



Promoting choice and value
for all gas and electricity customers

OFGEM Update - Gas Operational Forum

8th December 2010

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Overview

- RIIO Price Controls
- LNG Price Control
- Operating Margins Contestability
- Gas Security of Supply – Significant Code Review

RIIO Price Controls

- New RIIO format for price controls
- Revenue= Incentives + Innovation + Outputs
- Will be applied to Transmission and Gas Distribution price controls
- “Front loads” a lot of the issues traditionally dealt with in the late stages of a control
- Initial documents out by 20th December 2010

The logo for RIIO, consisting of the letters 'RIIO' in a bold, white, sans-serif font, set against a dark green rectangular background.

LNG Price Control

- LNG initial proposals published in November
- Affects the C3 prices, which set limits on how much NGG can pay to procure Operating Margins services
- Proposes significant price increases for C3 prices
- Responses by 20 December

<http://www.ofgem.gov.uk/Networks/Trans/GasTransPolicy/LNGPriceControl/Documents1/LNGPC%202010%20Initial%20Proposals.pdf>

Operating Margins Contestability

- Ofgem is minded to suspend C3 prices providing competition has been effective
- Ofgem is able to suspend C3 prices for requirement types where competition has been effective and not suspend C3 prices where it has not
- Our key criterion in judging whether competition has been effective is whether non NG LNG providers can meet requirement
 - but in cases where only a small number of non NG LNG parties tender we will also take into account the range of tenders and the level of prices offered
- We welcome views from interested parties (further information and contact details can be found in the open letter

<http://www.ofgem.gov.uk/Networks/Trans/GasTransPolicy/LNGPriceControl/Documents1/OM%20contestability%20letter.pdf>

Significant Code Reviews (SCRs)

- Key driver: to implement a faster and more holistic approach to reviewing significant matters with Ofgem in the lead and with the ability to direct NG to raise code modifications
- Views sought from industry on three specific SCR areas:
 - Gas emergency arrangements
 - Electricity cash-out
 - Smart metering settlement processes
- SCR process is expected to run between 6-18 months, involving extensive consultation with industry and other interested parties
- SCR work will need to evolve with the direction of relevant Government policy

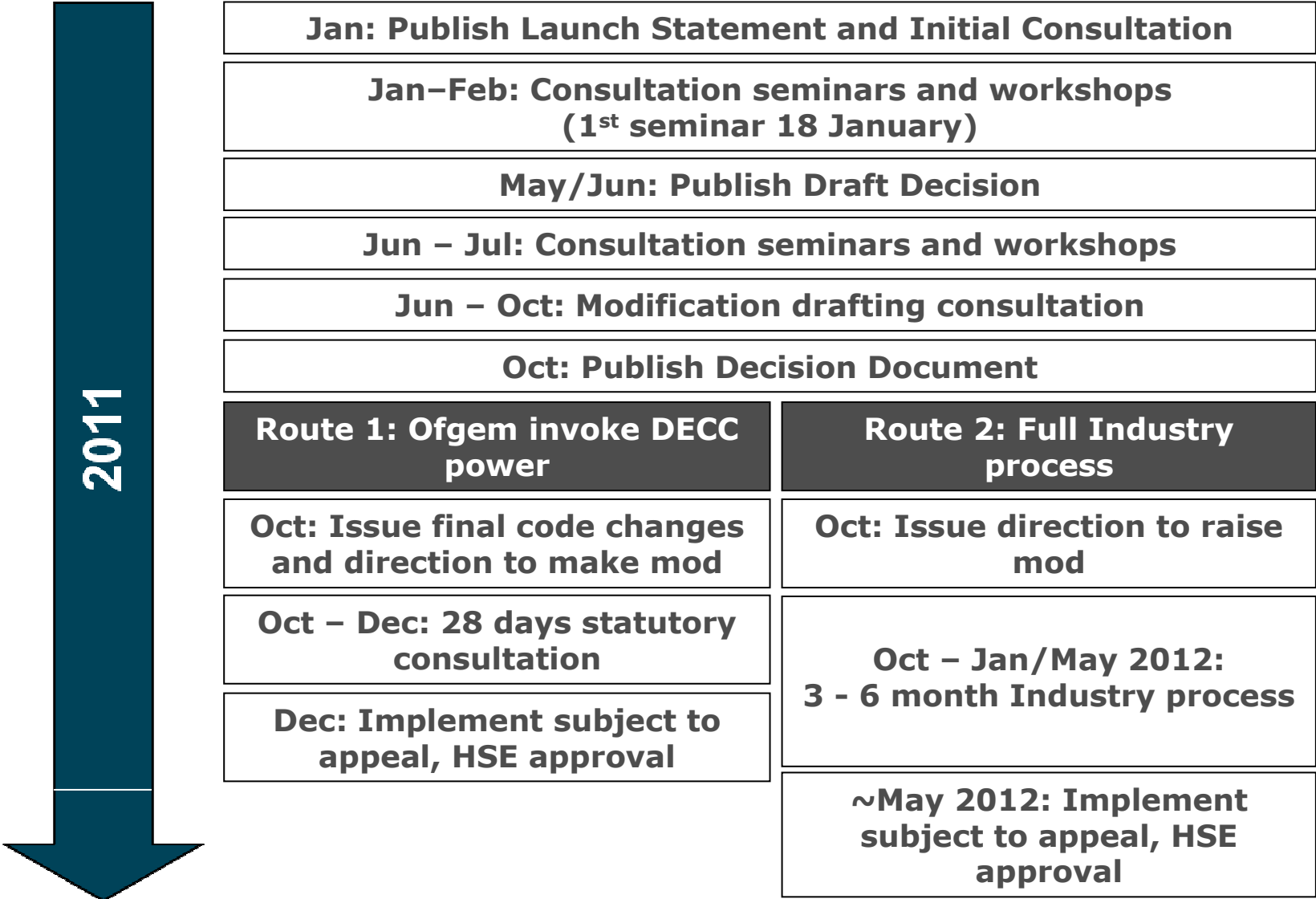
Gas SCR: background and context

Project Discovery:

- Frozen cashout price may not attract gas into GB during an emergency, and may lead to inadequate long term contracting and investment
- Firm customers could be disconnected below their willingness-to-pay, without compensation
- Additional risks from exposure to global gas markets
- Options include sharpening up price signals in an emergency, enhanced obligations, and strategic storage

DECC:

- Support our Gas SCR project
- DECC are proposing new legislation in December Energy Bill to allow Ofgem to (after consultation) implement required code changes in time for winter 2011-12





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Any questions?

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

by e-mail

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or

by telephone

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The background of the slide is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, there is a close-up of a gas burner with a flame. In the foreground, there are stalks of wheat. A large, semi-transparent white arrow points from the solar panels towards the gas burner.

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