

## Gas Charging Review



NTSCMF – 11 January 2017

*Final slide pack – Update provided on 9 January 2017. All slides added or updated are marked with a blue star*



# Agenda

Area	Detail
Output from sub-workgroup	<ul style="list-style-type: none"> <li>• Summary of the December Sub workgroups and overview of documents available</li> <li>• Key discussions and status on topics</li> <li>• Focus of future sub group meetings</li> <li>• Update on Model development</li> </ul>
Charging terminology	<ul style="list-style-type: none"> <li>• Sharing understanding of key charging related terms</li> <li>• Review of EU Tariffs Code terminology</li> <li>• If and how current GB terminology maps across</li> </ul>
Plan and change process	<ul style="list-style-type: none"> <li>• Reminder of timescales working towards UNC change process for the Charging Review</li> </ul>
UNC Modification Development	<ul style="list-style-type: none"> <li>• Key steps to inform Gas Charging Review UNC Modification</li> <li>• Key discussions to inform this</li> </ul>
EU Tariffs Code – Current Outlook	<ul style="list-style-type: none"> <li>• Key updates relevant to Gas Charging Review</li> </ul>
Issues Log	<ul style="list-style-type: none"> <li>• Review of Issues</li> <li>• Discussion on proposed new items</li> </ul>
Next Steps	<ul style="list-style-type: none"> <li>• Further development at Future NTSCMF and additional workshops</li> </ul>

## Gas Charging Review



Output from sub workgroups (December 2016)

## Output from sub workgroup (1)

---

- Two sub workgroups held in December
- Documentation and output from the meeting will be available on 9<sup>th</sup> January 2017 at:  
<http://www.gasgovernance.co.uk/ntscmf> and  
<http://www.gasgovernance.co.uk/ntscmf/subg>
- We welcome any comments or questions on any of the material produced or if there is anything you feel is relevant to feed into the meetings



## Output from sub workgroup (2)

---

- There are a series of documents produced from the sub workgroup on a number of subject areas
- These have been discussed at the Sub Workgroups and, for some topics, also at previous NTSCMF's
- Comments are welcome on these papers
- Together these will help inform how the modelling will be structured and also inform the UNC Modification to be raised



## Output from sub workgroup (3)

---

- For some topics the Sub Workgroup has provided a recommendation that we highlight in the following slides and can also be found at:  
<http://www.gasgovernance.co.uk/ntscmf/subg>
- There are more topics to cover and additional topics will be discussed at future Sub Workgroups and NTSCMF meetings



## Summary of topics (1)

Topic	Discussion highlights	Conclusion (latest draft)
Reference Price Methodology (RPM)	<p>If you change just one of the inputs into the Long Run Marginal Cost (LRMC) model it will not resolve all of the issues in the prices produced by the model, as any of the inputs can have a large impact on the range of prices.</p> <p>Reference Prices generated by both the Capacity Weighted Distance (CWD) Model and Postage Stamp (PS) Model are impacted by fluctuations in the inputs; however the impact on Entry and Exit and across each location is identical and predictable.</p>	<p>The LRMC (or Virtual Point) model is no longer considered suitable and the sub-group's view is that it should not be the focus for developing a proposed RPM for the Gas Charging Review.</p>



## Summary of topics (2)

Topic	Discussion highlights	Conclusion (latest draft)
Locational Signals	Locational signals, from a shipper point of view, are not necessarily a big factor in influencing investment decisions when incorporating the impact of prices.	The use of the locational signals to Network Users is considered limited and not a significant factor in decision making.
Multipliers	Multipliers can be perceived in different ways by different users and in what it means for them and can be used in a charging framework for a number of reasons.	It was agreed at the November 2016 NTSCMF sub group that initially a simple approach should be followed in only modelling multipliers of 1 for all different auction types.
Formula vs Gas Year	To change the formula year to match the gas year would involve a significant change to the Gas Transporter Licence change, if it is considered worthwhile it may be better to wait and feed the change into RIIO-T2 negotiations.	To maintain the Formula year and Gas year as currently defined.





