scope of the GTCR
- Update: European developments
 - Tariff Framework Guidelines
 - Potential impact of EU Framework Guidelines
- Breakout groups
- Next steps
- AOB

- Stakeholders welcomed our review.
- From the responses, there was a lack of consensus on a number of our consultation questions.

Current arrangements

- Mixed views regarding the right commodity/capacity split
- Concerns with current commodity charges included:
 - may distort cross border flows
 - should be made more stable
- views on short-term discounts were mixed, though some responses noted it inhibited NGG's ability to plan the network

Rolling out Tariff Framework Guidelines (FG) to domestic points

- some thought a dual regime would raise questions of discrimination and lead to additional complexity in charging
- others thought a dual regime could be manageable and preferable.

Scope of the review

- implementation of the Tariff FG should be included
- difference in opinion on whether to include domestic points
- entry and exit revenues could be included
- suggestion that existing contracts should be shielded from changes

Objective of the review

- objectives set out in NGG's special standard condition A5 remain generally fit for purpose
- majority in favour of a focused review, not an SCR

Timing of the review

- some thought the review was timely, others that it is premature
- many requested clarification on our proposed timelines



AGENDA

- Consultation responses
- Refined aim and scope of the GTCR
- Update: European developments
 - Tariff Framework Guidelines
 - Potential impact of EU Framework Guidelines
- Breakout groups
- Next steps
- AOB

As [published](#) on 24 June:

Our objective for this project is to ensure that the structure of GB transmission charges protects the interests of future and existing consumers by:

- setting the right incentives for all parties
- ensuring that GB transmission charges are compliant with emerging European network codes and Framework Guidelines
- ensuring that our approach to GB transmission charges at interconnection points and domestic points avoids any undue distortions.

The aim of the project is to ensure that the structure of the GB charging regime is fit for purpose and protects the interests of existing and future consumers. We will assess the current charging arrangements and any options for change against the following criteria:

- economic efficiency in both the short run and the long run (eg efficiency in transmission infrastructure investment decisions)
- impact on cross-border trade
- reflection of developments in the transportation business
- impact on security of supply

Furthermore, we note there are some “must do” constraints that must form the baseline assessment of any options associated with legal compliance (including implementation of EU law) and requirements on transparency and non-discrimination.

AGENDA

- Consultation responses
- Refined aim and scope of the GTCR
- Update: European developments
 - Tariff Framework Guidelines
 - Potential impact of EU Framework Guidelines
- Breakout groups
- Next steps
- AOB

European Developments

Tariff Framework Guidelines

Richard Miller

04/12/13

Process update

- Nov FG approved by ACER
- Commission to ask ENTSOG to draft NC
- ENTSOG draft NC (12 months)
- Comitology

General

- Scope
 - transmission services
 - all entry and exit points (unless stated otherwise)
 - Physical or virtual points
 - All contracts (i.e. Existing and new)
- Implementation October 2017
 - Specific circumstances can delay till Oct 2019
- ENTSOG to do IA on harmonising transmission tariff setting year (and NC may include such harmonisation)
- Data publication requirements
- Tariff values published 30 days in advance of gas year (60 days if $\geq 20\%$ increase)

Cost allocation I

- Revenue mainly recovered from capacity
- Commodity charges allowed for
 - recovering costs driven by flows
 - specific charges for dedicated services/infrastructure (in aggregate $\leq 5\%$ of total allowed revenues)
 - Collecting revenues at domestic points
- 50:50 entry:exit split, unless where improves objectives

Cost allocation II

- Primary method: same used for all points in entry-exit zone: (i) Postage stamp (ii) Capacity-weighted distance approach (2 variants) (iii) Virtual point based approach (2 variants) (iv) Matrix
- Secondary adjustments: (i) Rescaling (ii) Equalisation (iii) Benchmarking
- Storage: transmission tariffs to/from storage set on basis of benefits of storage and promoting efficient investment
- Choice of cost allocation method
 - Postage stamp - used in specific circumstances
 - Others based on
 - Cost allocation test: assesses cost reflectivity of cross border vis-a-vis domestic tariffs
 - Methodology counterfactual
 - Others to be assessed by ENTSOG
- Tariffs set to minimise the gap between allowed and collected revenues

Incremental

- Scope: new and incremental capacity at IPs (where investment decisions is market based)
- Investment justified if economic test passed
 - Revenues from capacity \geq 'f' x Costs of investment
- The portion of costs of investment not covered by auction sales covered by future sales/socialised
- Minimum price used at incremental auction: reference price
 - Where selling all incremental at reference price insufficient to pass economic test, minimum price may be adjusted
 - ACER default is to apply premium to those booking incremental at first auction

