

Vermilion Energy comments/info/proposal with respect to Forecasted Contracted Capacity (FCC)

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Introduction

At the NTSCMF / sub group meeting May 30th, 2017, two “schools” were debating on an appropriate FCC. In this document arguments will be provided that support the “school” advocating for an FCC at a level that is close to expected bookings.

Proposal

Use X% of Obligated Capacity Levels for entry and use Y% of Obligated Capacity Levels for exit. X and Y to be determined at such a level, that under / over recovery of allowed Transmissions Services Revenues (for entry respectively exit) are minimal.

With reference to the appendix of the most recent FCC “1 pager” (v0.5), this is listed as option number 5, with a small amendment, namely the differentiation in a percentage for entry and a percentage for exit.

Consideration

Important feature in the CWD methodology is the calculation of the capacity weighted average distance.

- If all entry Obligated Capacities are scaled back to X% of this level, then this gives exactly the same outcome of the capacity weighted average distances for the exits as when the full Obligated Capacities would be used for this calculation. So the exit distances will not change if X is changing.
- Comparable: if all exit Obligated Capacities are scaled back to Y% of this level, then this gives exactly the same outcome of the capacity weighted average distances for the entries when the full Obligated Capacities would be used for this calculation. So the entry distances will not change if Y is changing.

Criteria

During the sub group meeting several criteria were mentioned.

In the FCC 1 pager, four criteria were proposed:

- Are the values published/publically available?
- How far out into the future are the values available? i.e.: Is it available for remainder of regulatory period
- Stability of values (yr to yr)
- Objectivity of values

To our opinion the following criteria should be added to this list:

- Avoiding/minimizing cross subsidization IPs versus domestic points
- FCC close to expected amount of capacity contracted ¹

¹ This to reflect the definition of “Contracted Capacity”-part of FCC: “Contracted Capacity means capacity that the transmission system operator has allocated to a network user by means of a transport contract.” (source: ENTSOG Glossary).

If we compare option 1 of the FCC-paper (“Obligated Capacity Level”) and the proposal above, the following table results with respect to the six criteria (partly copy paste from FCC-paper):

Criteria	Option 1: Obligated Capacity Level	Option 5 amended: Use X% of Obligated Capacity Levels for entry and use Y% of Obligated Capacity Levels for exit.
Are the values published/publically available?	Published in Gas Transporter Licence.	Published in Gas Transporter Licence.
Is it available for remainder of regulatory period	YES	YES for Obligated Capacity; percentages X and Y to be determined
Stability of values (volatility yr to yr)	Stable; only changes through Substitution or incremental release	Stable; only changes through Substitution or incremental release
Objectivity of values	Objective as the capacity release and substitution methodologies	Objective as the capacity release and substitution methodologies
Avoiding/minimizing cross subsidization IPs versus domestic points	NO: High portion (65 – 80% ?) of tariffs via “complementary revenue recovery charge” on domestic points only (ref art 4.3ab)	YES. Low portion via complementary recovery charge
FCC close to expected amount of capacity contracted	NO	YES, on an aggregated level; not on individual level.

Follow up activities for this proposal

A transparent and objective methodology for deriving the X and Y percentages per year has to be developed.

As a suggestion for this we could think of the following methodology:

- For first two years of the new regulatory period use the result of an NG analysis, approved by OFGEM, that compares expected revenues for each of the two categories (entry, exit) using 100% of Obligated Capacities with the allowed/target revenues for each of these two categories. The ratio will be used as X% and Y% respectively.
- Thereafter, use realizations of tariff year T-2 as input for year T percentages.