

The title "Gas Quality Economic Regulation Workstream" is centered within a white rounded rectangle with an orange border. The background of the slide features a blue-tinted image of a gas meter and its associated pipes and valves.

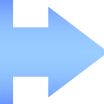
Gas Quality Economic Regulation Workstream

Sonia Brown

Director, Wholesale Markets

Welcome

Ofgem workshop on gas
quality in September



Broad consensus that **gas quality**
is a material issue for GB

Work streams to take forward assessment over **next 12 weeks**

- Gas quality scenario development workstream
- Gas quality economic regulation workstream

Economic
regulation
workstream

- Identify most appropriate regulatory framework to apply to any processing facilities
- Options guided by principle of cost targeting

Economic regulation – workstream scope

In scope

- Assess potential regulatory frameworks to apply to a gas processing facility
- Test Assumptions – develop potential alternatives
- Further develop potential solutions

Out of scope

- Work will be contained within current legislation
- Not considering changes to current GB gas quality specifications

UK framework is clear for medium term – i.e. at least until 2020

Ofgem to work together with HSE and DTI on any options developed

Objectives for today

1. Agree Terms of Reference

2. Discuss potential economic regulation frameworks

- Consider advantages and disadvantages of three potential regulatory frameworks
- Develop the detail surrounding these potential arrangements
- Consider any potential alternative solutions
- Assess appropriateness of option under evaluation

3. Establish an agreed timescale for evaluation of all potential regulatory frameworks by the group

Background to regulatory frameworks

We have developed three potential regulatory frameworks

1. Regulated

2. Hybrid

3. Unregulated

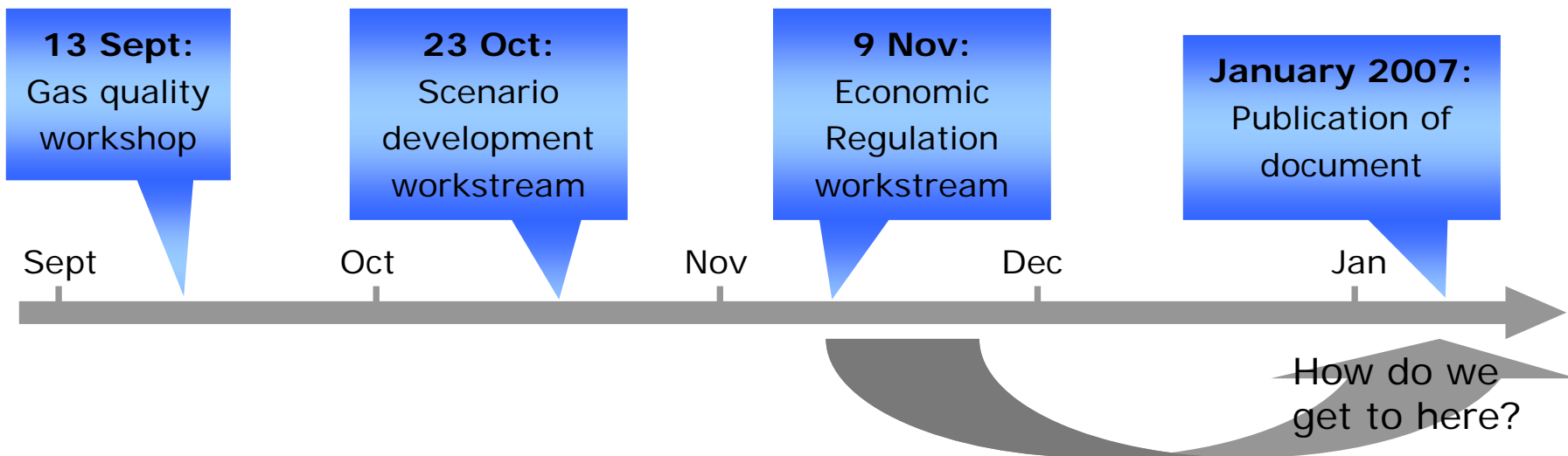


Many potential variations on scenarios presented

- Should assumptions of frameworks developed be challenged?
 - Are there other scenarios to be assessed?