Other aspects

- Revenue recovery
 - At IPs by varying the capacity charges in future years
 - At non-IPs regulators can chose an alternative approach
 - Adjustment to flow based charges (where these used to recover costs driven by flows) in future years
- Firm reserve prices (applies at IPs only): set in relation to the annual reference price
 - Quarterly and Monthly: Multipliers with congestion 0.5-1, without congestion 0.5-1.5
 - Day-ahead and within-day: Multipliers with congestion 0-1, without congestion 0-1.5
 - Seasonal factors – methodology for determining these to be set out in NC
- Interruptible (applies at IPs only): NC to set out methodology
 - Bi-directional sites – discount to reflect likelihood of interruption
 - Unidirectional sites – price to reflect marginal (actual) cost to provide service
- Payable price (applies at IPs only) – floating price
 - Reference price in year of capacity use + auction premium

AGENDA

- Consultation responses
- Refined aim and scope of the GTCR
- Update: European developments
 - Tariff Framework Guidelines
 - Potential impact of EU Framework Guidelines
- Breakout groups
- Next steps
- AOB

AGENDA

- Consultation responses
- Refined aim and scope of the GTCR
- Update: European developments
 - Tariff Framework Guidelines
 - Potential impact of EU Framework Guidelines

• Breakout groups

• Next steps

• AOB

Breakout groups

- Discuss one question (15-20 minutes)
- Feedback to all (total: 25 minutes)
- Please help yourselves to coffee/tea and find your facilitator

Coffee Break

Breakout Groups

Group 1 – Judith Ross, question 1

1. Chris Wright
2. Nahed Cherfa
3. Rekha Theaker
4. Felicity Bush
5. Malcolm Arthur
6. Shaun Lee

Group 2 – Bogdan Kowalewicz, question 1

1. Roddy Monroe
2. Rick Hemmings
3. Julie Cox
4. Dimuthu Wijetunga
5. Colin Hamilton
6. Samia Adel
7. Rick Hemmings

Group 3 – Alena Aliakseyeva, question 2

1. Richard Lea, Gazprom
2. Pavanjit Dhesi
3. Anna Gilmore
4. Natasha Ranatunga
5. David Cox
6. Phil Broom

Group 4 – Rhianne Ogilvie, question 3

1. Richard Fairholme
2. Amrik Bal
3. Peter Bilstoft-Jensen
4. Prashan Patel
5. Colin Williams
6. Angharad Williams
7. Josephine Lord

Group 5 – Nathan Macwhinnie, question 3

1. Gerry Hoggan
2. Debra Hawkin
3. Charles Ruffell
4. David Odling
5. Angus Paxton
6. Antonio Ciavolella

Group 6 – Victoria Volossov, question 2

1. Nick Wye
2. Andrew Pearce
3. Edward Humphreys
4. Jeff Chandler
5. Marshall Hall
6. Sofia Eng
7. Jonah Anthony

Group 7 – Richard Miller (phone) question 3

1. Jos Kuiper
2. John Edwards
3. Sue Ellwood
4. Jacqueline Clark
5. Isabelle Magne

AGENDA

- Consultation responses
- Refined aim and scope of the GTCR
- Update: European developments
 - Tariff Framework Guidelines
 - Potential impact of EU Framework Guidelines
- Breakout groups
- Next steps
- AOB

Next Steps

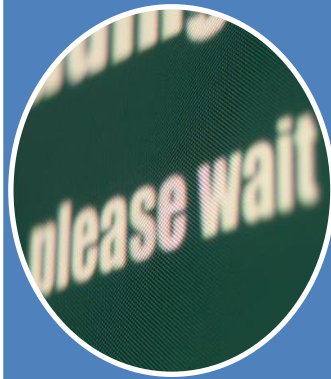
Scope



Fixed vs. floating charges /
Capacity vs. commodity split



Short-term pricing



Cost Allocation methodology



Entry-exit split



Storage / interruptible products /
stabilising charges / review
of incremental capacity

For both interconnection and domestic points

AOB

Ofgem is the Office of Gas and Electricity Markets.

Our priority is to protect and to make a positive difference for all energy consumers. We work to promote value for money, security of supply and sustainability for present and future generations. We do this through the supervision and development of markets, regulation and the delivery of government schemes.

We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.