

NTSCMF / Sub Group – Revenue Recovery Mechanisms – Options for how Revenue Recovery may be done (can apply to both Transmission and Non Transmission Services)

Some key items or terms in relation to Revenue Recovery:

Area / Term	Detail
Scope of TAR NC and application to points in GB	<p>Article 2 of TAR NC says under Scope that “This Regulation shall apply to all entry points and all exit points of gas transmission networks with the exception of Chapters III, V, VI, Article 28, Article 31(2) and (3) and Chapter IX which shall apply only to interconnection points.”</p> <p>Therefore there are specific articles that are for all Entry and Exit Points and some, as given above, that must apply to IPs but the TAR NC does not mandate on Non IPs. This does not preclude applying such arrangements to Non IPs, subject to NRA approval.</p>
NRA	National Regulatory Authority (Ofgem for GB)

Background

As part of the current GB charging framework the recovery of Allowed Revenue (which includes under or over recover from previous periods) is achieved a combination of capacity and commodity charges. Within GB there is one application of the charging methodology e.g. all points initially treated the same with same access and pricing mechanisms for capacity and commodity. There is one exception with the exemption from Commodity for flows in and out of storage facilities.

The TAR NC provides some scenarios where if chosen pricing arrangements could be different at IPs and Non IPs. This will impact the way in which revenue recovery is done across the range of available charges. Under TAR NC there are more criteria around Transmission Services compared to Non Transmission Services which may be more flexible in the methodology applied to recover revenues. For Transmission Services, there are aspects that are to be applied at all points and some that have arrangements to apply TAR NC requirements at IPs and, if chosen subject to NRA approval, alternative methodologies at Non IPs.

Summary of Discussion(s)

- Reconciliation of revenues (e.g. between Entry and Exit charges) will be an element that requires a Legal views as to what is permitted under the TAR NC.
- TAR NC recognises the use of specific charging products for the purposes of revenue recovery for Transmission Services;
 - Adjustments to Capacity reserve prices that could be done within the initial reference price or in the reserve price through the use of multipliers (multipliers can be greater or less than 1 but cannot be 0).
 - Complementary Revenue Recovery Charge (CRRC), a commodity charge that could only be applied at Non-IPs.
- Ultimately there are a number of elements that are key to the revenue recovery and how this is done across Entry and Exit charges;

- Single or Dual (or multiple) regime where charging arrangements are different at IPs and Non IPs, for example. This will need to balance against other considerations of discrimination, cross subsidy, complexity and the core Licence Objectives.
- Any revenue recovery methods may be more complex the greater the number or variation or alternative charging arrangements in place.
- Any charging methodology in place would need to be assessed against the relevant objectives in place (GB and EU).
- Complexity in the revenue recovery mechanisms may not be a big issue for all stakeholders if charges are more reflective of costs and other charging objectives.
- Revenue recovery mechanisms and the way in which aspects of the charging framework are used may result in behaviours. If the ambition is to encourage as much gas as possible to GB then how revenue recovery mechanisms are proposed could result in behaviours that could impact this and should factor into the discussions.
- Any methodology would be subject to Ofgem’s approval.

Conclusion

TBC

Version Control

V0.1	First draft based on sub-group on 18.01.17
V0.2	Update following discussion at NTSCMF on 01.02.17