

# Gas Charging Review UNC0621

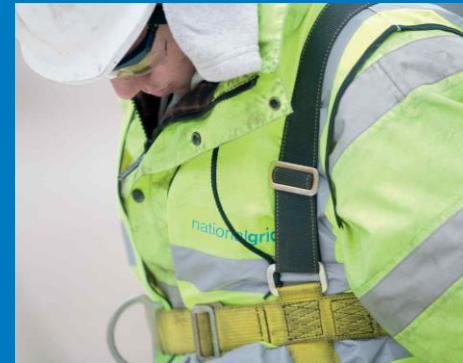


NTSCMF – 6 February 2018  
UNC0621 Workgroup

# Agenda

Area	Detail
UNC Modification 0621 – amended modification	<ul style="list-style-type: none"><li>• Last update - Amended modification published 21 December 2017</li><li>• What about further changes? Final version of the modification?</li></ul>
Updating the Modification	<ul style="list-style-type: none"><li>• Updating for clarity and specific processes</li></ul>
Developing the analysis	<ul style="list-style-type: none"><li>• Developing the analysis for UNC0621 including base case scenarios to show sensitivities against</li><li>• Cost allocation assessment initial thinking for discussion</li></ul>
Plan and GB/EU Consultation and change process	<ul style="list-style-type: none"><li>• Overview of current high level timeline</li><li>• Overview of possible revised timeline</li><li>• Consultations (UNC and TAR NC)<ul style="list-style-type: none"><li>• Responsibilities</li></ul></li></ul>
Outstanding Actions	<ul style="list-style-type: none"><li>• Action 707</li></ul>
Next Steps	<ul style="list-style-type: none"><li>• Next Steps for UNC0621</li></ul>

## Gas Charging Review



UNC Modification 0621 – Amending the Modification  
Amendments to Gas Transmission Charging Regime

# Gas Charging Review:

## UNC0621 – Modification proposals

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- Amended modification for UNC0621 (V2.0) published on 21 December 2018.

<https://www.gasgovernance.co.uk/0621>

- A clean and track changed version are available on the modifications page above and on the workgroup pages:

<https://www.gasgovernance.co.uk/0621/110118>

- Following workgroup discussions further updates will be published and be issued through the Joint Office.

# UNC0621 Proposals:

## Removing any square brackets from V2.0

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- The only items that were open to “clarification” and had [square brackets] as place holders to update:

Topic	Updated position
Section B / Section S Annex S-1	<ul style="list-style-type: none"><li>• Changes will be made to Section B</li><li>• Section S will be updated via separate mod</li></ul>
Discount application	<ul style="list-style-type: none"><li>• Applied to Reserve price</li></ul>
IP interaction with NTS Optional Charge	<ul style="list-style-type: none"><li>• Proposal shared and discussed at UNC0621 workgroups in January. Mod will be updated to reflect this approach.</li></ul>
Enduring consultation for multipliers, interruptible post 2019	<ul style="list-style-type: none"><li>• Consideration of how to cover the updating, or otherwise for those specific items. Proposal will be a “light touch” process without requiring Ofgem to make a decision each year.</li><li>• Proposal will allow Ofgem to veto any update / replace value.</li><li>• For both Multipliers and Interruptible do not envisage change in the short /medium term.</li></ul>

# UNC0621:

## Future updates to the modification

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- Action to deliver an updated Modification for 16 February
- NG will commit to delivering to this date to allow discussion at 20/21 February
- If there are any other updates they will be accommodated
- As the analysis of 621 and the alternates (A-F) and any others that may come in, there may be aspects that National Grid may incorporate into UNC0621 if considered beneficial and more appropriate than current proposals

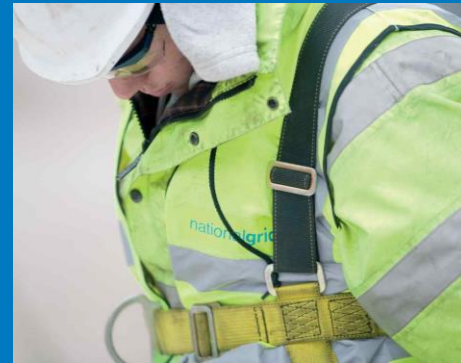
## Action 103

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Areas of the Modification that are not open to change?

