Mod 621 Workgroup – 4th April 2018

Existing Contracts: TAR Compliance and Relevant Objectives

@EnergyUKComms www.energy-uk.org.uk

Energy UK

The voice of the energy industry

Existing Contracts

- *The treatment of Existing Contracts in the reference price methodology raises a number of issues in relation to:*
  - *compliance with the TAR NC*
  - *furthering the relevant objectives and relevant charging objectives*

- *Suggestion:*
  - *do not exclude the existing contacts from the FCC for the calculation of reference prices to*
    - *Enable TAR NC compliance*
    - *Enable more straightforward explanation of how Relevant Objectives are furthered*
    - *Avoid need for further modification to model which does not currently exclude entry contracts when calculating exit prices even when this option is selected for entry contracts*
    - *Should compliance of all options be considered soon ?*

Energy UK

Does TAR NC provide any guidance ?

- *Article 6.3 The same reference price methodology shall be applied to all entry and exit points in a given entry-exit system subject to the exceptions set out in Articles 10 and 11 [these articles are not relevant to GB]*
  - Is including Existing contracts for exit reference price calculations and excluding them for entry reference price calculations consistent with that ?

- *Article 6.4. Adjustments to the application of the reference price methodology to all entry and exit points may only be made in accordance with Article 9 [specific capacity discounts eg storage] or as a result of one or more of the following [benchmarking, equalisation, scaling]*
  - Is adjusting the data inputs, by netting off existing contracts consistent with this?
  - Where the model results in a 0 price, is using the price from the nearest point or any other adjustment consistent with this?

Energy UK

Does TAR NC provide any guidance ?

- *Article 7(b) & (e) The reference price methodology shall comply with Article 13 of Regulation (EC) No 715/2009 and with the following requirements. It shall aim at:*
  - *(b) taking into account the actual costs incurred for the provision of transmission services considering the level of complexity of the transmission network;*
  - *(e) ensuring that the resulting reference prices do not distort cross-border trade.*

    - If allowed revenue is a proxy for cost incurred then removing part of the costs incurred seems inconsistent with Art 7(b)
    - With respect to (e) focussing more revenue recovery on future rather than past purchases could distort cross border trade if the values are materially different

Energy UK

Does TAR NC provide any guidance ?

- *Article 30.1 (a) i & ii Require the publication of technical capacity and forecasted contracted capacity at entry and exit points and associated assumptions as used in the reference price methodology.*
  - Where existing contracts are excluded prior to the calculation of reference prices in some locations this results in the FCC being 0. There being a greater number of locations with 0 FCC value in the enduring period.
  - How is this explained at the transition from the interim to enduring period as required by Article 30.2 (a) ?

- *Article 8 describes the detailed CWD calculation but makes no provision for a FCC value of 0.*
  - A 0 value for FCC effectively excludes that part of the network from the CWD calculations so the reference prices do not reflect the network
  - In TAR NC words Art 8.1(d) the 'relevant flow scenarios' seem to change from interim to enduring

  - Would a more appropriate solution be to address this at the data input stage rather than the reference price stage of the calculations?
  - How are decommissioned sites to be managed ?

Energy UK

Existing Contracts and the Relevant Objectives

- Removing existing contract volumes and revenue before calculation of reference prices leads to higher reference prices for the remaining unsold capacity.
  - Does this create an undue distortion between existing capacity holders and parties buying capacity in the future
  - RO C and Charging OBJ AA I – Licensee's obligations and undue preference

  - As capacity prices are not based on forward looking marginal costs they may not be cost reflective, excluding existing contracts further extends distortions through locationally differentiated capacity charges and lower non-distortive commodity charges
  - RO D and Charging OBJ C – competition

  - Instability in capacity prices results when existing contracts come to an end
  - RO D and Charging OBJ C – competition

Energy UK

Existing Contracts and the Relevant Objectives

- Article 6.3 same reference price methodology
  - RO G and Charging Obj E – compliance
- Article 6.4 only certain adjustments are allowed
  - RO G and Charging Obj E – compliance
- Article 7 – costs incurred and not distorting cross-border trade
  - Charging Obj A and E – cost reflectivity and compliance
- FCC values of 0 – in respect of Article 8 and Article 30.2 explaining the interim to enduring transition
  - RO G and Charging Obj A and E – cost reflectivity and compliance

Energy UK

Existing Contracts

- *The treatment of Existing Contracts in the reference price methodology raises a number of issues in relation to:*
  - *compliance with the TAR NC*
  - *furthering the relevant objectives and relevant charging objectives*

- *Suggestion:*
  - *do not exclude the existing contacts from the FCC for the calculation of reference prices to*
    - *Enable TAR NC compliance*
    - *Enable more straightforward explanation of how Relevant Objectives are furthered*
    - *Avoid need for further modification to model which does not currently exclude entry contracts when calculating exit prices even when this option is selected for entry contracts*
    - *Should compliance of all options be considered soon ?*

Energy UK