



# Transmission Services Charging: Future Developments

NTSCMF Discussions

May 2024



# Transmission Services: Review Agenda

Overview

Reminder of some key charging drivers

Relevant Objectives interpretation / reflection

Next Steps

# Transmission Services: Review

- At April's NTSCMF, the suggested focus was to look at the Relevant Objectives as a means to help the discussions on Transmission Services to see if this helps identify areas of development such as the 50/50 split. This presentation is therefore intended:
  - As a means by which we can reflect on the Relevant Objectives (standard and charging specific) in discussing the Entry / Exit split and its part in Transmission Services charging.
  - To follow on from April's NTSCMF to provide a basis on which to help Stakeholders share their views on the status quo and any potential change.
  - To have discussions on Interpretation of the Relevant Objectives as this can be subjective. In order to address this, and to accommodate into the discussion around Relevant Objectives one way could be to reflect on potential interpretations of the Relevant Objectives to help the discussion
  - To use some key aspects and features of pricing that can help support the discussions.
- **Please share your thoughts and feedback with us throughout;** your input is vital. Our contact details can be found in the pack if you would like to speak to us outside of NTSCMF.



# Transmission Services Charging: Future Developments

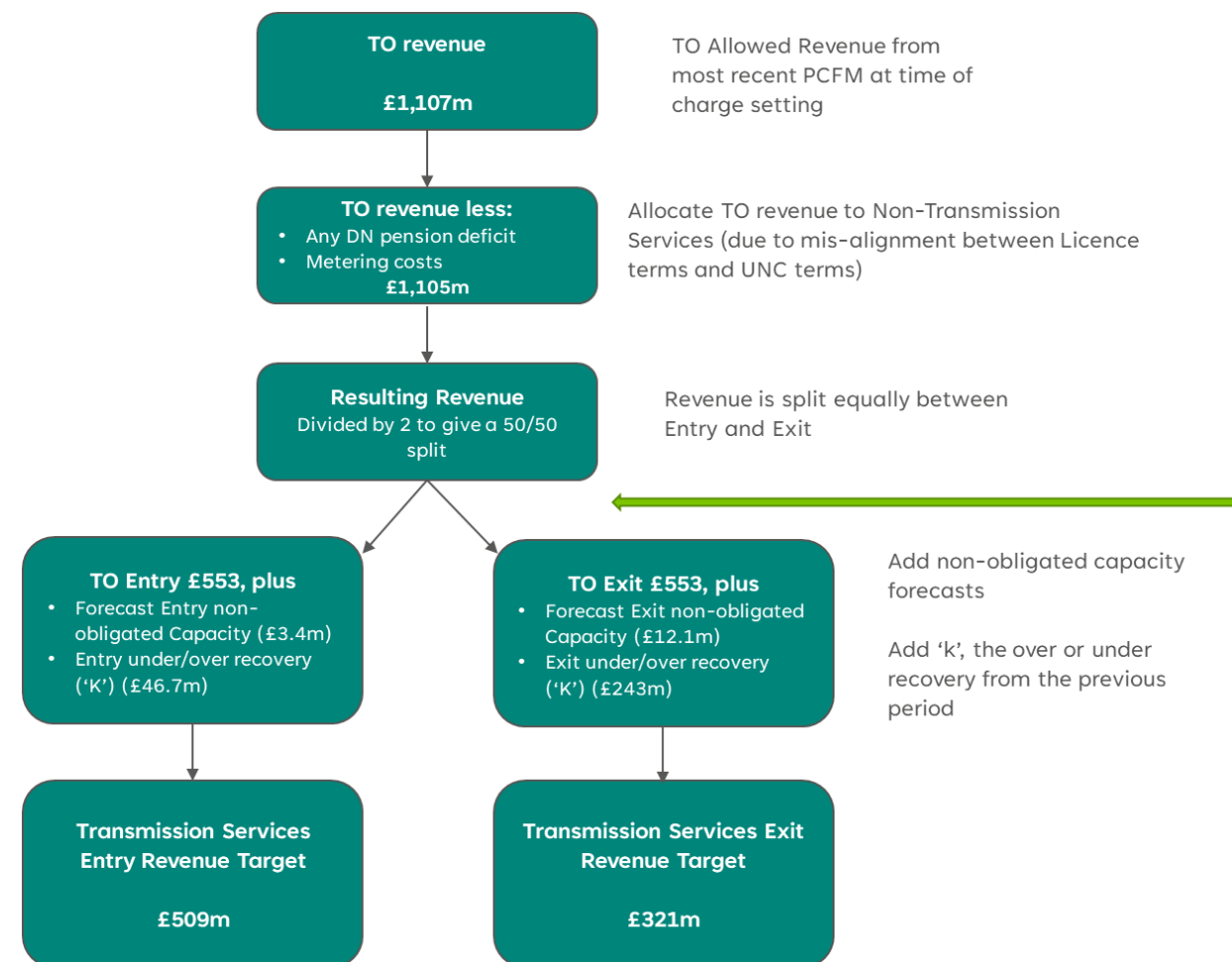
NTSCMF Discussions: Reminder of some key elements in Charging calculations