- Alternates focus on specific areas such as updating FCC, NTS Optional Charge, Revenue top up charge derivation and application (including Existing Contracts), Storage discounts, Bidirectional Interconnector discounts and Transition period duration.
- These aspects could potentially inform changes to UNC0621 as analysis develops on the alternates.
- Other fundamental parts of the UNC0621 proposal are fixed (i.e. CWD, Interruptible, Multipliers, Non-Transmission, use of Transition).

## Gas Charging Review



UNC Modification 0621:  
Updating the modification / adding extra clarity



# UNC0621:

## Clarification for QSEC / AMSEC

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- UNC0621 stipulates the pricing approach for calculating the capacity charges.
- In order to fully populate the modification and better inform the legal text some further clarity is beneficial on a number of areas
- Entry Capacity is one where we feel it helpful to lay out the approach of how the floating charge will work in practise.

## Implementation for QSEC / AMSEC

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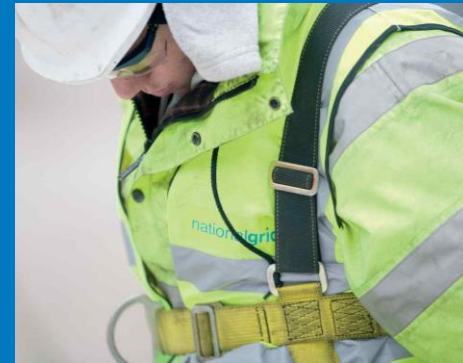
- For any long term capacity for a QSEC or AMSEC where the year has not been reached, when it comes to paying for the capacity the charge will be:
  - Prevailing reserve price plus any “premium”
  - The premium is the amount above the reserve price in the relevant auction and will remain fixed.
  - Like it does now at IP auctions.
- All other payable prices will be the clearing price (which may be above the reserve price) or the prevailing reserve price for Annual Exit.

# UNC0621: Implementation

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- When considering the solution / implementation under UNC621, or any alternate, there may be other aspects to consider to add clarity into the modification / legal text
- As these are developed, the modification will be populated.
- As many as possible will be accommodated into the modification to be published on 16 February.
- If there are any additional areas where extra clarity is needed please let us know.

## Gas Charging Review



UNC Modification 0621:  
Developing the analysis

## UNC0621: Developing the Analysis

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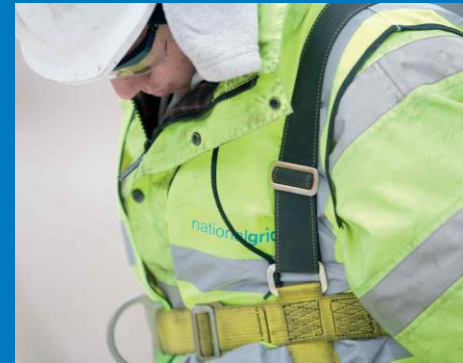
- For the analysis, the intention is to present analysis and show the sensitivities of the proposals for changes to certain aspects.
- As much as possible is being developed and will be shared for the 20<sup>th</sup> and 21<sup>st</sup> Workgroups.
- This requires some “base case” scenarios that are being developed to show the impacts of changes to the variables and assessment of the proposals
- This will require updates to the models presented so far to provide a static model for UNC0621. These too will be available for 20<sup>th</sup> and 21<sup>st</sup> February.

