



Non-Transmission Charging Reforms beyond 2024

NTSCMF

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Overview

- Historically Non-Transmission Revenues, and therefore General Non-Transmission Services Charges, have remained relatively stable from year to year as the cost inputs which form them have remained relatively consistent.
- More recently Non-Transmission revenues, and therefore charges have experienced significant volatility.
- This has been exacerbated by substantial reconciliations that can span multiple years.
- NGTs Non Transmission Services webinar from July 2023 outlined proposals for change.
- This workstream, which will discuss and develop potential Non-Transmission charging reforms for October 2025 and beyond, forms the final part of these proposals.

Key Issues and Drivers

Volatility and unpredictability of Shrinkage

- Shrinkage costs in recent years have been unpredictable and volatile.
- Shrinkage costs that NGT is exposed to are passed through to customers via the General Non-Transmission Services charges.
- The unpredictability of Shrinkage can cause substantial reconciliations that can impact charges for future years with costs in one year effectively being charged in another.

Timing of when revenues can be updated

- Historically, Non-Transmission revenues did not change substantially from year to year and charges remained relatively stable.
- The timing of when updated views on costs (e.g. shrinkage) can be included to Allowed Revenues can have a significant impact on charges for future years.

Regulatory Year and Tariff Years not being same period

- The misalignment between the Regulatory/Formula Year (Apr – Mar) and Tariff Year/Gas Year (Oct – Sep) has until recently not been an issue for Non-Transmission charges.
- If approved, UNC 0857 should mitigate some of the Non-Transmission issues by revising the method of determination of Gas Year Target Revenues, however there are still some issues that 0857 will not address.

Proposals for Change

1. Decision to defer Allowed Revenue from FY24 to FY25

- A £100m deferral of revenue from the SO Allowed Revenues from FY24 to FY25 . This has had the effect of reducing the tariff applicable from October 2023 and increasing the tariff applicable from October 2024.

2. Changes for 2024

- If approved UNC Modification 0857 will smooth revenues across years that input to setting General Non-Transmission Charges. We are hopeful of a decision on the Modification from the regulator in time for October 2024 charge setting.

3. Further structural reforms beyond 2024

- The proposals already brought forward address some of the Non-Transmission issues identified particularly around tariff volatility. However, other issues still remain. We therefore propose to review and consider further structural changes to how and when Shrinkage costs are recovered.
- These changes will aim to forge closer links between charges and market prices, bringing the period between incurring costs to recovery closer together.
- This will include considering the potential for updating all or some of the revenue components within year and options that would minimise reconciliations that span multiple years.

Draft Timeline

- We have agreed with the JO that the issues and any potential options for improvement will be discussed and developed through a standing NTSCMF agenda item for the next 5-6 months.
- If it is decided to progress any reforms, the expectation is that they could be implemented for October 2025.
- In order for October 2025 implementation, a decision on any UNC Modification would be required by the end of May 2025.
- More detail on the timeline and how discussions will be structured over the next 5-6 months will be provided at NTSCMF in December.