May 2024



# Transmission Services Revenue: Reminder

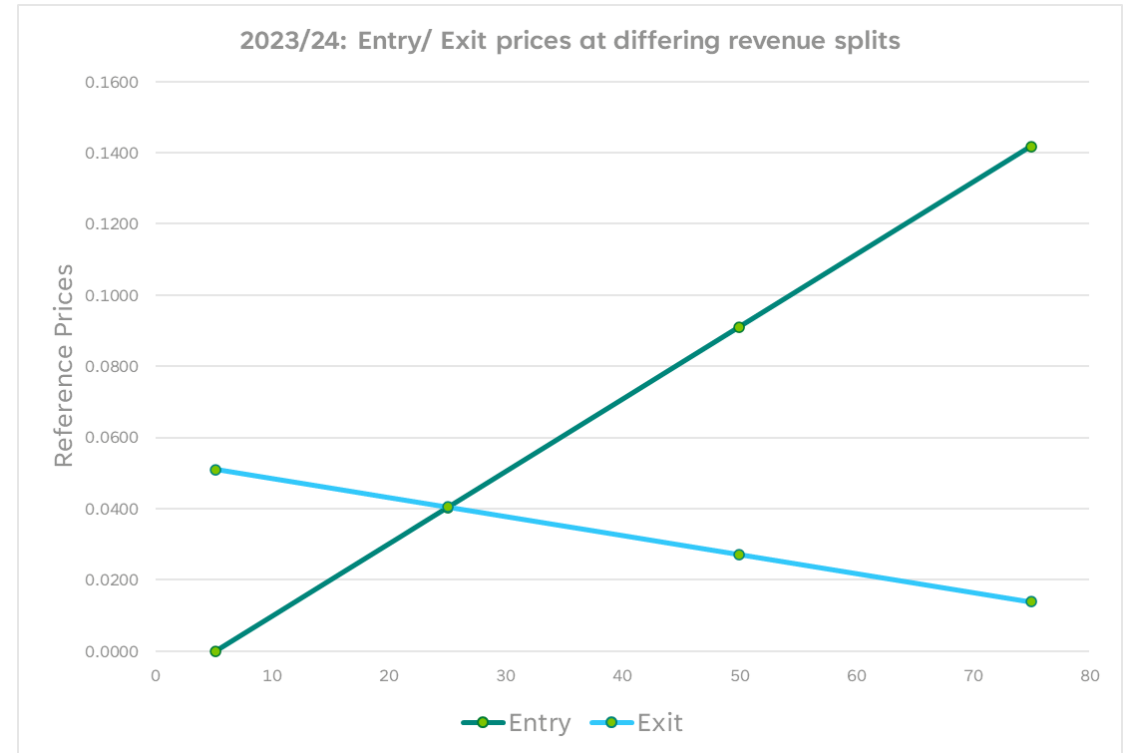
- Ofgem set the target revenue we can recover. This is split in to two distinct revenue streams; Transmission Owner (TO) and System Operator (SO)
- Transmission Services Revenue broadly aligns to the TO revenue stream. Any TO revenue associated with Non Transmissions services is reallocated.
- The resulting revenue is then split between Transmission Services Entry and Transmission Services Exit. The split is 50:50, as determined by UNC, TPD, Y, 1.5.3
- Although the percentage of revenue may be the same, **the prices for entry and exit capacity differ:**
  - This is due to the volume of capacity at exit points
  - Will still be the case when EC expire



