

MEMORANDUM

TO: GTAC Stakeholders
FROM: First Gas
DATE: 21 August 2018
RE: Block 1 Outputs – 4 Rebates

This memo describes proposed changes to GTAC provisions on transmission incentive fee rebates to address the findings of the Final Assessment Paper (FAP). This follows the discussion at a workshop on Wednesday, 8 August 2018 that is documented in the Draft Minutes issued by the GIC on 17 August.

The proposed changes to the GTAC are provided in appendix 1 of this memo. This is open for consultation until 3 September 2018. If stakeholders wish to comment on these proposed changes, this can be done during the Workshop Block occurring September 4 to 6 (which will enable discussion of the topics with First Gas) or comments can be submitted to First Gas through the GIC website prior to 3 September.

Final Assessment Paper (FAP) findings

The findings of the FAP on rebates were summarised in the GTAC work programme as follows:

- Rebate mechanism worse due to a new entrant coming up against incumbents with rebates (59)
- Pass-through of rebates may increase costs to consumers

Positions Reached

The position reached in the workshop was:

- There was general agreement that transmission and balancing charges would not be subject to a rebate mechanism, but PR fees would be rebated.

This position reflects concerns about the unintended consequences of frequently rebating transmission incentive and balancing fees. Overall, stakeholders are more comfortable having incentive fees rebated via the regulated revenue cap. This has been implemented in the attached drafting.

Points raised during discussion

Item	Addressed by
August 9	
<p>1.3.1 First Gas is to look at whether welded parties at RPs should be treated differently to other parties to the GTAC in terms of rebates. In particular, it was suggested that a separate rebate mechanism should be created for welded parties at receipt points in relation to incentive charges.</p>	<p>We have considered the equity associated with the rebate of transmission and balancing fees to OBA parties. During the workshop stakeholders agreed that any over recovery of transmission fees or ERM charges would be returned to shippers through lower transmission prices two years after the over recovery occurred (via the wash-up of any difference between actual revenue and the regulated revenue cap). This supports the approach adopted in the December 2017 GTAC to rebate ERM and Overrun/Underrun fees to all parties paying those fees.</p> <p>An alternative approach (adopted in the MPOC) is to have all charges rebated via the regulated revenue cap. This is simpler (since other incentive fees are treated this way) and benefits from the integrity involved in reporting against the regulated revenue cap (including Director certification). This also reflects the fact that parties with an OBA should be able to control their own balancing position and are therefore best placed to manage any cost implications.</p> <p>However, this approach does not provide complete equity between the parties paying the charges (which include OBA parties) and the parties receiving the rebates (shippers).</p> <p>On balance, we think the GTAC should not rebate differences between forecast and actual balancing charges to OBA parties and should instead rely on the regulated revenue cap. This is because the equity issue is less significant under the GTAC than the MPOC, since there will be less secondary balancing activity once automatic cash-outs are removed. In contrast to a system where the transmission owner is automatically buying and selling gas every day via cash-outs, the quantity of transactions that will generate costs and revenues for First Gas are expected to be much lower under the GTAC.</p>