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Gas Transmission Charging Review

Consultation on our policy position

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GTCR status

- Policy position out for consultation 12/12/2014
  - introducing 'fully-floating' capacity charges for long-term capacity products (QSEC);
  - changing the charging arrangements for short-term capacity products (WDDSEC, DADSEC, DISEC):
    - all users will pay the full 'floating' capacity charge component, to contribute to the recovery of the historical network cost;
    - the reserve price discount on short-term capacity products will be less than 100% of the long-term capacity reserve price.
- Assessment of impact 30/01/2015
- Responses by 27 March 2015

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Agenda for today

Purpose of today:

- opportunity to ask questions and seek clarification on any aspect of the consultation

- help formulate consultation responses

1. Overview of our proposals

1. Overview of our assessment of impact

2. Implementation and next steps (as much as we can say now)

3. Your questions

Proposed policy changes (1)
Fully-floating capacity charges

Does not apply to storage

Applies to existing contracts from implementation date

Applies at all points (except storage)

- introducing 'fully-floating' capacity charges for long-term capacity products (QSEC)

clearing price + floating adjustment + [flow-based charge]

SO commodity same

Recovers **historical cost**

Likely to be zero

Reconciliation arrangements – assumed same as for commodity charge (with a lag, revised 2x per year) - TBD

Fully-floating; historical cost socialised by **bookings**

Commodity charge: historical cost socialised by **flows**

Proposed policy changes (2)
Short-term discounts

Historical cost contribution is independent of flows - ST/LT

- changing the charging arrangements for short-term capacity products (WDDSEC, DADSEC, DISEC):
  - all users will pay the full 'floating' capacity charge component, to contribute to the recovery of the historical network cost *(except storage)*;
  - the reserve price discount on short-term capacity products will be less than 100% of the long-term capacity reserve price *(including storage)*.

Our assessment: 90% discount for WDDSEC, DADSEC, DISEC

Also modelled 70% discount, no discount, premium

Level of ST discount TBD - industry

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Why change?

- Historical cost should be socialised across all benefitting from the network being in place (not optional)
- Historical cost is independent of flows – currently, if flow more, pay more

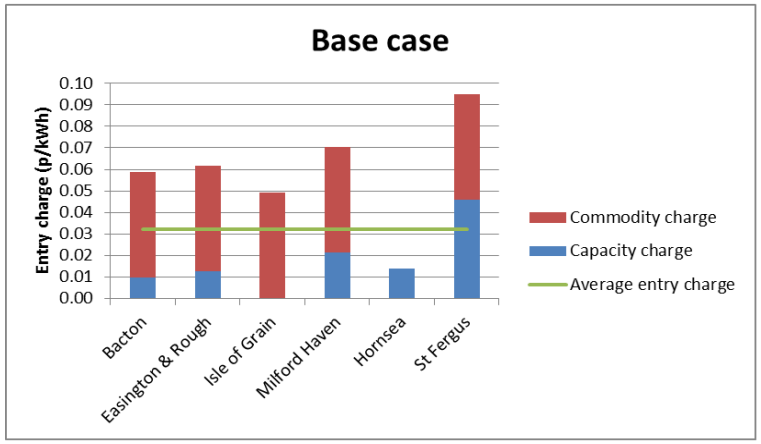
➢ **Fully-floating capacity charge**

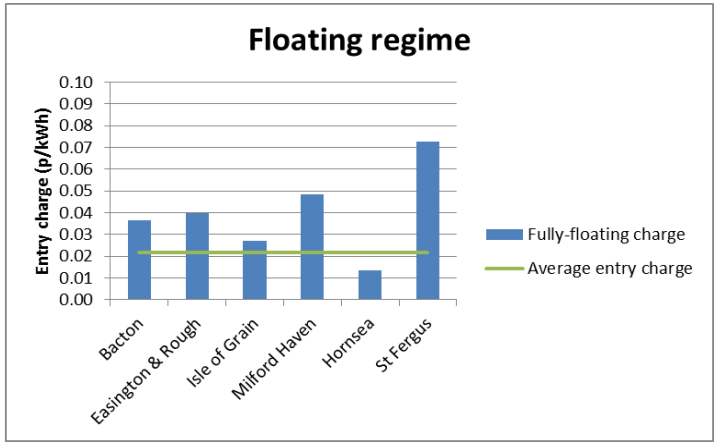
- From a regulatory perspective, more accurate information should help improve decision making (booking and flows):
  - Shippers: network cost included in access charge; locational element for short-term capacity users;
  - NGG: more accurate information about how the network is used – operational efficiency/network configuration (compressors)
- Trends in past few years: bookings significantly higher than flows (across a year, total flows = c. 22% bookings)
  - May be a sensible strategy for shippers (book to peak, projects)
  - Keen to hear views on this