# Price Impact 2023/24\*

2023/24	Entry Reference Price	Exit Reference Price
50/50 Baseline	0.0910	0.0272
25/75	0.0403	0.0405
5.1/94.9	0.0000	0.0510
75/25	0.1418	0.0139

- **Note 1:** 5.1% is the lowest that can be modelled due to the value of existing contracts
- **Note 2:** At a revenue split of 25.06/ 74.94 Entry and Exit prices are equal for GY 23/24 at 0.0404
- **Note 3:** Every percentage change to entry split leads to a c. 0.00203 change to entry prices and a c. 0.00053 change to exit prices





# Transmission Services Charging: Future Developments

NTSCMF Discussions: Relevant Objectives

May 2024



# Transmission Services: Relevant Objectives

- This section would benefit from Stakeholder input to enhance the discussions.
- In order to consider the Relevant Objectives (Standard and Charging), some consideration is given to the interpretation of the Relevant Objective and also its likely relevance to a pricing change such as around the 50/50 split part of the charging framework.
- We appreciate interpretation is subjective and there will be other views.
- Taking this into consideration, this can help shape reflections based on different interpretations where raised to better focus discussions to consider any potential for change.
- Therefore, we welcome views on this approach. We support flexibility in the discussions such that if helpful to focus on the interpretation and / or the reflections of each interpretation (on status quo and any change) in one session, or across more than one, this can be done.
- Against each, we suggest an interpretation and some questions to help the discussion. Feedback on this is welcome to help shape further. This is by no means exhaustive in terms of interpretation / reflections and will be further enhanced with Stakeholder input.



# Relevant Objectives

Relevant Objective	Our Understanding/ interpretation	Considerations for Entry/ Exit Split
<p>a) Efficient and economic operation of the pipe-line system.</p>	<p>Pipeline operations and infrastructure are extremely critical for the country's functioning and growth. Economic efficiency implies a state in which resource is optimally allocated whilst minimising waste and inefficiency. Getting the right inputs at the lowest cost</p> <p>Considerations may include:</p> <ul style="list-style-type: none"> <li>• Fuel costs (compressors)</li> <li>• Personnel</li> <li>• Cost of service (capacity charges etc)</li> <li>• Maintenance</li> <li>• Investment</li> <li>• Data &amp; information</li> <li>• Economies of scale (throughput)</li> <li>• Running of the network</li> <li>• Residual balancing</li> <li>• Commercial processes (e.g. capacity auctions)</li> </ul>	<p>Tariffs underpin the economic viability of the NTS. Ofgem set the amount of Allowed Revenue (via the Price Control funding model) we can recover in terms of recovering capital costs, operating costs and expected return. Tariffs are structured in a way to allow this recovery.</p> <p>Do the current arrangements promote efficient and economic operation?</p> <p>Would any amendment to the split enhance this objective if balance were to be more Entry or Exit? Would any consideration be needed in regards to any changes in booking &amp; flow behaviours as a result.</p>

# Relevant Objectives

Relevant Objective	Our Understanding/ interpretation	Considerations for Entry/ Exit Split
<p>b) Coordinated, efficient and economic operation of</p> <ul style="list-style-type: none"> <li>(i) the combined pipe-line system, and/ or</li> <li>(ii) the pipe-line system of one or more other relevant gas transporters.</li> </ul>	<p>Bringing together the different elements of the combined pipeline system through clarity and certainty around how the connected systems will be operated</p> <p>Cooperation between the NTS, IGTs and Distribution Networks</p> <p>[Note: does not include cooperation with interconnectors as this objective relates to holders of a Transportation Licence]</p>	<p>Do the current arrangements promote coordinated efficient and economic operation?</p> <p>Any potential change to entry/ exit split may not directly impact this objective, however consideration will need to be given to existing discounts.</p>

