

Energy UK views on Transmission Charging developments - Proposal

26 January 2016

Energy UK is aware that there will be a lot of activity in this area over the next 2 years as we lead up to implementation of the European Tariff (TAR) code and the outcome of Ofgem’s Gas Transmission Charging Review (GTCR). GB will have to consider whether it retains its current reference price methodology comprising the transportation and tariff models (TRANS) or adopts the capacity weighted distance (CWD) methodology, which is favoured by the European Commission and in any event would be the counterfactual against which any wish to retain the current arrangements would have to be justified.

Energy UK is concerned that there is a lot of development, analysis and potential systems work to be undertaken in order for GB to achieve compliance with the TAR code in the required timescale. We are aware that a firm implementation date is yet to be set but consider that the amount of work required will be challenging even if implementation is delayed until 2018 or 2019 which we agree is more appropriate. Energy UK considers that a structured approach is necessary to ensure that there is sufficient understanding of the strengths, weakness and consequences of the various approaches in combination to ensure that the GB regime achieves compliance with EU law in a manner which strikes a balance between stability and predictability of charges in the best interests of GB customers.

Ofgem’s recent paper confirming its policy position for GTCR asked the industry to consider the technical and economic feasibility and wider impacts and consequences of a dual regime, where the charging arrangements are different (floating) at interconnection points (IPs) and (fixed at) domestic points, and a combined regime where the same (floating) arrangements apply at all points. In combination with the potential for two reference price methodologies, as described above, we consider this gives rise to four main scenarios as detailed in the matrix below.

	Dual or combined	
Methodology	CWD – combined CCWD	CWD – dual DCWD
	TRANS – combined CTRANS	TRANS – dual DTRANS

In our view the models for each of these need to be developed and tested as baselines which can be compared to each other and which can then be explored to understand the impact of and compliance with the key requirements of the TAR code and GTCR, including;

- Storage discounts
- Interruptible charges
- Shorthaul tariffs
- Cost allocation test
- Short term capacity product discounts / multipliers
- Other key parameters

In addition to the above, three specific areas need to be reviewed to ensure a robust charging methodology is developed:

1. The sensitivity of charges to data inputs will need to be explored, including supply / demand scenarios and infrastructure developments, to assess stability and predictability in charges and to inform any recommendation on a way forward for the GB regime.
2. The impact on domestic exit points also needs to be explored.
3. The relevant objectives against which charging methodology changes are assessed to consider if they remain fit for purpose.

We believe this stipulates the minimum work required to be undertaken and completed such that GB can be compliant with the EU tariff Code and have a charging methodology which delivers stable and predictable cost reflective charges.

We request that NG provides a detailed project plan with milestones to show how we will comply with the EU tariff Code proposed implementation date of January 2018.

Energy UK is happy to discuss this further and hopes this creates a framework for charging work going forward, clearly it is important to start with developing a CWD model to understand the potential impact if GB were to move to this charging methodology.

We suggest that this note is shared with industry and request a slot on the agenda at the Transmission Charging Forum on 10 February and EU DECC/Ofgem stakeholder meeting on 4 March.