➢ **Fully-floating capacity charge, changes to ST discounts**

IA – entry charges over time

Figure 9: average entry charges, QSEC (flows=100% of bookings)





Model assumes

FLOWS = BOOKINGS

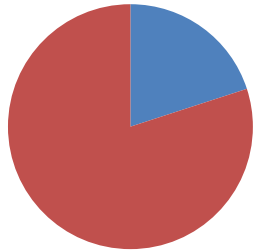
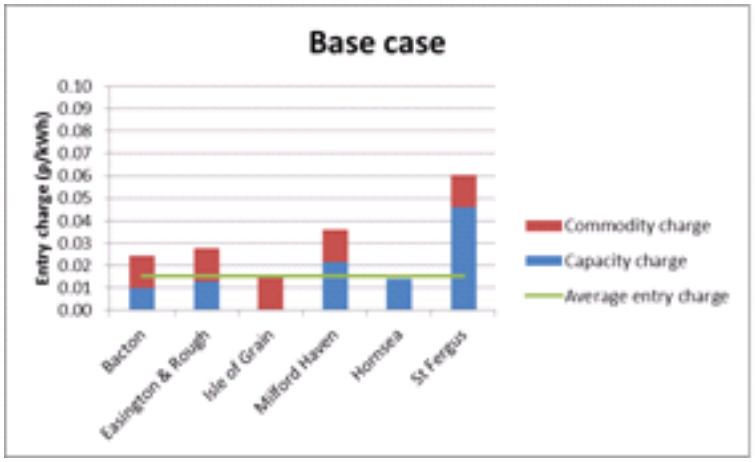
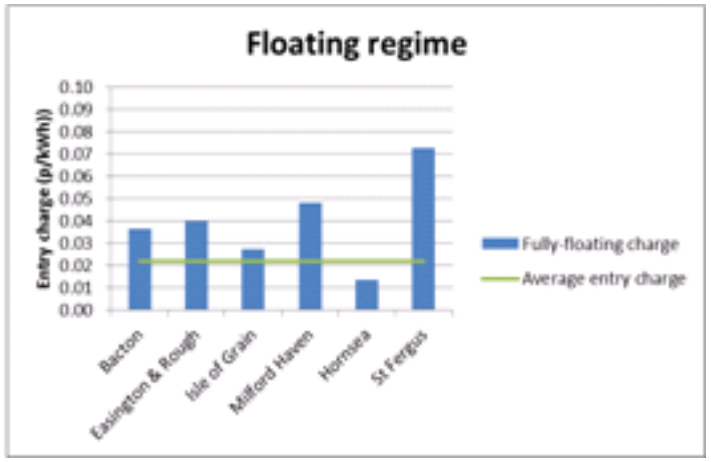


Figure 10: average entry charges, QSEC (assumes flows=30% of bookings)