## Interruptible

---

- Summary of Discussion(s)
  - The calculation of the probability of interruption is specified in the TAR NC but this is IP specific. For information some of the key extracts of Article 16 are included in the Appendix.
  - The question around whether IP's and Non-IP's should be priced differently was raised and there was no reason suggested why they would be any different.
- Conclusion
  - There is no reason why IP's and Non-IP's should be priced differently.



# Transmission Services Revenue

---

- Summary of Discussion(s)
  - The levels of capacity that are used in setting charges will impact the quantity of revenue that is recovered and could influence the level of over/under recovery.
  - Some thought that capacity may not need to be a significant contributor to revenue recovery given the availability of using a Complementary Revenue Recovery Charge (CRRC).
  - The CRRC can only be applied at Non-IP's so the level of any use of the CRRC may be significant in any discrimination considerations.
  - Any methodology would be subject to Ofgem's approval.
- Conclusion
  - The suggestion was that the use of Revenue recovery for Transmission Services should be predominantly Capacity based for both Entry and Exit. Whilst there are provisions for a specific commodity charge (to recover cost to flow gas) and a CRRC is permitted for the purposes of revenue recovery at Non-IP's only, if the aim is to apply one method across all points then it would be more appropriate if capacity was the main recovery mechanism for Transmission Services.



# Non-Transmission Services Revenue

---

## ■ Summary of Discussion(s)

- Collection of Non-Transmission Services revenue, whilst subject to the criteria provided in Article 4(4) of the TAR NC, has more flexibility than for Transmission Services. Ultimately it will be for Ofgem to approve any Non-Transmission Services charges and the criteria along with the charging relevant objectives would be expected to be a solid foundation upon which to base a methodology.
- A general view from the group that using a commodity type charge (where a unit value is applied) was a simple, effective approach.
- If a flow based charge were used, there is a question of which flows this would apply to. For example the simplest approach would be that all flows would attract Non-Transmission charges. The application of Non-Transmission charges will need to be considered against the various objectives and measures that are required and also any other charging products or other issues that may interact with them;

## ■ Conclusion

- One suggestion was that the use of Revenue recovery for Non-Transmission Services should be predominantly Commodity base. The application of this may depend on the denominator used in the calculation (e.g. flows).
- As discounts may be provided for elsewhere in the charging framework (e.g. storage and capacity discounts) and given the objectives under Article 4 and the relevant objectives, one approach could be to apply it to all flows (if flows are used, or other units) and not have discounts unless demonstrated that these can be duly justified.



## Article 9

---

- Summary of Discussion(s)
  - The only mandated discount stated in Article 9 is a 50% minimum discount to be applied to capacity-based transmission tariffs at entry points from and exit points to storage facilities.
  - If any parties feel there is suitable justification for alternative discounts under Article 9 then they should be encouraged to come up with position paper now in order to feed into the initial UNC Modification.
  - The modelling of storage discount will be based on locations where the type of Entry point/Offtake is designated as a 'Storage Site' in the Gas Transporter Licence (the "Licence"), Table 4B and Table 8.
  - There may be some ASEPs where a storage point and a non-storage point are combined and are therefore not designated as a storage site in the Licence. In order to apply a discount appropriately at these points, they may need to be split so that the relevant parts can be designated as Storage Sites.
- Conclusion
  - The only discount to be applied from Article 9 will be the 50% discount to the capacity-based transmission tariffs at entry points to and exit points from Storage facilities, where the relevant location is designated as a 'Storage site' in the Licence.

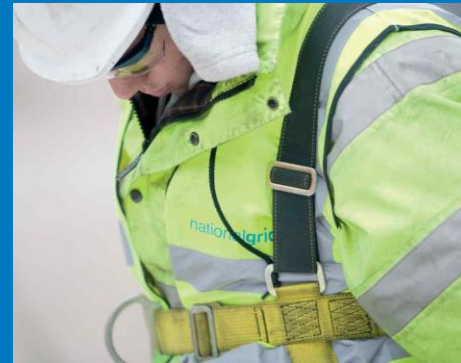


## Optional Commodity Charge (OCC)

---

- Summary of Discussion(s)
  - The OCC as it is currently is calculated today will need to be amended if a product is developed which is intended to maximise the use of the NTS and avoid inefficient bypass of the NTS.
  - Under TAR NC there could be a product designed/developed to be either:
    - a discount to the charge to collect the Non-Transmission Services Revenue or;
    - a discount to the capacity charges to collect the Transmission Services Revenue
  - The impact on the discount and the interaction with other charges will need to be looked at.

