Non-Transmission Charging Reforms

NTSCMF

05.12.2023

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.

- Although the revenue deferral, UNC 0847 and UNC 0857 will deliver significant improvements to the Non-Transmission charging arrangements, particularly around charge volatility, there remain issues which NGT believe require further discussion and potential further reforms.

Draft Timeline

December 2023
Set out structure of discussions via NTSCMF

January 24-May 24
Options will be discussed and developed through a standing NTSCMF agenda item

June 2024
Raise potential UNC Modification

June 24-October 24
UNC Modification Workgroup development

October 2024
UNC Modification sent to Ofgem for decision

October 24-May 25
Ofgem to complete impact assessment if required and make decision on Proposal

May 2025
Approval required by May 2025 for October 2025 implementation

October 2025
Aim to implement changes to come into effect for the prices applicable from 01 October 2025

The above dates are indicative only and based on an assumption that implementation of any proposal will occur in time to effect tariffs from October 2025.

Proposed Workgroup Discussion Plan

This package of work will form a standing NTSCMF workgroup agenda item in the coming months.

High level plan for workgroup discussions:

December:

- Set out timeline and plan for discussions
- Discuss the issues and what any changes should aim to achieve?
- Stakeholder opportunity to provide initial views on issues, key considerations and potential options

January:

- NGT to present high level options for consideration and discussion by industry

February onwards:

- More detailed discussions and option development based on feedback received

Issues

- NGT has recently been exposed to unpredictable and volatile shrinkage costs which are passed through to customers via the General Non-Transmission Services charges.
- The timing of when updated views on costs (e.g. shrinkage) can be included to Allowed Revenues can result in changing costs in one year having a significant impact on charges for future years.
- This is due to substantial reconciliations, which result in costs from one year effectively being charged in another.
- As NGT's customers will have different flow proportions from one year to the next, these reconciliations can result in charges being levied against a different set of customers in different proportions to those that they are incurred against.
- These reconciliations can also result in problems being stored up for future years via large step changes in allowed revenues.
- The issue is therefore both the size of the reconciliations and the timing of when they effect the revenues relative to when the costs are incurred.

Aims

To reduce the size of reconciliations than span multiple years:

- There will always be some reconciliation but these should be minimized where possible.
- Users should be charged based on a fair reflection of the costs of using the network at the time, as far as reasonably practicable.
- Smaller reconciliations will result in less impact of the past on future years bills.
- Any issues that arise are less likely to be stored up for future years.

To bring the time between when market related costs are incurred and when they are charged closer together.

- This may include updating all or some of the revenues within year.
- Closer links could be forged between charges and market prices.
- This would allow for a more accurate recovery of Allowed Revenues in any given year.

Discussion points

Are there any other issues with Non-Tx Charging that need to be considered?

Should there be any additional aims of further Non-Transmission Charging reforms?

What are the key considerations when developing options on this topic?

- period of notice prior to charges coming into effect.

national gas transmission