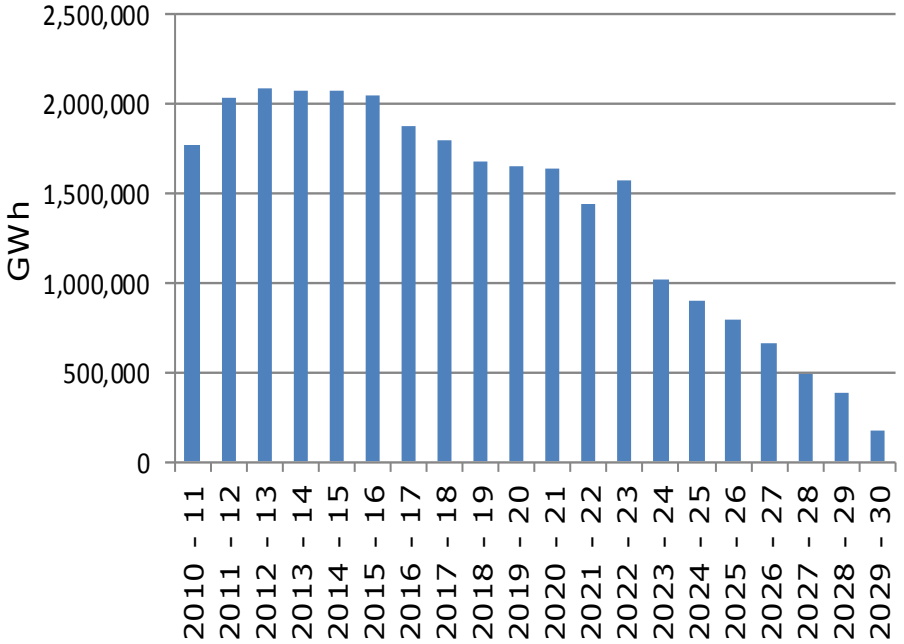




IA – Distributional impact
Individual user

- Level of contractual commitment:
  - Proportion of long-term bookings in the portfolio;
  - Absolute size of QSEC booking, length of the booked period.

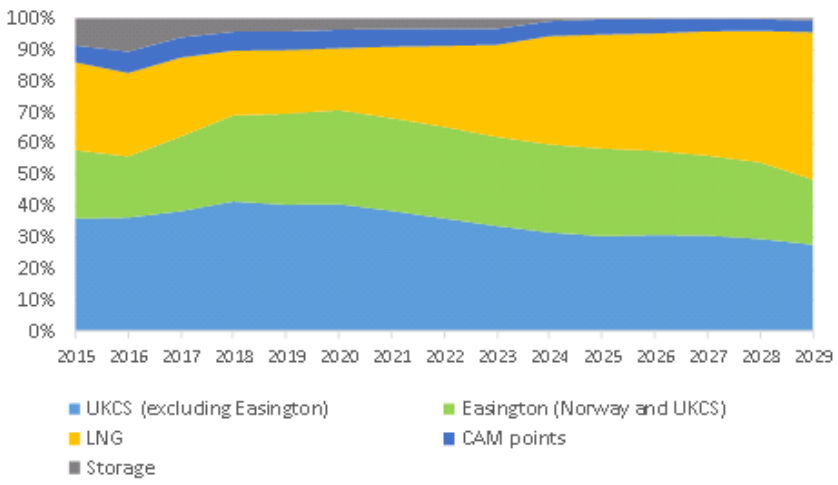
Figure 11: Existing QSEC bookings (GWh per year)

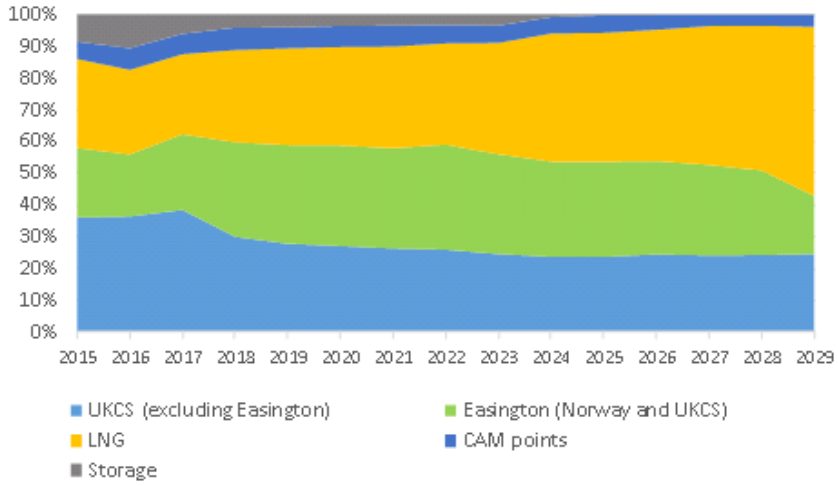


- Flows as proportion of bookings; and
- Location of entry point (for short-term only).