# Developing the Cost Allocation Assessment: Discussion

Capacity Cost Driver	Average				Summed			
	Distance	Capacity Weighted Distance	Technical Capacity	Forecasted Contracted Capacity*	Distance	Capacity Weighted Distance	Technical Capacity	Forecasted Contracted Capacity*
Capacity Revenue	IP and Non-IP revenue aimed to be recovered from capacity charges. Alternatively, revenue recovered from booking scenario in transition period (booking scenario would be different from FCC)							
IP and Non-IP capacity ratios are calculated (GWh/day)								
Capacity cost allocation comparison index is calculated (%)								
Commodity Cost Driver	Flows	Flows	Flows	Flows	Flows	Flows	Flows	Flows
Commodity Revenue	Commodity revenue forecast to be recovered from IP and Non-IP, dependent on capacity FCC and booking scenario							
IP and Non-IP commodity ratios are calculated (GWh)								
Commodity cost allocation comparison index is calculated (%)								
Combined Capacity and Commodity index (%)								

The combined index shows the degree of cross-subsidisation between IP and Non-IP system network usage based on the proposed reference price methodology. Where the cost allocation comparison indexes exceed 10%, the National Regulatory Authority shall provide the justification for such results within their decision.

## Gas Charging Review



UNC Modification 0621:  
Plan and change process

# Plan and Change Process

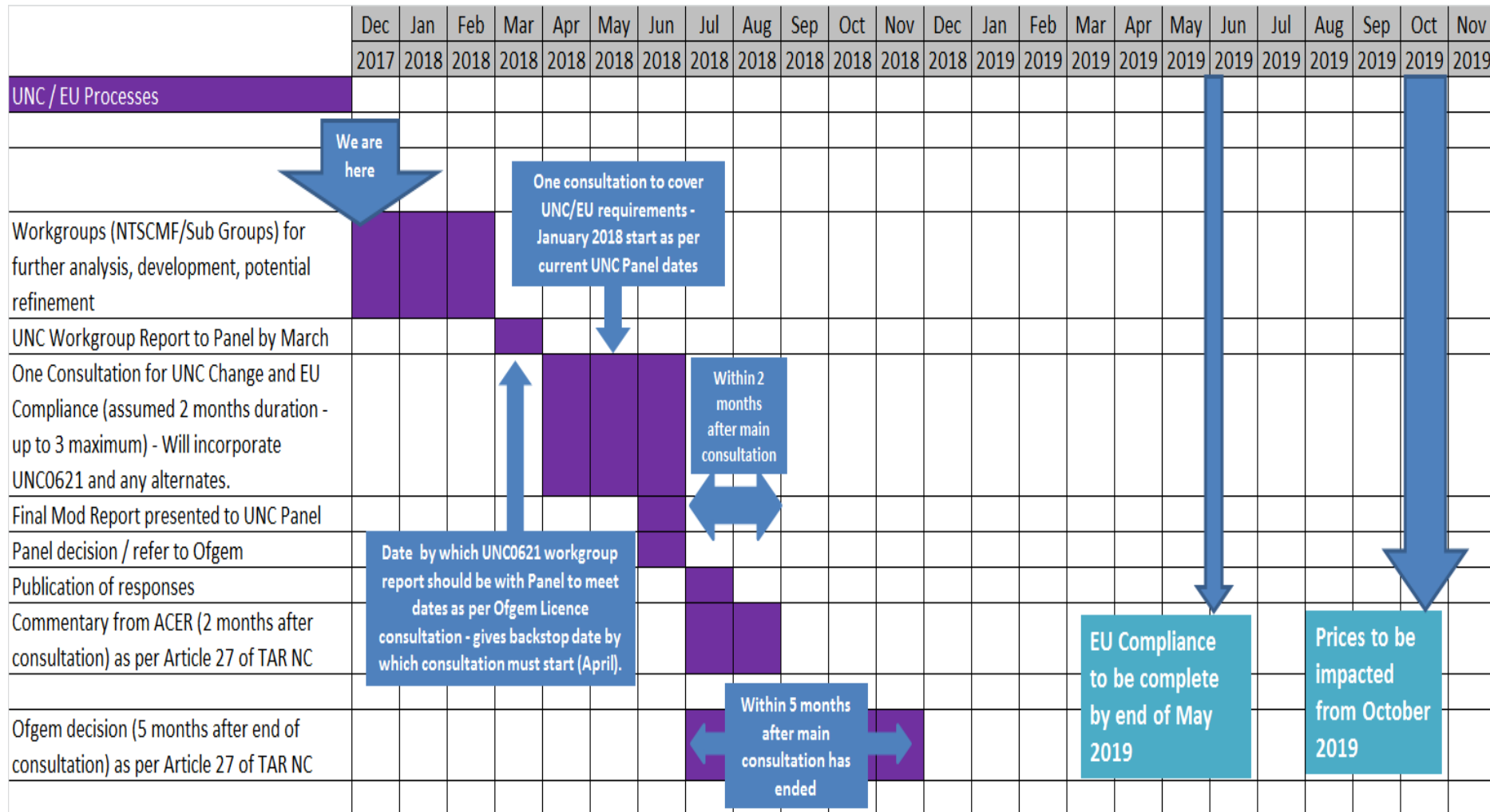
## Timescales

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- The following slides address Actions 0901 and 0104 for the UNC/EU TAR NC Consultation processes
- This covers the responsibilities for the steps in the consultations, where responses will be sent and the production of reports.
- Given the remaining updates to UNC0621, the outstanding analysis and the number of alternates to assess, it is unrealistic that the current date of March 2018 for submitting the completed workgroup report to Panel
- Given the dates in question, and subject to the outcome of any Licence direction, alternates at March Panel at the latest would be desirable