# Relevant Objectives

Relevant Objective	Our Understanding/ interpretation	Considerations for Entry/ Exit Split
c) Efficient discharge of the licensee's obligations.	The provision of enhanced information/ outputs for any of our obligations or any new Licence obligations to ensure that UNC accurately reflects changes to the Licence.	<p>In relation to charging this is set out on Standard Special Condition A5 of our Licence</p> <p>Believe this is neutral</p>

# Relevant Objectives

Relevant Objective	Our Understanding/ interpretation	Considerations for Entry/ Exit Split
<p>d) Securing of effective competition:</p> <p>(i) between relevant shippers;</p> <p>(ii) between relevant suppliers; and/or</p> <p>(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.</p>	<p>Competition is considered effective if there are no significant barriers to access products and services – there is a level playing field.</p> <p>Considerations (not exhaustive) may include:</p> <ul style="list-style-type: none"> <li>• Capacity auction/ allocation</li> <li>• Charging structure</li> <li>• Gas quality</li> <li>• Data and information</li> </ul>	<p>How does the status quo support effective competition? Would any change enhance competition?</p> <p>Would a change to the Entry/ Exit split lead to increased competitiveness within GB and to Europe?</p> <p>Are there any cross-subsidy considerations?</p> <p>Can the balance between Entry and Exit adjust to support competition, considering at a combined and individual Entry/Exit level?</p>

# Relevant Objectives

Relevant Objective	Our Understanding/ interpretation	Considerations for Entry/ Exit Split
<p>e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards are satisfied as respects the availability of gas to their domestic customers.</p>	<p>Domestic customer supply security standards are defined in Special Condition A11 of the Licence.</p> <p>This relates to the availability of a supply of gas to domestic customers in regards to historical weather data derived from at least the previous 50 years, is likely to be exceeded only 1 year in 20.</p>	<p>Believe this is not relevant for Transmission Services charging arrangements.</p> <p>Explains DN capacity booking behaviour.</p>
<p>f) Promotion of efficiency in the implementation and administration of the Code.</p>	<p>Ensure that UNC is up to date with Licence amendments including housekeeping. Any enhancements to the modification rules and governance process</p>	<p>Believe this is not relevant for Transmission Services charging arrangements.</p>

# Relevant Objectives

Relevant Objective	Our Understanding/ interpretation	Considerations for Entry/ Exit Split
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	EU Network codes were developed ~ 10 years ago. We are required by law to adhere to these. This objective was added to facilitate any modifications that had to be raised to ensure compliance with EU Law.	<p>When considering any change to the status quo, compliance will need to be considered.</p> <p>We believe that the output of a potential amended entry/ exit split will be compliant. However, the method we use to apply any amendments would need to be reviewed.</p> <p>Once we have a proposal, this can be worked through in more detail</p>

# Relevant Charging Objectives

Relevant Objective	Our Understanding/ interpretation	Considerations for Entry/ Exit Split
<p>a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;</p>	<p>As set out in SC A5 of the Licence, the charging methodology results in charges which permit NGT to make reasonable profit and no more from its Transportation business.</p> <p>The current methodology can be viewed as a revenue recovery model as opposed to cost recovery model (which does not explicitly match the wording of the relevant objective). We have access tariffs (capacity) and use of network tariffs (commodity charges).</p> <p>Does not include connection charges, or some development stages (e.g. PARCAs)</p>	<p>Ofgem set the amount of Allowed Revenue (via the price control funding model) we can recover in terms of recovering capital costs, operating costs and expected return (incentives). Tariffs are structured in a way to allow this recovery.</p> <p>Are the tariffs reflective of the methodology we are trying to apply?</p> <p>Are the tariffs fair?</p> <p>What discounts should be considered?</p>

