EU Tariffs Framework Guidelines – NGG Response

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Introduction

- ACER consultation on Tariff FG closes on 5 Nov.
- Comparison of ACER proposals and GB current regime.
- NGG has input to ENTSOG response – mostly in agreement but response has to cover a wider variety of views.
- This presentation outlines our proposed individual (NGG) response.

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Executive Summary

- ACER and NGG believe that Allowed Revenue is out of scope.
- NGG believes that the FG:
  - Lacks clarity on scope and application of Tariffs FG.
  - Needs to consider the whole package:
    - Several options possible but changing any element may require consequential change.
- Could limit scope of harmonisation only to essential elements.
- ACER proposed implementation timeframe (12 months) – ambitious.

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Draft FG: General provisions

ACER proposals	Potential issues for the GB regime
Scope: all entry and exit points (some aspects only apply at Interconnection Points "IPs").	Lack of clarity where each aspect applies.
Implementation: 12 months	Too short - suggest 18-24 months

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Draft FG: Cost Allocation and Reference Price

ACER proposals	Potential issues for the GB regime
Allowed Revenue "AR" recovered 50/50 from entry/exit.[1] Scope: all entry and exit points (some aspects only apply at IPs).	None – existing GB regime. Agree for AR – but clarity sought on where each aspect applies.
Reference Price – National Regulatory Authority "NRA" approved methodology e.g. distance driver, cover at least fixed costs.	Continue with LRMC[2] methodology - clarity on fixed costs needed. ('variable costs' via SO commodity at present.)

1. Deviations possible if justified. Note ENTSOG response differs from NGG since other TSO's want other than 50/50 as a possibility

2. Clarification on reserve prices sought – note current administered exit charges include an allowed revenue adjustment.

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Draft FG: Flow based charges and storage

ACER proposals	Potential issues for the GB regime
Costs mainly driven by flows:	
May be recovered via flow based charge (e.g. compressor fuel).	‘variable costs’ via SO commodity at present.
Levied at TSO level (not applied to specific points).	Need to be careful with commodity charges – note difference between TO commodity for under-recovery due to zero prices and commodity potentially for excess capacity.
Storage entry and exit may have discount.	Only if cost justified – as in SO commodity exemption in GB, or CLNG credit for transmission infrastructure savings.

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Draft FG: Revenue Recovery

ACER proposals	Potential issues for the GB regime
Reference price[1] set to minimise under-/over-recovery Single regulatory account Regulators decide:- - share of under-or over-recovery added to Regulatory Account, and - frequency of reconciliation	Multipliers or commodity charges required TO/SO issue. For TO account take care to avoid cross subsidisation. Check ACER assumptions – incentives? Keep annual as now
Option 1 Capacity or	
Option 2 – Capacity and Commodity	Preferred – but clarity sought on ACER intention

1. Does ACER mean reference or reserve price?

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Draft FG: Reserve Price on short-term and non-firm

ACER proposals	Potential issues for the GB regime
Only applies to scope of CAM (i.e. IPs) Short-term reserve price equal to or less than annual product price (i.e. reference price). Seasonal factors may be applied - average price to be equal to or less than annual product price but in some seasons may be higher.	Revenue recovery issues with zero/low reserve prices – would need commodity charge which is not desired in Europe and discourages short-term trading. Seasonal factors may be helpful if multipliers used particularly for storage.
Multipliers up to 1.5 may apply where significant under-recovery expected.	1.5 is arbitrary.
Interruptible reserve price - Discount to reflect risk of interruption.	Agree but may be difficult in practice.
Backhaul reserve price - Discount to reflect marginal cost of service.	Disagree – same as interruptible.

Draft FG: Virtual IPs, bundled capacity and payable price

ACER proposals	Potential issues for the GB regime
Reserve price set using combination of reserve prices for individual points in the VIP.	Agree – ENTSOG differs – considers there are risks.
Bundled reserve price = entry reserve price + exit reserve price. Unbundled capacity offered at unbundled reserve price.	Agree Agree
Auction premium - Shared on basis of agreement between TSOs. If no agreement, shared equally between TSOs.	 Disagree – pro-rata to reserve price.
Payable Price: Reserve price at the time of capacity use + premium in auction when capacity allocated.	Not necessarily.