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Minutes

Gas transmission charging review: stakeholder workshop

Minutes of the gas transmission charging review stakeholder workshop held on 4 Dec 2013.	From Date of meeting Location	Ofgem 4 Dec 2013 Ofgem, Millbank	18 December 2013

1. Welcome and introductions

1.1. Judith Ross welcomed attendees to the stakeholder workshop and introduced Alena Aliakseyeva (AA) as the project manager for the Gas Transmission Charging Review (GTCR).

2. Consultation responses

2.1. Rhianne Ogilvie presented a summary of the responses to the GTCR call for evidence[1]. In the responses, stakeholders welcomed our review, although there was a lack of consensus on a number of our consultation questions.

2.2. There were mixed views regarding the right commodity/capacity split. Concerns with current commodity charges included that the current balance between these and capacity charges could distort cross border flows, and that the commodity charge should be made more stable. Views on short-term discounts were also mixed, and some respondents considered they inhibited National Grid's ability to plan the network. There was disagreement from respondents over the possibility of rolling out the FG approach to domestic points in GB.

2.3. On the scope of the review, the consensus was that the implementation of the tariff FG should be included in our review. Some stakeholders suggested that the split between entry and exit revenues could be included. The majority of respondents were in favour of a focused review and did not want Ofgem to conduct a Significant Code Review (SCR).

2.4. Some stakeholders expressed concern that our review might be premature and that we should delay the review until the Tariff Network Code completed its ENTSOG drafting stage. A few stakeholders said changes should not be implemented before the introduction of new EU arrangements (anticipated in October 2017). The majority of respondents thought that the objectives set out in NGG's special standard condition A5 remain generally fit for purpose.

3. Refined aim and scope of the GTCR

3.1. AA presented to stakeholders the refined aim[2] of the GTCR (see below).

> 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

[1] Gas Transmission Charging Review Call for evidence, 24 June 2013. Available at this link: https://www.ofgem.gov.uk/ofgem-publications/75513/gas-trans-charging-review-call-evidence.pdf

[2] Previously, as published on 24 June, our objective was:
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.
Available at this link: https://www.ofgem.gov.uk/ofgem-publications/75513/gas-trans-charging-review-call-evidence.pdf

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.

3.2. AA also clarified the scope of the GTCR, building on stakeholder responses and taking European developments into account. Our intention is to approach the GTCR by focusing on specific policy areas, rather than to conduct a full SCR reviewing all aspects at once. The GTCR will cover both interconnection and domestic points. In the first half of 2014, the review will focus on

- capacity vs commodity split
- fixed vs floating charges
- short-term pricing.

3.3. Where appropriate, we will draw links to other areas, which may include storage or interruptible products for example. Some areas we plan to examine at a later stage, for example the cost allocation methodology.

4. Update: European developments

4.1. Tariff Framework Guideline

4.1.1. Richard Miller (RM) gave a presentation on the Tariff Framework Guidelines (FG) as approved and published by ACER in early December. This covered the FG scope, implementation deadlines, the cost allocation methodologies, tariff arrangements for incremental capacity, revenue recovery, auction reserve prices and payable prices. The next steps are for the Commission to ask ENTSOG to draft the tariff Network Code (NC) on the basis of the FG, subject to the Commission being content with the FG. ENTSOG will then have 12 months to develop the NC before this is made into EU law.

4.2. Potential impact of the EU Tariff Framework Guideline

4.2.1. Colin Williams (CW) presented on National Grid Gas's (NGG) view of the potential impact of the FG on GB charging. The analysis used formula year 2012/2013 and considered the impact of two approaches: minimal implementation of the FG (at interconnector points only), and implementation at all points including domestic entry and exit points. The analysis provides indicative impacts and does not attempt to provide any forecasts.[3]

4.2.2. CW clarified that NGG's assumption that shrinkage is a proxy for fuel costs was a baseline view of the FG application of commodity charges (as per the first bullet of 3.1.1 in the FG). This is because fuel charges are one example given of costs driven by flows in the FG and that there are other examples of costs driven by flows. One participant noted that the FG could therefore potentially be interpreted such that SO

[3] The analysis slides are available at this link: https://www.ofgem.gov.uk/ofgem-publications/85042/131204gtcreventngganalysis.pdf

costs could be classed as costs driven by flows (and hence no need for change to the SO commodity charge arrangements).

4.2.3. One participant questioned whether there could be ring-fencing of under-recoveries for domestic and cross-border points following NGG's assumption, for the purpose of the analysis, that all under-recovery on whole network should be picked up in charging at domestic points. RM clarified that changes to the FG from that consulted over summer allowed for this ring-fencing. For example, text in 3.1.1 allows for a commodity charge at domestic points to collect revenues subject to certain criteria which implies ring-fencing.

4.2.4. There was concern raised that the FG requirement for floating capacity charges (i.e. payable price set in year of capacity use not year of auction) would have a significant impact on entry capacity prices agreed at long-term auctions. RM noted that this requirement for floating charges in the FG only applies at interconnection points.

5. Breakout groups

5.1. Participants were divided into six breakout groups, which each discussed one of three questions we provided. A feedback session was held after the breakout groups to share the key points of discussion and allow for comments from other participants. The breakout group discussions were held under Chatham House rules and therefore no names will be attributed to comments to the following questions.