# Relevant Charging Objectives

Relevant Objective	Our Understanding/ interpretation	Considerations for Entry/ Exit Split
<p>aa) That, in so far as prices in respect of transportation arrangements are established by auction, either:</p> <p>no reserve price is applied, or that reserve price is set at a level -</p> <p>(I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and</p> <p>(II) best calculated to promote competition between gas suppliers and between gas shippers;</p>	<p>For Transmission Services, prices are calculated using a ‘top-down’ approach. The Allowed Revenue for Transmission services is split equally between Entry and Exit. FCC, volume of existing contracts, and discounts then drive the capacity reference prices.</p> <p>This objective is looking at the auction process. If you change the entry/ exit split, prices are calculated in the same way as per the current methodology. It is the apportionment of revenue that will (potentially) change</p>	<p>This objective could be considered neutral if we are just looking at amending the entry/ exit split. However, there are consequences to this that may need further thought:</p> <ul style="list-style-type: none"> <li>• Would an amended split lead to changes in booking behaviour or increased/ decreased throughput / impacts to competition for capacity / impacts to prices &amp; premiums?</li> <li>• Could reserve price changes lead to impacts on Existing Contracts?</li> <li>• Any general implications for auction related processes if prices were to reduce significantly? <ul style="list-style-type: none"> <li>• Incentive to purchase capacity &amp; Overrun implications</li> </ul> </li> </ul>



# Relevant Charging Objectives

Relevant Objective	Our Understanding/ interpretation	Considerations for Entry/ Exit Split
b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;	<p>Does the charging methodology recover charges as intended.</p> <p>This could include considerations around the patterns of use of the NTS, as well as external factors such as gas price volatility</p> <p>This could also include updating alongside Licence conditions, expectations or obligations.</p>	<p>Have there been any developments in the transportation business that we need to consider that can be addressed by the entry/ exit split?</p> <p>Are there any external factors that require consideration (e.g. development of LNG facilities across EU, GB competitiveness compared to other countries)</p>

# Relevant Charging Objectives

Relevant Objective	Our Understanding/ interpretation	Considerations for Entry/ Exit Split
<p>c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers;</p>	<p>Competition is considered effective if there are no significant barriers to access products and services – there is a level playing field.</p> <p>In terms of the Charging Methodology, considerations may include:</p> <ul style="list-style-type: none"> <li>• Capacity auction/ allocation process</li> <li>• Charging structure and timeliness of publication of charges</li> <li>• Data and information</li> <li>• Discounts</li> </ul>	<ul style="list-style-type: none"> <li>• How does the status quo promote competition from a pricing perspective?</li> <li>• Are there currently any pricing barriers to the network?</li> <li>• How sensitive are shippers to price when considering GB as a place to land gas?</li> <li>• Should we have the same pricing methodology for all connection points?</li> <li>• What is the right amount Entry should pay? What is the right amount exit should pay? (currently entry prices higher than for exit)</li> <li>• Can pricing arrangements impact security of supply?</li> </ul>

# Relevant Charging Objectives

Relevant Objective	Our Understanding/ interpretation	Considerations for Entry/ Exit Split
<p>d) That the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).</p>	<p>The Licensee shall not dispose of or relinquish operational control over any transportations assets, save where the Secretary of State otherwise agrees.</p>	<p>Considered neutral/ not relevant</p>
<p>e) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.</p>	<p>EU Network codes were developed ~ 10 years ago. Further EU changes will be considered in terms of how/if they are incorporated.</p>	<p>We believe that the output of a potential amended entry/ exit split will be compliant. However, the method we use to apply any amendments would need to be reviewed.</p> <p>Once we have a proposal, this can be worked through in more detail</p>



# Transmission Services Charging: Future Developments

NTSCMF Discussions: Next Steps

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# Discussion Points and Next Steps

From June NTSCMF onwards: **Development discussions on Status Quo / potential change**