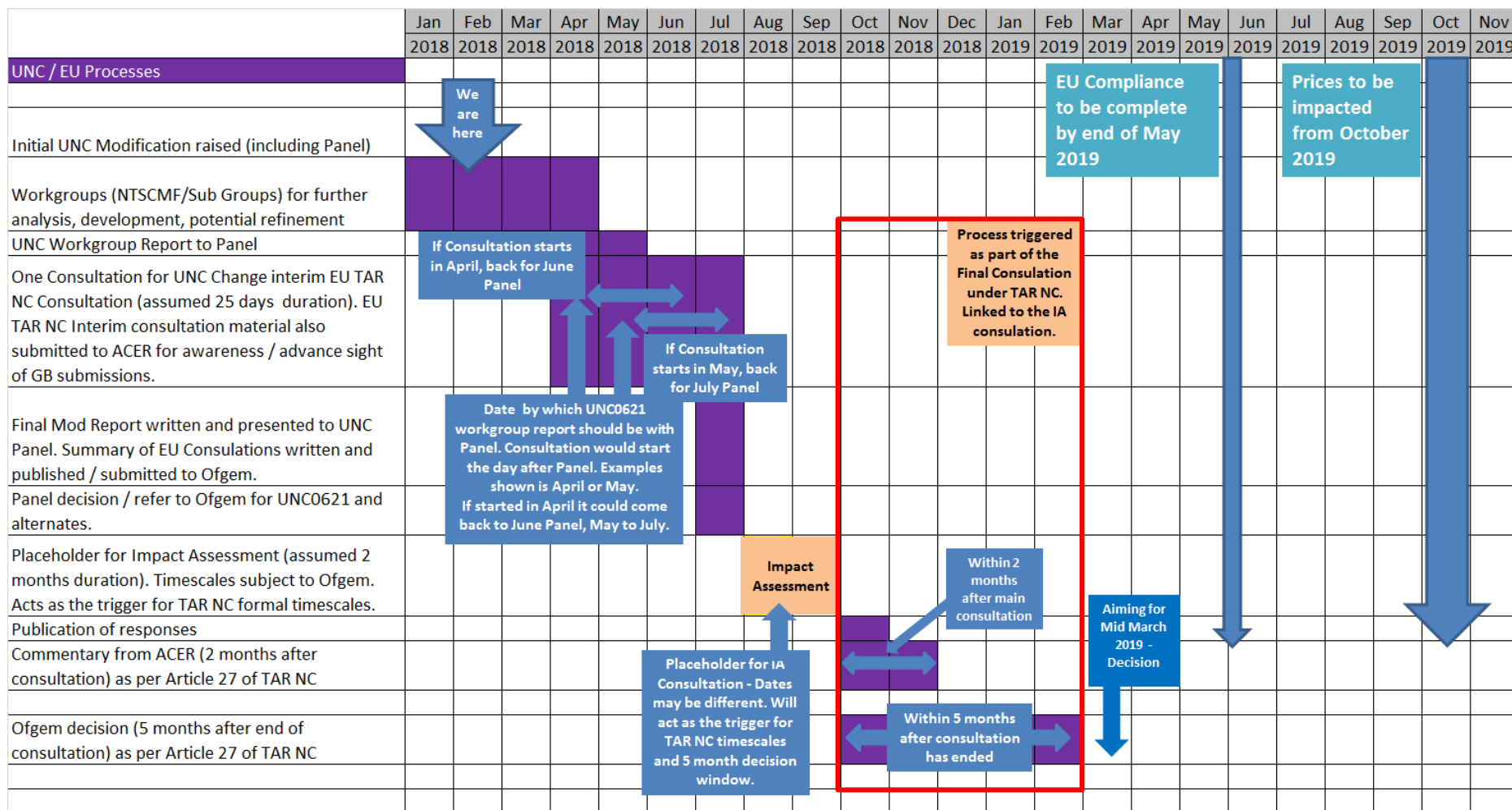


# Gas Charging Review: Current Plan Timescales\*



\*As shared in previous workgroups

# Gas Charging Review: Possible Revised Plan Timescales



# What these changes would mean for the consultation processes

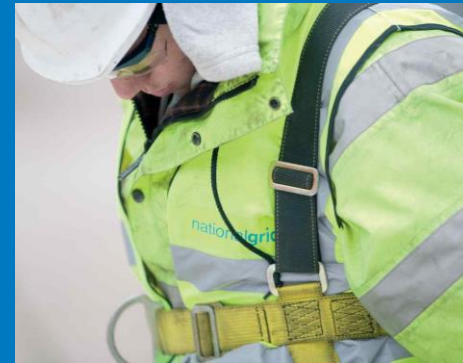
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- Consultation, Final Mod Report, publication can all be done in time to get back to Panel within two months (i.e. if went to Panel in May, would be back to Panel in July. If in April, then June).
- The TAR NC Consultation done by National Grid would not be the final TAR NC Consultation
  - However would still fill in all templates and submit to ACER to help inform and prepare for the final. Would serve as an Interim Consultation
  - Not restricted by TAR NC timescales as not final version
- Final consultation under TAR NC could be the Impact Assessment (IA) consultation
  - The conclusion of the IA consultation would therefore trigger the five month requirement under TAR to make a decision

## Process for consultation(s)

Step	UNC0621	Interim EU TAR NC	Impact Assessment
Pre-requisites to consultations	Workgroup report submitted to and voted on by Panel (including any specific questions for consultation).	Not sent to Panel. Materials for consultation to be published as separate doc / appendix and submitted to ACER for awareness.	Preparation for Impact Assessment
Consultation to be notified by	Joint Office	Joint Office	Ofgem
Duration of consultation	25 working days	25 working days	TBC
Responses to be sent to	Joint Office	Joint Office	Ofgem
Report following receipt of responses to be written by	Joint Office	National Grid	Ofgem
What happens to report	Published/issued to Panel	Published by NGG /issued to Ofgem	Published by Ofgem
Publication of non-confidential responses	Joint Office on UNC0621 pages	Published by NGG	Published by Ofgem