5.2. Question 1:

ACER has just finalised the Framework Guideline on tariff structure harmonisation, introducing a number of important changes to the charging regime at interconnection points and potentially domestic points. Following further development by ENTSO-G and the European Commission this is set to become a legally binding Network Code by 2017.

Which parties will be affected by changes to the regime (eg single versus dual regime)? Do you expect the effects to be equal for all parties? If not, why not?

5.2.1. Some participants asked for clarification on whether Bacton would be classified as an interconnector point or a domestic point. Ofgem referenced the recent open letter on CAM implementation[4] which is consulting on this issue. Stakeholders also asked who would decide on compliance with the network code.

5.2.2. Stakeholders thought that a single regime would avoid discrimination but it could be more complex and disadvantage storage, or security of supply, if storage is underused as a result. In discussing the possibility of a dual regime, the group raised the issue of cross-subsidy potential and questioned how this could be avoided. Some participants also wanted to understand the impact of any uplift at interconnector points.

5.2.3. It was agreed that changes to the regime will affect big and small players. Some participants queried whether charges could be adjusted more often eg monthly, reducing the need for larger annual adjustments.

5.3. Question 2:

If the EU Tariff Network Code, which is expected to be implemented by 2017, did require some changes to existing long term contracts - how would you be affected? What scope is there for mitigation?

[4] Available at this link: https://www.ofgem.gov.uk/ofgem-publications/84211/camopenletterfinalpdf31oct.pdf .

There are draft provisions for mitigating actions in the Tariff Framework Guideline, which are subject to further review by ENTSO-G and the European Commission. What mitigations might be appropriate?

5.3.1. Stakeholders agreed that only users who hold entry capacity at Bacton that runs past 2017 will be affected by the Tariff network code (NC). It was also agreed that the Tariff NC will have little impact on exit capacity because exit capacity charges are already floating.

5.3.2. Some stakeholders also suggested that grandfathering rights[5] should be considered for long-term contracts. Stakeholders highlighted that the sanctity of existing contracts is important, citing investment reasons, with some seeing a link to security of supply. Others suggested that users should have the right to terminate or adjust long-term contracts. Some commented that this could be possible under certain conditions.

5.3.3. Some participants thought that at Bacton there should be no discrimination between interconnection points (IPs) and domestic points.

5.3.4. The group suggested that regulatory uncertainty could make it difficult for shippers to plan capacity booking strategically. Some noted that uncertainty about government support for upstream activities in the UK could have the same effect.

5.4. Question 3:

It is our principal objective to protect the interests of current and future consumers. We bear this in mind today: a charging methodology should enable efficient network investment, and at the same time ensure that market signals are efficient.

What is the impact today of short term discounts on long term investment?

Our understanding is that, currently, discounted short term capacity is seen to reflect (i) the risk of not having capacity available and (ii) that the marginal cost of spare short term capacity is lower than the long run marginal cost. Do these reasons still apply today? Are there alternative reasons?

5.4.1. Some participants felt that short term discounts could create uncertain TO revenues, which could lead to additional volatility in charges and adjustments for all parties. The majority felt that short term discounts could also lead to uncertainty in long term investment decisions. However, stakeholders also highlighted that charging will only be one factor involved in making investment decisions and therefore there will be other factors that would provide signals for investment.

5.4.2. Groups felt that short term discounts may encourage other types of investment and encourage smaller players into the market. Short term discounts could be positive for marginal capacity in the short term - an example was given of CCGT plants which may operate on different business models and rely on short term buying of capacity. Stakeholders also explained that short term discounts may encourage shorter term movement through connected markets.

5.4.3. Some stakeholders thought that short term discounts reflect the risk of not having capacity available. Therefore the current situation with the abundance of capacity may suggest that the system is over invested or that competition may not be working on parts of the network. However, stakeholders proposed that this situation could change over time. It was agreed that it is important to find the correct balance between facilitating long term demand signals and the advantages identified of short term discounts.

[5] Grandfathering rights: an exemption from a new rule for certain parties/contracts.

6. Next steps

6.1. AA explained our next steps for the review. In the first half of 2014 we will be looking in further detail at the identified areas in the scope of the review in particular (fixed vs floating charges, capacity vs commodity split, short-term pricing). We may do more focused stakeholder engagement on particular issues; this could be through meetings, open letter, consultation paper or other means. The most appropriate approach will be decided once we have looked at the issues in further detail.

6.2. One stakeholder asked if we have an end date for the review. AA explained that although we do not have an end date for the review we will be conducting our project alongside the development of the tariff network code. The network code is due to be implemented by 2017 and therefore we will look to finalise the review with this in mind.

6.3. Another stakeholder asked whether we can provide an indicative timeline for the different areas within the scope of the review. We will consider this request. AA said that we welcome stakeholders to contact us with any comments or questions following the workshop.

7. AOB

7.1. Richard Fairholme said to the group that the Gas Forum is setting up a shipper interest group and would welcome interested people to contact him. For more information on the shipper interest group, contact gasforum@gemserv.com.

7.2. We welcome your comments or questions, please contact Gas.TransmissionResponse@ofgem.gov.uk