

## Gas Charging Review (NTS CMF): a producer-shipper perspective

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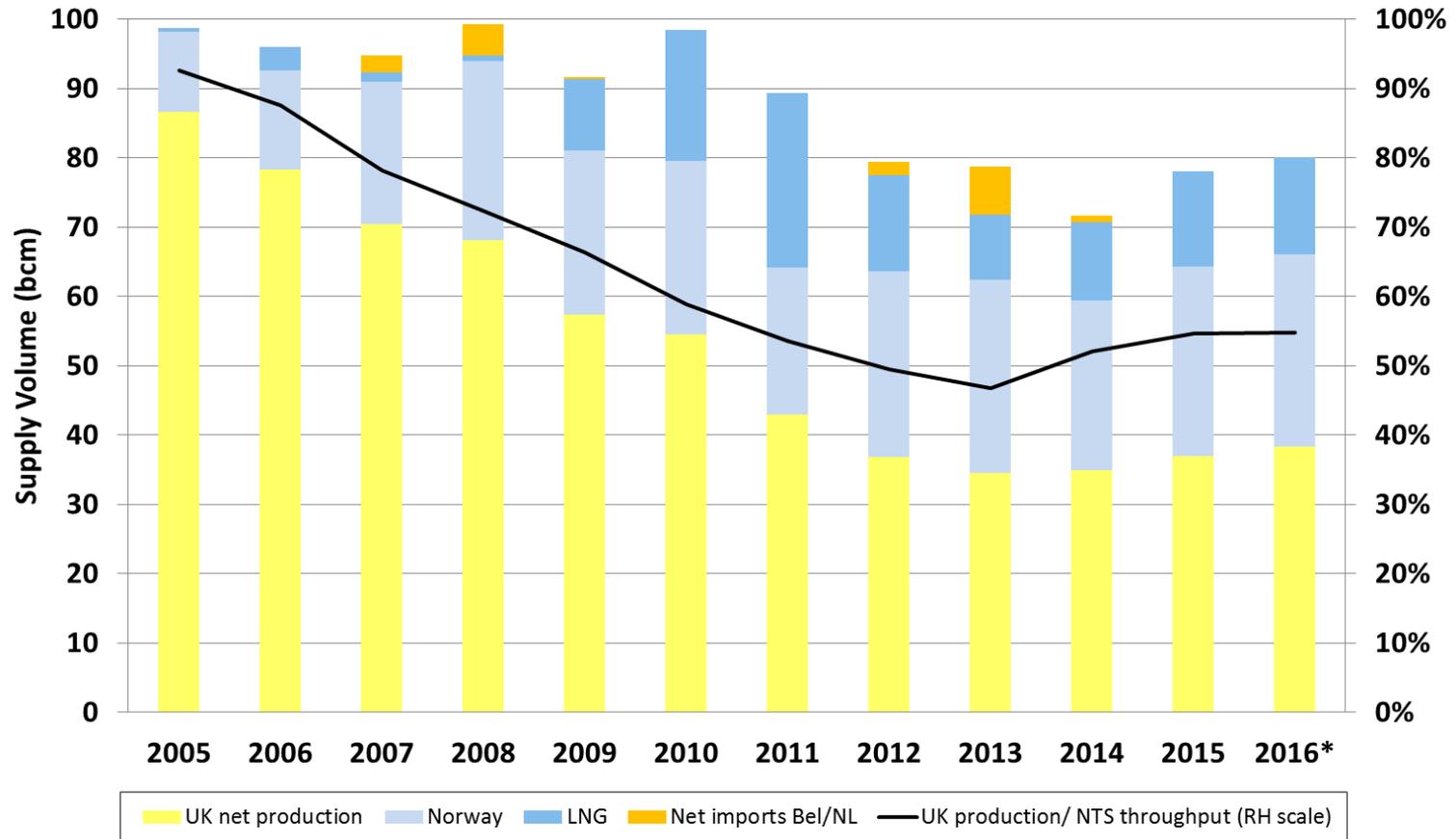
# How to make the Gas Charging Review useful

## **O&GUK broadly endorses the revised objectives developed by MCG and urges Ofgem to launch a review of the current charging objectives**

- Origin of GCR lies in Ofgem's letter of Nov 2015 at end of the GTCR process:
  - to follow up GTCR work 'to prepare implementation of TAR NC' and to create two work streams on 'feasibility of a dual regime' and the 'practicality of floating capacity charges at all entry points'
- Major changes since Ofgem concluded its GTCR:
  - final TAR NC incorporates much more national flexibility and NRA discretion than expected
  - TAR NC may not require change of existing GB charging regime, only changes at IPs
  - Post-Brexit risk and uncertainty over UK access to single market and cross-border trade
  - Maximising Economic Recovery (MER UK) strategy adopted in UK statute law (Energy Act 2016)
  - Fifth Carbon Budget adopted but CCS competition cancelled and doubts over new nuclear
  - restrictions on Rough operations and and doubts over its technical viability and longevity

## **O&UK recommends a review of the conclusions of the GTCR**

# UKCS supplies more than half the gas entering the NTS



Source: DECC

\* projection

# UK upstream economics and regulatory reform

- Offshore gas reserves underpinned the development of much of the NTS
- Excess capacity at most entry points (except Bacton UKCS ASEP), reflecting output decline
- UKCS is mature area with diminishing economic rent as resources are depleted
- Simultaneously, new field investment and decommissioning of old fields and infrastructure
- MER UK now embedded in UK statute law; new powers for the new, independent OGA
- Aim is to minimise risk of early decommissioning of infrastructure and stranded assets and to promote investment in exploration and new field development
- OGA identifies 10-20 bn boe still to be recovered (43 bn boe produced) – one third is gas
- New investment opportunities have different risks: high cost (HPHT), small size, dependence on third-party infrastructure (offshore and onshore)
- Network entry costs are more significant for new projects at 30 p/th than at 60 p/th

## Producer-shipper perspective on entry capacity charging

- GTCR envisages greater change to charging for entry capacity than exit capacity but no explicit account of possible upstream consequences
- Entry capacity at UKCS ASEPs is unconstrained (except at Bacton UKCS ASEP in 1Q after unwelcome CAM split)
- Progressive change in commercial behaviour in booking entry capacity but some mature fields still have legacy LT capacity bookings
- Diminished ability of new fields to support higher entry charges, long-term capacity bookings or additional midstream commercial risks
- Freely floating capacity charges would introduce new commercial risk for existing and new offshore projects, especially storage projects
- UKCS producers seek a level playing field, no new barriers to investment and no incremental costs at vulnerable late-life fields

# UK energy policy issues at stake in GCR and UNC Mod process

- Adequacy of electricity generation capacity, with or without Hinkley C
- Role of new CCGT capacity to permit coal phase-out and to provide back-up to intermittent renewables: gas transmission tariffs will influence investment returns
- Affordability of network costs for consumers
- MER UK strategy intended to promote new UKCS field development
- Security of gas supply: uncontracted gas flexibility, market liquidity, active cross-border trade and efficient network use, especially after Brexit
- Possible adverse impact on new, non-storage supply (UKCS/NCS/LNG/ICs)
- Would fully floating capacity charges improve ability to attract uncontracted gas?
- Post-Brexit: will UK be part of EU IEM? will UK/GB and EU Network Codes diverge?

**Existing and future UK energy policy will more important than TAR NC compliance in review and possible reform of GB gas charging regime**