IA – Distributional impact (supply source)

Figure 15: Revenue recovery by user group a) under the base case (90% short-term discount) b) with fully-floating charges (90% short-term discount)



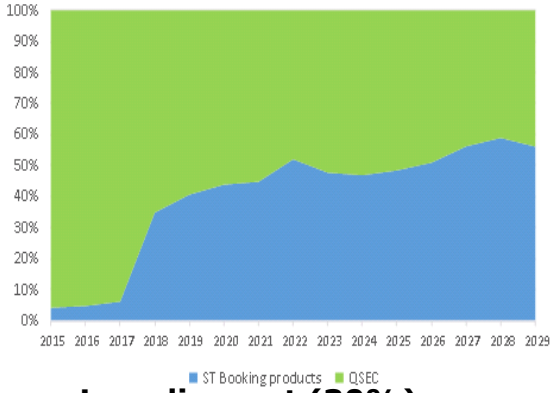


IA – Distributional impact (ST/LT bookings)

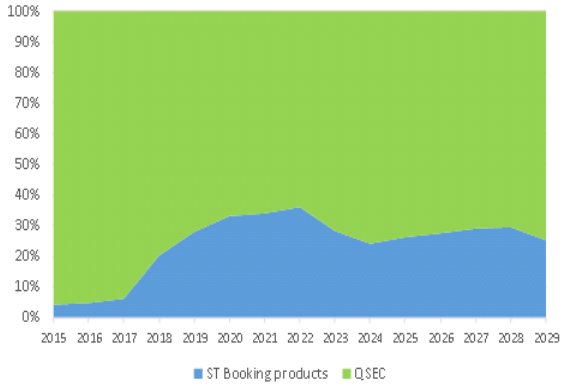
Figure 17: Revenue recovery by short-term/long-term capacity products

High discount (90%)

Base case

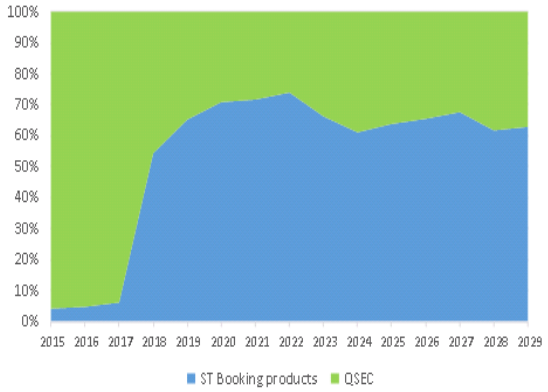


Fully-floating

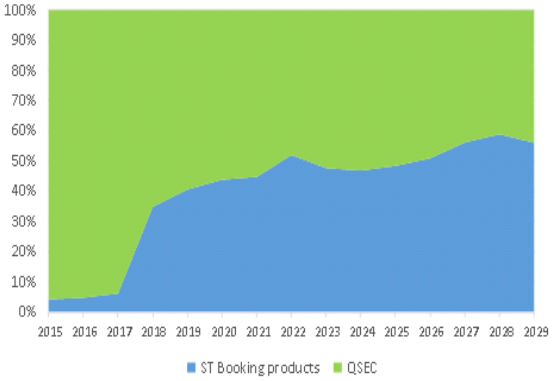


Low discount (30%)

