

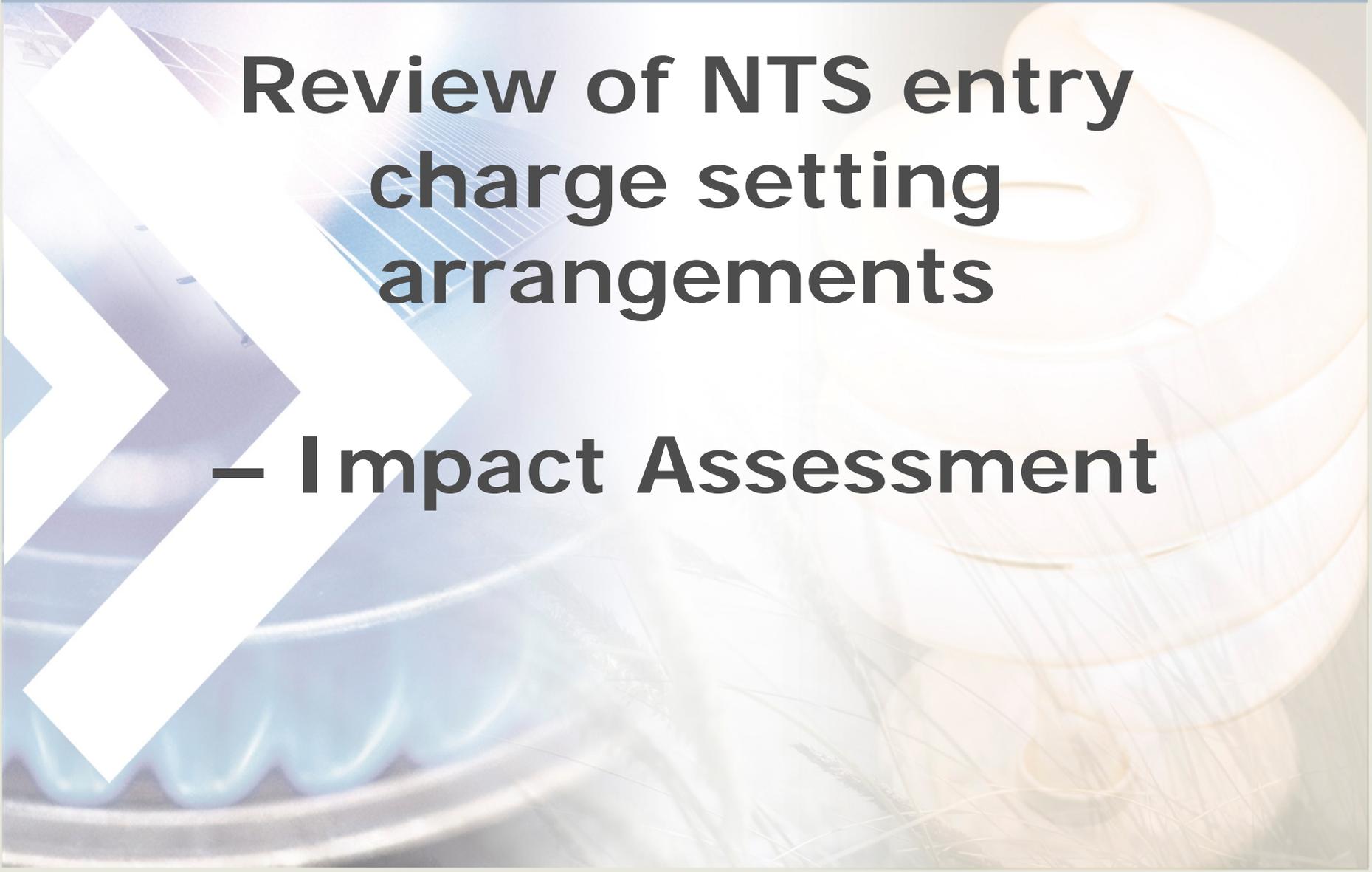


Promoting choice and value
for all gas and electricity customers

Ofgem Update Gas Operational Forum

Tom Palmer

14th July 2010

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Review of NTS entry charge setting arrangements