## Gas Charging Review



## Charging Terminology



## Charging Terminology

---

- In order to help understand the comparisons between the EU Tariffs Code and the current GB Charging Framework we have produced a document to highlight:
  - Understanding of key charging related terms;
  - Review of EU Tariffs Code terminology;
  - If and how current GB terminology maps across
- We hope this is a useful reference tool as we progress under the Gas Charging Review / EU Tariffs Code implementation
- Document available as part of the supporting material on the NTSCMF website

<http://www.gasgovernance.co.uk/ntscmf/110117>

## Gas Charging Review



Plan and change process





# Gas Charging Review: Plan and Change Process

Proposed Agenda	Sub Group / NTSCMF Ambition	Some key topics to discuss, present proposals on
January 2017	<ul style="list-style-type: none"><li>• Continue Behavioural assessments to help inform a behavioural response approach for use in modelling and inform one pager on the stance</li><li>• Focus on end to end modelling to incorporate all areas needed to complete it</li><li>• Legal views on key topics when available</li></ul>	<ul style="list-style-type: none"><li>• Continue discussion on RPM selection, Formula Yr/Gas Yr, Interruptible, Revenue Reconciliation, Multipliers, Article 9, NTS OCC</li><li>• Additional discussion topics</li><li>• Legal views on key topics when available, working assumptions if not</li></ul>
February 2017	<ul style="list-style-type: none"><li>• Build in additional components on end to end modelling</li><li>• Legal views on key topics when available</li></ul>	<ul style="list-style-type: none"><li>• Behavioural assessments</li><li>• Additional topics</li></ul>
March 2017	<ul style="list-style-type: none"><li>• Build in additional components on end to end modelling</li><li>• Developing, discussing and updating draft UNC Modification</li><li>• Legal views on key topics when available</li></ul>	<ul style="list-style-type: none"><li>• Behavioural assessments</li><li>• Additional topics</li><li>• Bringing all aspects of the framework together</li></ul>
Spring 2017	<ul style="list-style-type: none"><li>• Raising UNC Modification to start UNC Change process</li></ul>	

## Gas Charging Review



UNC Modification Development

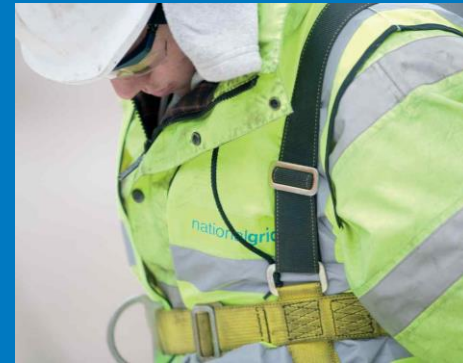


## UNC Modification Development

---

- The documentation produced from the discussions at the NTSCMF Sub Workgroup will help inform the UNC Modification
- The Model that will be shared in Q1 2017 will be available to Users to help them model different scenarios and consider impacts of potential change
- In combination the UNC Modification will have a reasoned foundation for the types of change it will include and will be subject to the UNC Change process

## Gas Charging Review



EU Tariff Code – Current Outlook



## EU Tariff Code: Process Steps

---

- **Mid-Nov 2016 – mid-Feb 2017:** Council and EU parliamentary scrutiny
- **6-8 March 2017:** EC - formal adoption and publication of TAR NC (~ 3 week process)
- **26-28 March 2017:** Entry into Force 20 days after publication
  - This should be after annual auction on 6 March
  - It shall be before allocation of QSEC auction