Way Forward

- Full assessment of potential regulatory frameworks needed
- Industry commitment required to progress these issues as a priority
- Ofgem to publish a document summarising workstream evaluation



Discussion of Scenarios

A vertical strip on the left side of the slide shows a close-up of electrical equipment, including a white plastic outlet and a metal terminal block with wires, all with a blue tint.

Regulated Approach

Jason Mann

Regulated Approach

Features

- Processing facility constructed by National Grid
 - Forms part of its regulated asset base
 - Users flow gas to facility to be processed

Cost recovery?

- Service forms part of TO price control
- Inclusion of CAPEX and OPEX revenue allowances and costs of capital for facility
- Costs recovered through transmission charges i.e. costs smeared across all customers

Access to facility?

- NG determines appropriate capacity of facility
- NG responsibility to address any excess demand

Questions for discussion

➤ Is this a **feasible** and **appropriate** framework?

- Incentives on parties to secure gas within GB specification?
 - Appropriate cost recovery mechanisms?
 - Which party bears the stranding risk?
 - Appropriate investment signals provided?
- Incentive to minimise the level of overall costs?
 - Requirements for anti-hoarding measures?
 - Secondary market trading a possibility?
- Framework create complex or simple arrangements?

Summary questions

Questions for consideration	Yes	No
Assist economic and efficient market operation?		
Facilitate competition?		
Minimise costs to customers?		
Proportionate regulatory approach?		
Facilitate security of supply?		

The title "Hybrid Approach" is centered within a large, horizontal, rounded orange border. The text is in a dark blue, sans-serif font. The background of the slide is a light blue, semi-transparent image of an electrical plug and socket.

Hybrid Approach

Raihana Braimah

Hybrid Approach

Features

- Processing facility constructed by National Grid
 - Forms part of its regulated asset base

Cost recovery?

- NG sells rights to the use of its facility
 - Users pay for the right to use the NG facility over a specified duration
- This “user commitment” creates investment signals
 - NG invests in response to these signals
 - NG implements anti hoarding measures

Access to facility?

- Parties requiring processing of gas at Bacton can provide user commitment to NG

Questions for discussion

➤ Is this a **feasible** and **appropriate** framework?

- Incentives on parties to secure gas within GB specification?
 - Appropriate cost recovery mechanisms?
 - Which party bears the stranding risk?
 - Appropriate investment signals provided?
- Incentive to minimise the level of overall costs?
 - Requirements for anti-hoarding measures?
 - Secondary market trading a possibility?
- Framework create complex or simple arrangements?

Summary questions

Questions for consideration	Yes	No
Assist economic and efficient market operation?		
Facilitate competition?		
Minimise costs to customers?		
Proportionate regulatory approach?		
Facilitate security of supply?		

The title "Unregulated Approach" is centered within a large, horizontal, rounded rectangle with an orange border. The background of the slide features a vertical strip on the left side showing a close-up of electrical components, including a three-pin plug and a meter, with a blue and white color scheme.

Unregulated Approach

Hannah Cook

Unregulated Approach

Features

- No revenue guaranteed for facility operator
- Market determines the most appropriate set of arrangements for users

Access to facility?

- Facility operator makes capacity at Bacton available through non discriminatory allocation
 - Anti hoarding measures implemented

Issues?

- Any regulation required to support allocation process/operation of the facility?

Questions for discussion

➤ Is this a **feasible** and **appropriate** framework?

- Incentives on parties to secure gas within GB specification?
 - Appropriate cost recovery mechanisms?
 - Which party bears the stranding risk?
 - Appropriate investment signals provided?
- Incentive to minimise the level of overall costs?
 - Requirements for anti-hoarding measures?
 - Secondary market trading a possibility?
- Framework create complex or simple arrangements?

Summary questions

Questions for consideration	Yes	No
Assist economic and efficient market operation?		
Facilitate competition?		
Minimise costs to customers?		
Proportionate regulatory approach?		
Facilitate security of supply?		

A large, central ofgem logo, identical to the one in the top right corner, set against a background of a blurred electrical plug and socket.

Promoting choice and value for all
gas and electricity customers