Base case

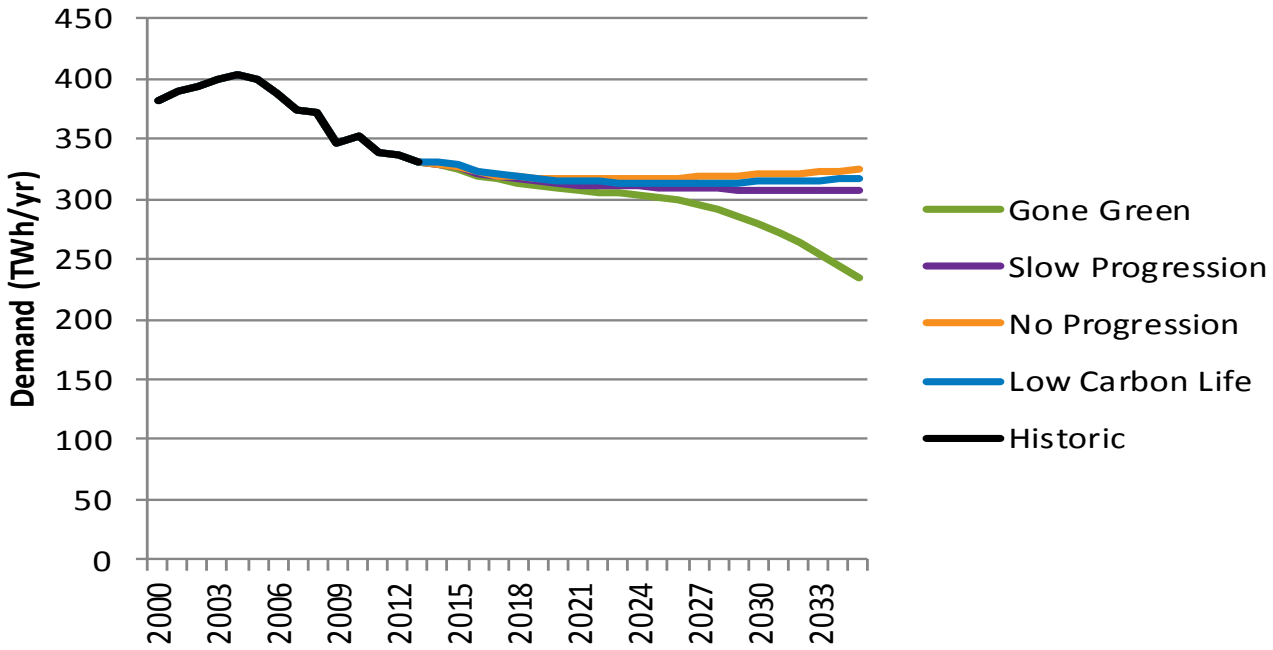


Fully-floating



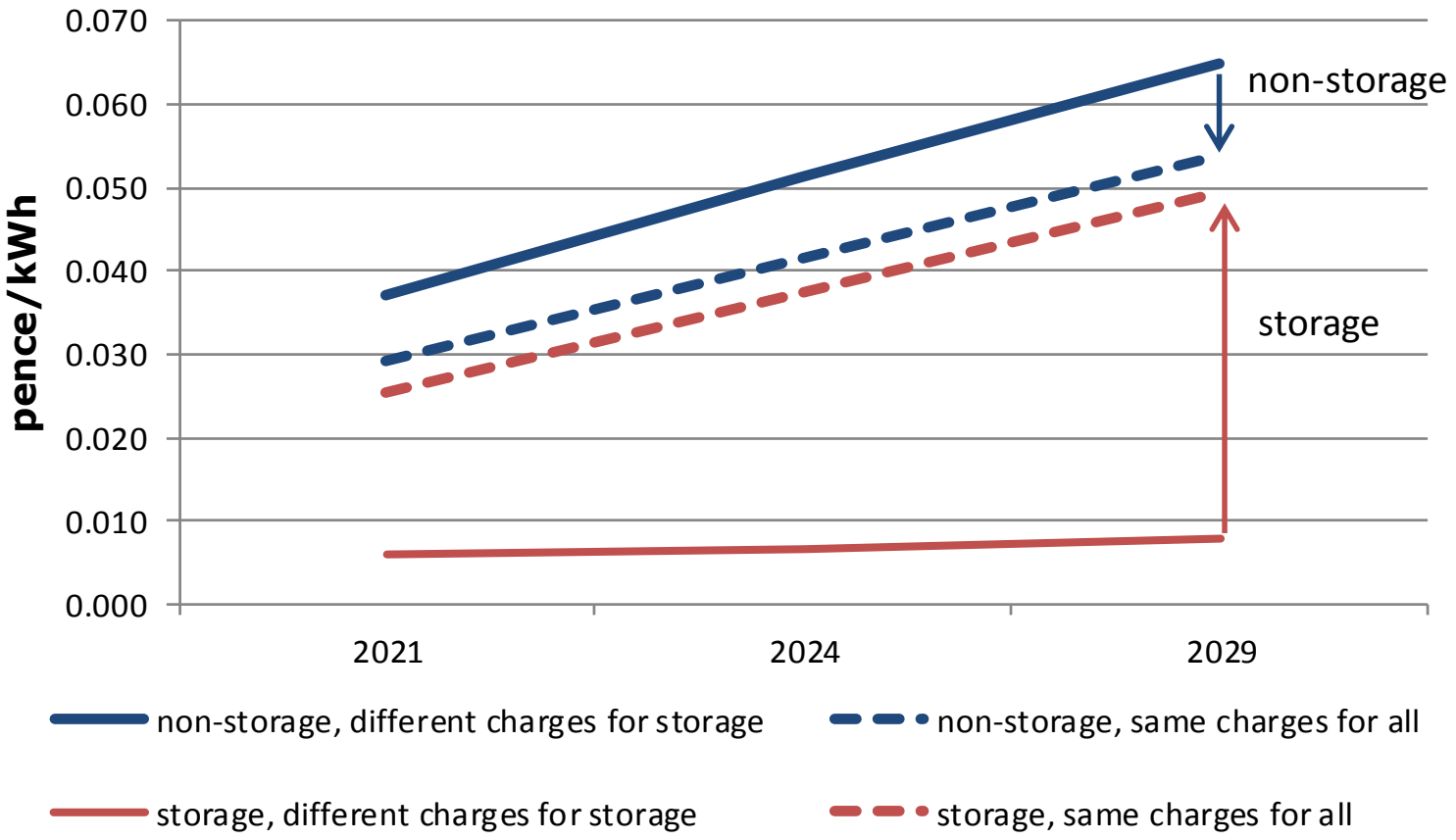
IA – Sensitivities
Future Energy Scenarios (FES)

The results of the model are not materially influenced by the choice of FES, because the key parameter used in the model – gas demand – does not vary significantly over the modelled period



IA – Sensitivities
Storage charges

Figure 25: Entry charges with same/different charging arrangements for storage users



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Wider impacts

1. Impact on X-border trade: lower transaction costs should help facilitate efficient trade

2. Gas Forum questions:

"Possible impacts on future investment in "marginal projects" and the knock on effects for overall security of supply. For example, would a new charging structure be detrimental to the development of new gas storage capacity?"

"Overall impacts on system utilisation. Could a charging structure deter lower value users from utilising the network, thereby exacerbating revenue under-recoveries?"

"Over-investment or gold-plating of the network. Would a change in charging structure lead to an over-booking of longer term capacity products, falsely signalling a demand for additional capacity?"

Implementation

Timing: linked to TAR NC coming into force. The implementation deadline for TAR NC by the Member States is currently set as: 1 October 2017, or 24 months from the date the Network Code enters into force, whichever is later.

Preferred implementation route: write to NGGT, asking it to raise a modification(s) to the Uniform Network Code (UNC), with our recommendations as to what the new charging regime should include

Alternatives:

- For changes required to ensure compliance with the TAR NC – but not other changes – we have the power to raise a UNC modification directly.
- We could consult on proposed amendments to NGGT's licence to require that the charging regime secured specific objectives.
- We could initiate a Significant Code Review (SCR). This would be a consultation on UNC provisions, at the end of which we might direct NGGT to raise a modification to the UNC. At present, we think the scope of our proposed changes is not wide enough to merit the additional cost, in industry engagement, of an SCR. However, this option remains available.

Each of these implementation options would require full consultation with industry and other stakeholders.

QUESTIONS?

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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.

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