

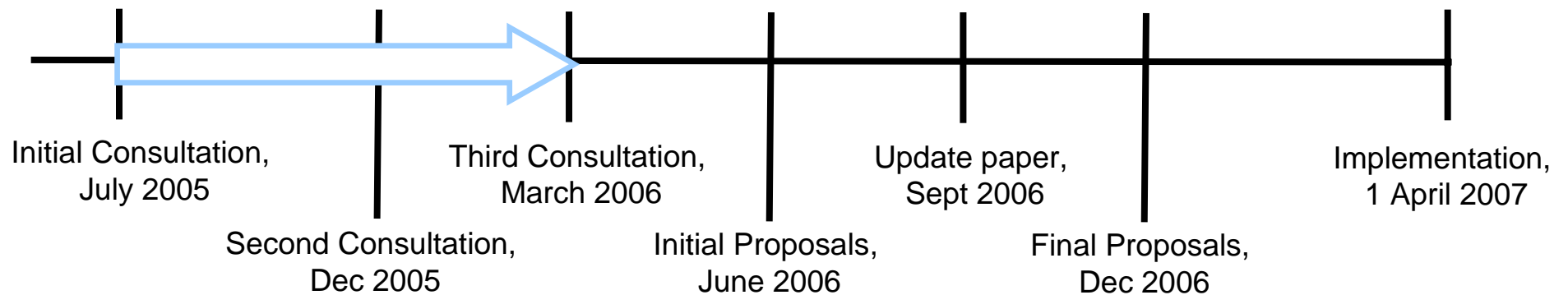
The title of the presentation, "Transmission Price Control Review (TPCR) - Charging arrangements for gas entry", is displayed in a dark blue, sans-serif font within a white rounded rectangle with an orange border. The background of the slide is a blue-tinted image of electrical equipment, including a terminal block and a power outlet.

Erik Sleutjes, Ofgem

Gas Transmission Charging Methodology Forum (TCMF)

26 April 2006

# Overview of TPCR timetable



## Current gas entry charging arrangements

- NGG has licence obligation to set charges and reserve prices
- Custom and practice to link reserve prices to UCAs
- UCAs are estimated costs of incremental capacity at individual entry points, which are set by Ofgem:
  - at start of price control period (for existing entry points)
  - after receiving formal UCA applications (for new entry points)
- NGG sets reserve prices in entry capacity auctions equal to:
  - UCAs (LTSEC, AMSEC, RMSEC)
  - 2/3 of UCAs (DSEC day-ahead) or zero (DSEC on-the-day, DISEC)
- TO commodity charges adjust for discrepancies between:
  - auction revenues, and
  - 50% of TO revenue allowance

## Problems with current arrangements

- Reserve prices (for existing entry points) have not been reset since start of current price control period, as a result of being based on UCAs
- To the extent incremental costs have changed, reserve prices no longer reflect costs meaning reserve prices no longer provide accurate locational price signals to:
  - shippers (to flow gas)
  - developers (to develop new entry points)

# Ofgem's March proposals

- De-link reserve prices from revenue allowances (UCAs)
- National Grid to take a more active role in setting reserve prices for entry capacity
- National Grid to develop of new charging methodology, in consultation with industry, accompanied by publicly available charging model
- Ofgem to set high-level objectives for charging methodology, and to approve it periodically
- National Grid has already initiated process of developing new methodologies for reserve prices (and other gas transmission charges) from April 2007
  - Gas Transmission Charging Methodology Forum (TCMF)

## Advantages and risks of proposed reforms

- If reserve prices are updated more frequently, eg annually, they are more likely:
  - to remain cost-reflective
  - to provide appropriate locational price signals
- If reserve prices change more frequently, future prices may be less stable during a price control period than before
- However, under the current arrangements reserve prices would in any case be reset at the end of a price control period (as UCAs are revised) – less frequent, but larger magnitude risk?

## Welcome views on

- Objectives for the charging methodology, given its extended (relative to today) scope
- Consultation and change governance processes
- Ofgem's role
- Information disclosure required to support methodology and increase transparency

A large, central ofgem logo is positioned in the middle of the slide. It features the word "ofgem" in white, lowercase, sans-serif font, set against a large, rounded orange background.

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