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**ENERGY**



# **NTS ENTRY CHARGING OBJECTIVES**

**NTS Entry Charging Review**

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**06 October 2009**

## ❖ NATIONAL GRID'S LICENCE

- In paragraphs 1 and 3 the “**relevant methodology objectives**” means, subject to paragraph 6, the following objectives -
  - a) save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;
  - aa) that, in so far as prices in respect of transportation arrangements are established by auction, either:
    - i. no reserve price is applied, or
    - ii. that reserve price is set at a level
      - i. best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and
      - ii. best calculated to promote competition between gas suppliers and between gas shippers;
  - b) that, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business
  - c) that, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and
  - d) that the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).

## ❖ NATIONAL GRID'S LICENCE – IN ENGLISH

- National Grid's Charging Methodology shall ensure that:
  - a) charges reflect the costs incurred;
  - aa) if prices are established by auction, either:
    - i. no reserve price is applied, or
    - ii. that reserve price
      - i. promotes efficiency and avoids undue preference; and
      - ii. promotes competition between gas suppliers and between gas shippers;
  - b) takes account of developments in the transportation business
  - c) facilitates effective competition between gas shippers and between gas suppliers; and
  - d) ?????

## ❖ OTHER OBJECTIVES

- Reduce the TO Commodity charge
  - Or recover TO revenue from capacity bookings?
  - Solution may be cost reflective
- Encourage long term bookings of entry capacity
  - Economic and efficient development of the system
- Provide locational signals for use of spare capacity
  - Reflects costs incurred
  - What is spare capacity?
  - In contrast to long term bookings?
  - Is charging the main driver of entry location?
- Provide certainty to Shippers
  - Price you book is price you pay
  - How is remaining TO revenue recovered?
- Provide predictability to Shippers
  - Ability to forecast costs

## ❖ OTHER OBJECTIVES

- Aligned with developments in Europe
  - Conflicts with encouraging long term bookings?
- Allow for negative LRMCs and prices
  - Consistent with electricity TNUoS charges for generation
  - Reflects costs incurred?
  - Provides locational signals
  - Reflects availability of spare capacity
- Provide an ability for some Shippers to reduce their costs?
  - The unspoken truth of cost reflective charges?
- Reflect intermittency of supply
  - An issue for electricity – but is this being driven by low carbon commitments?
  - The pipes are always available regardless of supply
  - Is this interruption?

## ❖ OTHER OBJECTIVES

- Encourage security of supply
  - UK as an attractive destination for gas
  - Regulatory and charging certainty?
  - Does security of supply = diversity of supply?
- Any other objectives?

## • EDF ENERGY'S VIEW

- TO Revenue should be collected from TO Capacity charges
  - Reduces size of TO Commodity charge
  - Hopefully more predictable than a TO Commodity charge driven by throughput
- Encourage long term bookings
  - Reflects developments in Transportation business – substitution and transfer and trades
  - Should help predictability
- Encourage security of supply
  - Phased approach to implementation to ensure Shippers don't find goal posts changed half way through the game
- Negative LRMCs should be considered
  - May reflect spare capacity
  - Economic and efficient development of the system



## ❖ **NEXT STEPS?**

- Licence Conditions are primary objectives – but also need secondary objectives
- Clear objectives start to lead you to the solution
- Need to prioritise objectives
- Identify potential solutions and assess against objectives

THANK YOU