## Gas Charging Review



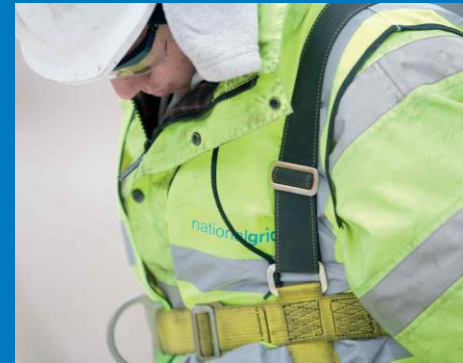
ACER template for TAR NC Consultation

# EU TAR NC Consultation: ACER Template for submission

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- The link to the content required can be found here:  
[http://www.acer.europa.eu/Official\\_documents/Public\\_consultations/Pages/ACER-Consultation-Template.-Tariff-NC-Article-26\(5\).aspx](http://www.acer.europa.eu/Official_documents/Public_consultations/Pages/ACER-Consultation-Template.-Tariff-NC-Article-26(5).aspx)
- National Grid is reviewing these templates to review which parts will be populated and which are not required for GB and also what can be populated early and which will be common across all alternates.
- Under the proposals discussed today the interim TAR NC consultation will require the preparation of the relevant material and much, if not all, of the information should be usable as supporting material for the IA consultation
- Any mod specific elements, will be required from each proposer.

## Gas Charging Review



UNC0621 Modification  
Actions

## Action ref: 0621-707

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- Existing Contracts and impact within CWD approach
- Reminder of key steps within CWD approach
  - Setting Capacity charges to recover a target revenue over a specific capacity forecast
  - Ambition is that forecast used in CWD will be close to the actual minimising the need / impact of recovery charges
  - Within GB there are some contracts that have prices not changing for capacity from Oct 19
  - Entry long term contracts only allocated before EIF of TAR NC
  - Historical contracts is a GB concept under 621



