

## **REVIEW GROUP TERMS OF REFERENCE [DRAFT]**

### **Review of NTS Entry Charge Setting Arrangements**

**Date:** 09/09/2009

#### **Background**

National Grid is launching a fundamental review of entry charging principles. This is in response to growing industry concern about the increasing rate of the TO entry commodity charge.

Early experience of entry capacity auctions (1998 - 2002) was of bidding behaviour resulting in significant revenue over recovery. This may have been due to northern constraints and competition for St Fergus capacity, and limited experience of entry auctions. This behaviour resulted in charging methodology proposals that looked at resolving over recovery and reducing entry capacity floor/reserve prices.

Recent Experiences (2002 - Present) is of bidding behaviour resulting in under recovery, other than when a constraint became material in the Easington area. This may be due to a number of factors including; increased experience of auctions and lack of locational competition for capacity, increased certainty of capacity availability associated with baselines, profiling of capacity across the year, the clearing obligation and zero reserve prices. This behaviour has resulted in the introduction of the TO Commodity Charge and its increasing rate over the years.

Shippers have an incentive to 'wait and see' due to entry capacity price discounts on day ahead (33%) and within day (100%) auctions. Shortfall in recovery of revenues by National Grid through entry charges is picked up through the Commodity Charge paid by all shippers. This could mean that short term capacity buyers are having their costs paid by shippers who have previously paid the longer term rate for capacity.

It could be argued that this creates;

- cross subsidies between shippers who buy long term rather than short term,
- cross subsidies between shippers who buy firm rather than interruptible,
- interruptible capacity that is effectively firm if firm capacity remains unsold,
- potential undue discrimination for new ASEPs which have no access to zero priced capacity as there are no short term auctions

#### **Nature and Purpose**

This Review Proposal is intended to allow a review of the existing NTS entry charging arrangements to determine if they are still appropriate and consistent with the charging relevant objectives. The review will focus on entry revenue recovery from the available capacity products and the impact of the commodity charge on the distribution of costs on shippers by each aggregated NTS entry point. Where applicable, the review will cover exit reserve price setting to seek to ensure an appropriate level of consistency taking into account the products made available.

## **Review Group Terms of Reference**

### **1. Topics for Discussion**

The following topic items are included within scope of the group and should be considered within the Terms of Reference:

1. General review of the current NTS Entry charging arrangements to determine if they are still appropriate and consistent with the charging relevant objectives.
2. Review of the current NTS Entry Capacity tariff setting methodology within the gas Transmission charging methodology. [The prevailing charging methodology transport model used for estimating Long Run Marginal Costs is excluded from the scope of this review.]
3. Establishment of a principles-based approach to determining the level of reserve prices across the gas entry and gas exit auction frameworks taking into account the products made available and the timescales of capacity release.
3. Review of the current NTS Entry Commodity tariff setting methodology within the gas Transmission charging methodology.
4. Implications of identified changes on UNC defined firm and interruptible capacity release and charging arrangements.

### **2. Suggested Aims and Outputs**

It is envisaged that this Review Group will produce a report recommending any necessary changes to the charging methodology and UNC. This will form the basis of any future charging discussion and or charging modification proposals brought forward.

### **3. Scope and Deliverables**

The Review Group shall focus on changes to the Gas Transmission Charging Methodology, but also identify where improvements could also be made to the UNC. The Review Group shall not necessarily be limited by the Gas Transporter Licence in respect of the NTS and hence may identify requirements for consequential changes resulting from Charging Methodology and UNC change proposals.

### **4. Limits**

The Review Group will focus on developing recommendations and Charging Modification Proposals that efficiently address any issues identified in a proportionate and cost effective manner. The Review Group will consider consequential changes required to procedures and processes within the UNC and will report to the Transmission Workstream