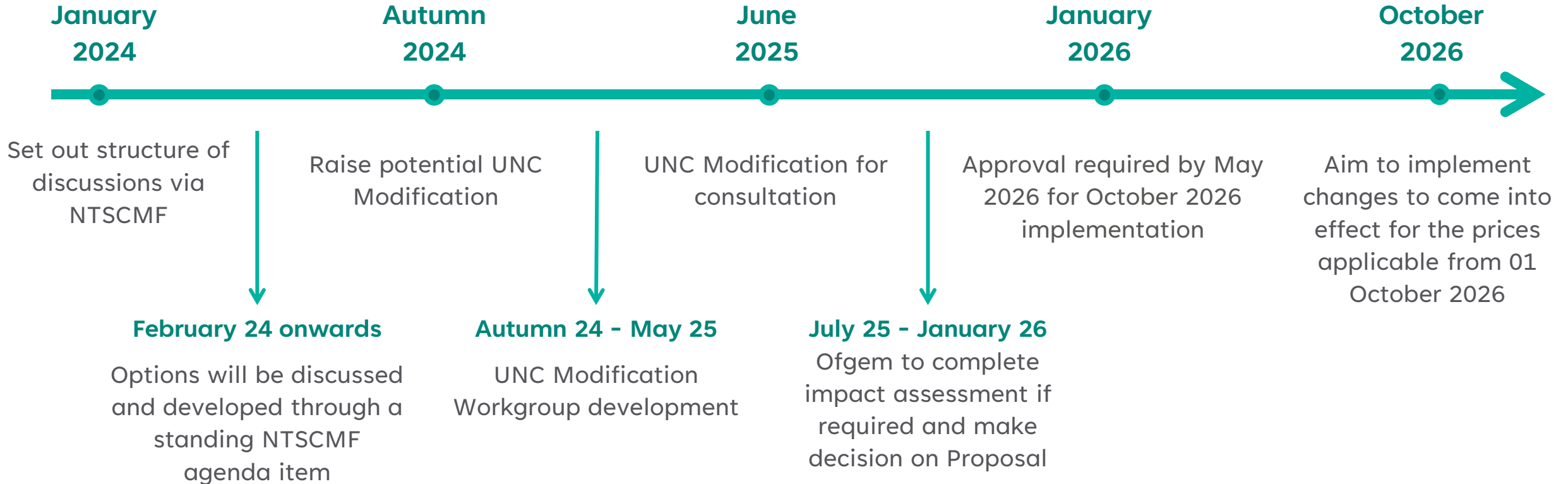
- We welcome reflections on what has been presented so far and how we take it forwards and it may be useful to go through this again, following discussions on interpretation of Relevant Objectives
- Reviewing potential benefits and / or issues of reviewing this or any associated topic on Transmission Services charging
  - Keeping a record of reflections on the status quo and on potential change
  - Keeping a record of reflections on interpretation and impacts on relevant objectives of the status quo and potential change
  - Expand the Relevant Objectives discussion to include Consumer and how this is reflected in the UNC Change Template. Thinking of how impacts to Consumer can be reflected.
- Thinking of the balance between Entry and Exit Tariffs, if there are other drivers or objectives changes could potentially deliver on
- Keeping focus on developing a reflection on status quo versus change to better consider if change may be appropriate to consider developing further towards a modification

# Discussion Points and Next Steps

From June NTSCMF onwards: **Analysis supporting discussions**

- Thinking on how analysis, even simplified analysis, can support the discussions or development
  - Continued development of assumptions & impact on prices based on feedback, can these be updated based on points raised and therefore enhanced to be more supportive
  - Building and maintaining a list of topics that need to be accommodated into the analysis and present areas where further thinking is required:
    - E.g. 'K', any transition period from status quo to a changed % split, accommodating Existing Contracts, shorthaul, discounts
- Analysis has a place in the discussions, noting this is around charging and pricing impacts. We believe this can be revisited and is an important supporting tool to inform discussions and be flexible to accommodate suggestions and outputs from discussions to be as useful as possible
- At all times, Stakeholders input through NTSCMF or direct, will be invaluable as this topic is given time for discussion.

# Draft Timeline



The above dates are indicative only. The outcome of discussions will inform the plan going forwards.

# Thank you

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