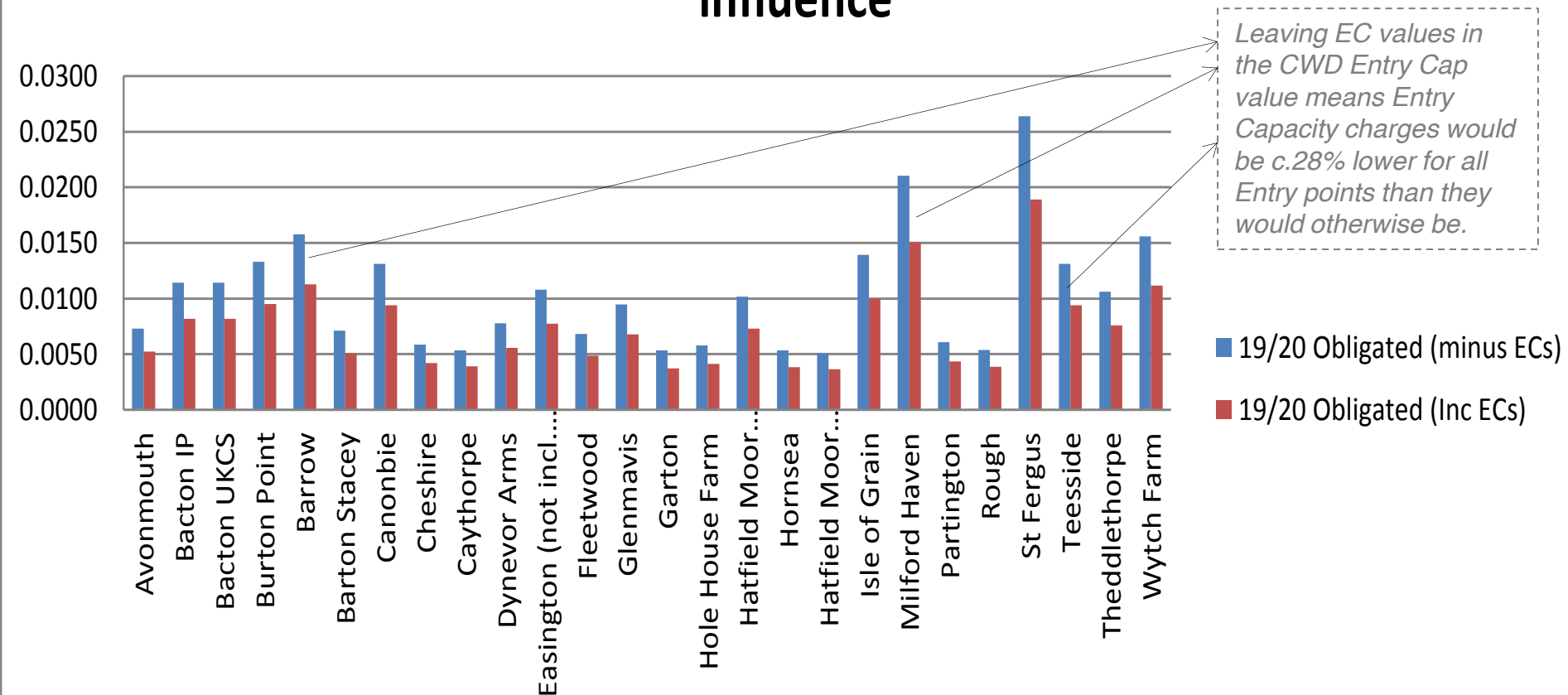
## Action ref: 0621-707

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- Proposal under 621 is to exclude the existing contract volumes from the Entry CWD calculation.
- If included then prices will be lower and, if following the original principal under CWD, it will not recover the target revenue.
- The method of including the Capacity values means that it will not impact Exit Charges, only Entry
- If the capacity numbers were to include the EC's then using 19/20 as an example, the charges would be approx 28% lower than if they were excluded

## Action ref: 0621-707

### Comparison of CWD Oct 19 Existing Contracts (ECs) influence



## Action ref: 0621-707

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- Consequences of selection:
- Approach ensures that recovery of revenue is over the remaining capacity
- Does not purposely place more on the recovery charges

	19/20	19/20	Difference
Target Revenue	£433m	£433m	None
Collected (assuming historical flows as proxy for bookings forecast)	£153m	£127m	-£26m
Shortfall	£280m	£306m	+£26m

- Less is collected and therefore any revenue recovery charges must increase to compensate

## Action ref: 0621-707

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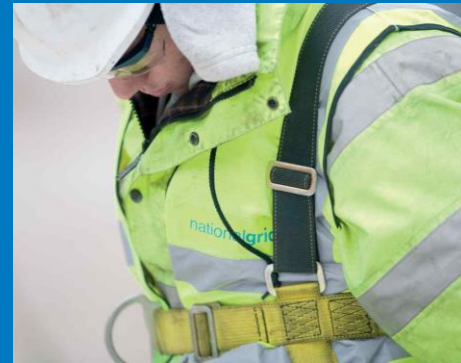
- If gross value inclusive of EC values then irrespective of transition or enduring then will not recover target revenue.
- To date the models give the ability to have negative capacity numbers (collared at zero to prevent negative prices)
