

# **Review of NTS entry charge setting arrangements – Ofgem decisions**

**Gas Transmission Charging  
Methodology Forum**

**2 September 2010**

## Summary

- Concern at high and volatile TO entry commodity charges
- Review of NTS entry charge setting arrangements
  - GCM19: removes firm entry capacity reserve price discounts
  - UNC284: removes zero reserve price for within-day auctions
  - UNC285: limits release of UIOLI to when 90% firm sold out
- Ofgem Impact Assessment (24 June 2010)
  - 12 responses
    - ~½ supported proposals (GCM19, UNC284 and UNC285)
    - ~½ did not support proposals
- Ofgem decisions
  - Vetoed GCM19 (30 July 2010)
  - Rejected UNC284 and UNC285 (6 August 2010)

## Reasons for Authority decision on GCM19 (1)

- Reserve price setting
  - MC pricing principles
    - reserve price set at MC - efficient capacity allocation
    - 'lumpy' investment
    - SRMC (<LRMC) appropriate reserve price for short-term
    - GCM19 would move further away from SRMC
  - Competition - setting reserve price above SRMC is barrier
  - Undue preference – GCM19 increases undue preference - short-term discounts better approximate of SRMC
  - Long-term bookings – GCM19 unlikely to increase long-term bookings materially
  - Volatility of charges
    - GCM19 impact on commodity charges likely to be at low end of range
    - volatility in commodity charge less than that for gas price

## Reasons for Authority decision on GCM19 (2)

- **Cost reflectivity**
  - Where auctions used, lesser objective than reserve price setting
  - Efficient pricing does not always ensure revenue recovery
    - Hence need for commodity charge
  - No analysis done on appropriate level of commodity charges
    - Difficult given design of commodity charge as residual
- **Developments in transportation business**
  - GCM19 addresses competition for capacity decreased since 2002
    - Reduced auction revenues and increased commodity charge
  - GCM19 does not address other developments
    - Peak demand < obligations
    - Substitution
- **Other considerations**
  - Security of supply - GCM19 impact low
  - EU law – Ofgem decision consistent with current EU law

## Reasons for Authority decision on UNC284

- Efficient discharge of NGG's licence obligations
  - UNC284 a facilitating mod for GCM19
    - On its own UNC284 has no impact on reserve prices
  - Ofgem vetoed GCM19

## Reasons for Authority decision on UNC285

- Efficient and economic operation of NTS
  - On its own would not encourage more long-term booking
  - Likelihood of no capacity available within-day is low
    - Theoretically possible - restricts efficient allocation of capacity
- Efficient discharge of NGG's licence obligations
  - No undue preference under status quo for users at existing entry points accessing interruptible capacity
- Securing effective competition
  - Limited artificial stimulation of secondary market
- Other considerations
  - EU law – Ofgem decision consistent with current EU law

## Way forward

- Ofgem keen to ensure further discussions on the issues raised
  - EU developments
  - Review of short-haul arrangements
- Ofgem notes under Code Governance Review it can initiate Significant Code Reviews (SCR) to address complex issues
  - Ofgem considering whether gas charging issues justify SCR
- Ofgem letter 12 August 2010 on SCRs
  - Ofgem currently thinking whether transmission charging arrangements need to be reviewed via SCR





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