## ENTSOGE Activity: Implementation Workshop

---

- 1-day workshop in Brussels to take place shortly after publication
  - TAR WS will only take place after scrutiny by EU Parliament and EU Council
- Goal of WS is to discuss the whole contents of TAR NC
- Both EC and ACER shall also present at WS
- Tentative date for WS is **29 March 2017**



# EU Tariff Code: Simplified implementation timeline (with no pause for EU consultation) v3

nationalgrid

	Jan 2017	Feb 2017	Mar 2017	Apr 2017	May 2017	Jun 2017	Jul 2017	Aug 2017	Sep 2017	Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	Jun 2018	Jul 2018	Aug 2018	Sep 2018	Oct 2018	Nov 2018	Dec 2018
<b>EU Processes</b>																								
Prepare consultation																								
Consultation																								
Publish responses																								
ACER views																								
NRA Motivated Decision																								
<b>UNC Processes</b>																								
Analysis - Options development via NTSCMF																								
Draft UNC Modification Discussions																								
Initial UNC Modification raised (including Panel)																								
Workgroups for further analysis, development, potential refinement																								
Final UNC Modification																								
Consultation on final MOD (including Panel's)																								
Ofgem decision																								
<b>Licence changes (TBC)</b>																								
Develop Licence changes																								
Consult on Licence changes																								
Decision on Licence changes																								
<b>Additional assessment (e.g. Impact Assessment) (TBC)</b>																								
Ofgem Impact or additional assessment																								
Consult on Impact or additional assessment																								
Respond on Impact or additional assessment																								



# TAR supporting MODS for CAM

---

- **TAR NC 25 (1):** *Where and to the extent that the transmission system operator functions under a non-price cap regime, the conditions for offering payable price approaches shall be as follows:*
  - a) *for cases where only existing capacity is offered:*
    - i. *the floating payable price approach shall be offered;*
    - ii. *the fixed payable price approach **shall not be allowed.***
- This applies from **1 October 2017**
- Applicable Daily Rate for Annual Yearly Entry will have to be aligned to that for Exit
  - i.e. adjusted price for year of use





## TAR supporting MODS for CAM

---

- TAR NC Art 33 Introduces concept of a “Mandatory Minimum Premium”
- May be used to enable positive economic test outcome where “*allocation of all incremental capacity at reference price would not generate sufficient revenues*” to pass test
  - May be applied to incremental release in both auctions and alternative allocation mechanisms



# TAR supporting MODS for CAM

---

- Mandatory Minimum Premium (MMP) shall have to be included in **EID**:
  - Added to definition of Auction Premium
    - **Reserve Price + share of Auction Premium + MMP**
      - *N.B. There are currently no plans to use auctions for incremental*
  - New definition of Applicable Payable Price required for Alternative Allocation Mechanism
    - **Reserve Price + MMP**

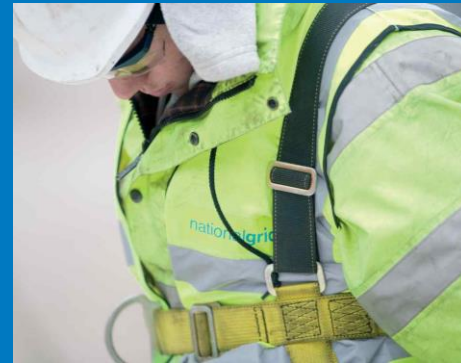


# TAR supporting MODS for CAM

---

- What about incremental capacity at IPs where the “fixed payable price **may** be offered”?
  - If alternative allocation mechanism used, or
  - Project is listed as a “project of common interest”
- “fixed payable price approach” isn’t same as current concept of “fixed” price
- Cannot be reconciled (risk covered by a risk premium)
  - Impacts allowed revenue
- **NG shall not be proposing a fixed price approach in upcoming Mods to support CAM amendments.**
- Full details at <http://www.gasgovernance.co.uk/tx>