– Impact Assessment

Background

- Concerns that revenue from entry capacity auctions declining
 - TO commodity charge accounting for majority of TO allowed revenue. Variability of TO commodity charge also an issue.
- Review group established to investigate current charging arrangements
 - Aim to identify charging or UNC mods which maximise TO allowed revenue collected through auctions, maximise long term bookings and incentivise security of supply amongst others
- Review Group identified three reasons for under recovery
 - Discounts on reserve prices for short term capacity
 - Different charging models generate higher/lower entry prices
 - Shippers don't book in line with TYS forecasts at reserve price

Proposals

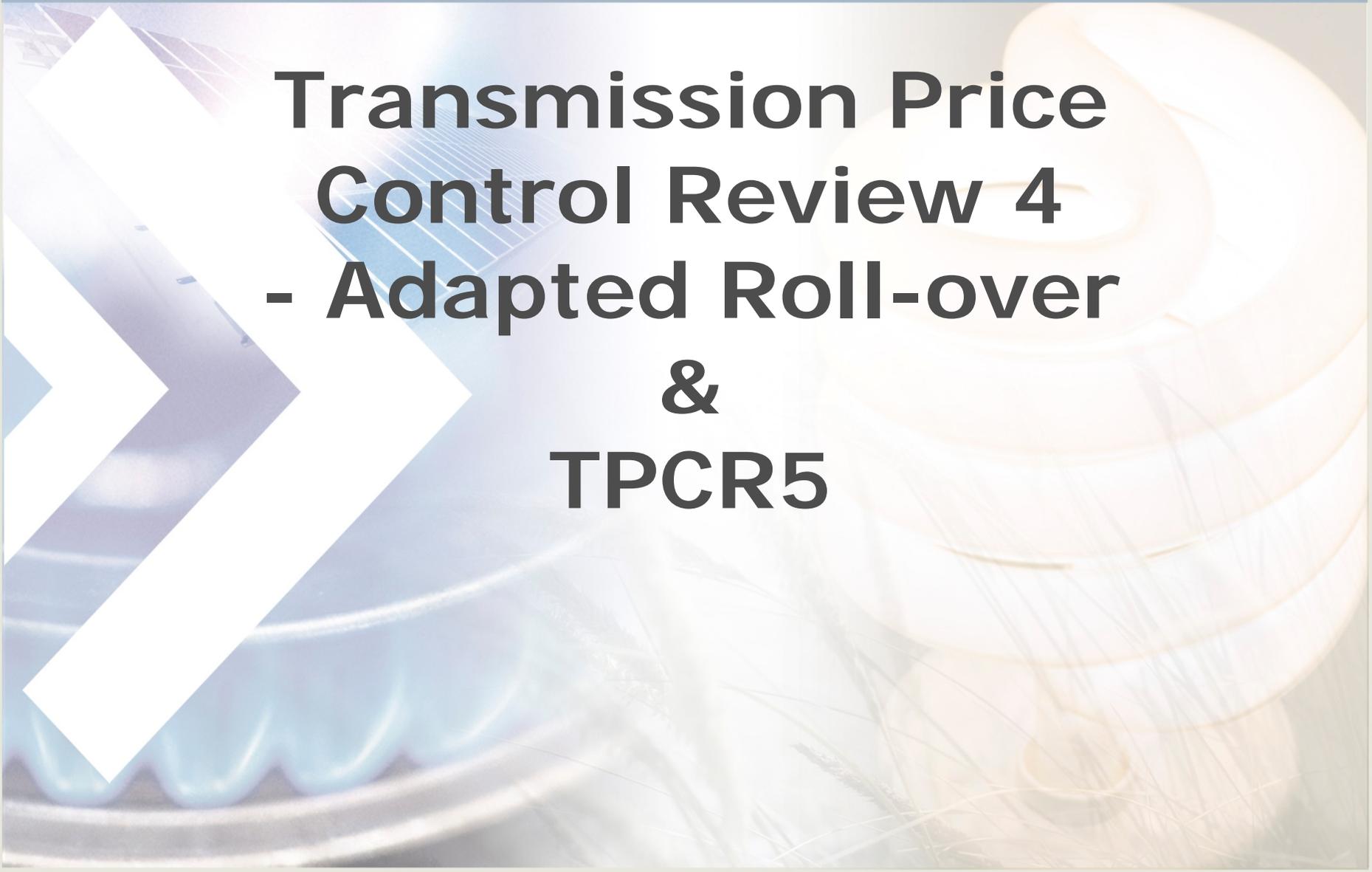
- NGG submitted three proposals as result of review group
- GCM 19 - removes daily entry capacity reserve price discounts
- UNC 284 - necessary to facilitate GCM19 changes in UNC
 - Removes references to zero reserve price in the UNC
- UNC 285 – limits release of UIOLI to when no more than 10% of firm capacity is unsold
 - No change to ability for NGG to release discretionary interruptible capacity