- Practicality of forecasts – likely that at most points there will be forecast of some capacity, even for those with ECs
- The approach given that will always look to spread the target revenue (net of known capacity income from EC values) over the remaining capacity forecast

## Action ref: 0621-1204

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- RPI and RPI-X
- RPI-X was a feature of previous price controls that was a method of adjusting the base revenue allowances
- Even in this period, relevant cost components (e.g. the Expansion constant) to charging were adjusted using RPI
- Preference is not to mix adjustments over a period
- More appropriate to adjust using ONS RPI data to bring initial costs to the relevant year
- Will require minor change to current proposal for clarity and transparency

## Gas Charging Review



UNC0621 Modification  
Next Steps

# Gas Charging Review: UNC0621 Next Steps

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- Analysis to go along with the modification proposals.
- Development of alternates and pre modification discussions (if any more)
- Updated models to include additional functionality and reflect updated scenarios to model sensitivities
- It may be necessary to review the frequency of workgroups to complete the WG report for Panel as soon as possible

## Contact us:

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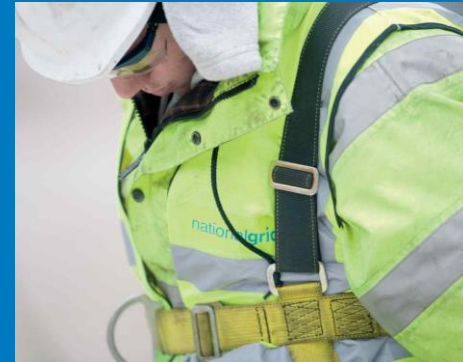
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