# Gas Charging Review



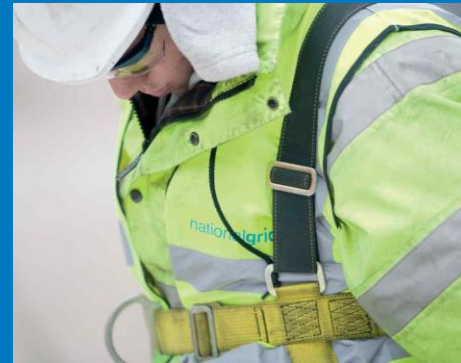
Issues Log

## Issues Log

---

- Review of Issues Log (review of the spreadsheet)
  
- Discussion on proposed new items

## Gas Charging Review



Next Steps



## Next Steps

---

- Continue the work with the sub workgroup to produce summary documents on the main topics and discussions on potential UNC change
- Continue development of end to end modelling using the sub workgroups and bring back to NTSCMF



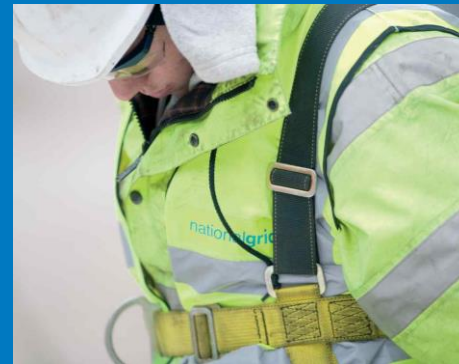
# Gas Charging Review: Plan and Change Process (repeated from earlier)

Proposed Agenda	Sub Group / NTSCMF Ambition	Some key topics to discuss, present proposals on
January 2017	<ul style="list-style-type: none"><li>• Continue Behavioural assessments to help inform a behavioural response approach for use in modelling and inform one pager on the stance</li><li>• Focus on end to end modelling to incorporate all areas needed to complete it</li><li>• Legal views on key topics when available</li></ul>	<ul style="list-style-type: none"><li>• Continue discussion on RPM selection, Formula Yr/Gas Yr, Interruptible, Revenue Reconciliation, Multipliers, Article 9, NTS OCC</li><li>• Additional discussion topics</li><li>• Legal views on key topics when available, working assumptions if not</li></ul>
February 2017	<ul style="list-style-type: none"><li>• Build in additional components on end to end modelling</li><li>• Legal views on key topics when available</li></ul>	<ul style="list-style-type: none"><li>• Behavioural assessments</li><li>• Additional topics</li></ul>
March 2017	<ul style="list-style-type: none"><li>• Build in additional components on end to end modelling</li><li>• Developing, discussing and updating draft UNC Modification</li><li>• Legal views on key topics when available</li></ul>	<ul style="list-style-type: none"><li>• Behavioural assessments</li><li>• Additional topics</li><li>• Bringing all aspects of the framework together</li></ul>
Spring 2017	<ul style="list-style-type: none"><li>• Raising UNC Modification to start UNC Change process</li></ul>	



## Contact us:

[box.transmissioncapacityandcharging@nationalgrid.com](mailto:box.transmissioncapacityandcharging@nationalgrid.com)



Jenny Phillips  
Gas Capacity and Charging  
Development Manager  
Tel: +44 (0)1926 65 3977  
Mob: +44 (0) 7776 318646  
Email: [jenny.phillips@nationalgrid.com](mailto:jenny.phillips@nationalgrid.com)

Colin Williams  
Charging Development Manager  
Tel: +44 (0)1926 65 5916  
Mob: +44 (0)7785 451776  
Email: [colin.williams@nationalgrid.com](mailto:colin.williams@nationalgrid.com)

Colin Hamilton  
EU Code Development Manager  
Tel: +44 (0)1926 65 3423  
Mob: +44 (0) 7971 760360  
Email: [colin.j.hamilton@nationalgrid.com](mailto:colin.j.hamilton@nationalgrid.com)

Sarah Chleboun  
Senior Commercial Analyst  
Tel: +44 (0)1926 65 4246  
Email: [sarah.chleboun@nationalgrid.com](mailto:sarah.chleboun@nationalgrid.com)

Laura Johnson  
Commercial Analyst  
Tel: +44 (0)1926 65 6160  
Email: [laura.johnson@nationalgrid.com](mailto:laura.johnson@nationalgrid.com)