Impact Assessment

- Undertaken to consider impact of the three proposals on entry regime
- Contains provisional Ofgem view to veto the proposed modifications
 - **This is not a final decision and industry views and analysis sought on IA conclusions**
 - Interaction of options to approve/veto combinations of proposals considered
- GCM19 – provisional view to veto modification. Issues are (amongst others):
 - Current system exposes all shippers to the marginal costs of their actions
 - Imposition of price barriers could hinder the efficient use of the system
- UNC 284 – Provisional view is to veto
 - Do not consider UNC 284 in its own right meets UNC relevant objectives
- UNC 285 – Provisional view is to veto. Issues are (amongst others):
 - Interruptible users impose few capacity costs on the system and contribute to system costs via commodity charge
 - Overall limits amount of capacity available to market
 - Negative impact on short term liquidity

Next steps

- IA consultation closes 22 July
- Ofgem looking to issue a decision by 30 July
- GCM19 will come into effect if not vetoed prior to 1 August
- In view of timeline, early responses appreciated!

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Transmission Price Control Review 4 - Adapted Roll-over & TPCR5

Reasons for adapted roll-over

- RPI-X@20
 - review of approach to regulating energy networks
 - final decisions due autumn 2010
 - TPCR5 and GDPCR2 will be first reviews implementing RPI-X@20
- TPCR4 – runs April 2007 to March 2012
- Options for aligning RPI-X@20 and TPCR5, implement TPCR5 from:
 - Apr-2012, i.e. run TPCR5 & RPI-X@20 in parallel (at least in part)
 - Apr-2013, i.e. apply one-year 'Adapted Roll-over' of TPCR4 in 2012/13
- Ofgem decision in Dec-2009
 - implement adapted roll-over in 2012/13
 - enables RPI-X@20 recommendations to be implemented fully in TPCR5
 - TPCR5 to run from April 2013

Adapted roll-over objectives

- Protect interests of existing and future consumers
- Be consistent with Ofgem's wider statutory duties, including:
 - contribute to achievement of sustainable development
 - secure all reasonable demands for gas and electricity are met
 - licensees able to finance regulatory activities
- Be proportionate to one-year control and minimise regulatory burden
- Reflect recent developments in policy
- Not to delay critical investment
- To facilitate efficient process to develop TPCR5

Adapted roll-over - Key implications

- Committed to current transmission policy workstreams
 - E.g. gas entry charging review
- Specific items rolled over and not reset
 - gas baseline obligations and revenue driver values rolled over (entry & exit)
- No new policy issues to be addressed in roll-over & incentive targets rolled over
 - except where major misalignment between TPCR4 baselines and outturn values

Interactions with TPCR5

- Adapted roll-over: Jan-2010 to Mar-2012
- TPCR5: May-2010 to Mar-2013

- Clearly overlap between the two processes
- Aim is to minimise repetition of work across related work areas and to take advantage of existing information gathering tools such as regulatory reporting pack
- Maximise synergies between adapted roll-over and TPCR5 work

TPCR4 Adapted roll-over timetable

- Jul 2010 – publish scope decision and consultation (Ref 78/10)
- Summer 2011 – publish initial proposals
- Winter 2011 – publish final proposals
- April 2012 – Implementation of roll-over

TPCR5 Timetable

- Jul 2010 – Ofgem to publish consultation on way forward for TPCR5

Any questions?

If you have any questions please feel free to contact me anytime

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or

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