

Gas Charging Review



NTSCMF – 6 December 2016

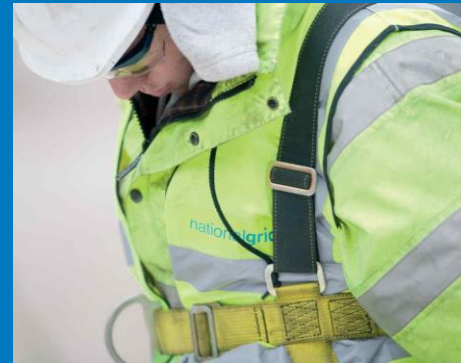
Final slide pack – Update provided on 5 December 2016. All slides added or updated are marked with a blue star



Agenda

Area	Detail
Output from sub-workgroup	<ul style="list-style-type: none">• Summary of the November sub group and overview of documents available• Key discussions and further analysis
EU Tariffs Code – Current Outlook	<ul style="list-style-type: none">• Key updates relevant to Gas Charging Review• Areas under discussion
Issues Log	<ul style="list-style-type: none">• Review of Issues• Discussion on proposed new items
Next Steps	<ul style="list-style-type: none">• Further development at Future NTSCMF and additional workshops

Gas Charging Review



Output from sub workgroup (November 2016)

Colin Williams

Output from sub workgroup

- Second meeting held on 23rd November
- Documentation and output from the meeting will be available on 2nd December at:

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

- 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



Sub-workgroup – 23 Nov 2016

- What was covered:
 - Objectives Comparison Matrix
 - LRMC Sensitivity
 - Comparing Results of the Reference Price Models
 - Discussion Items
 - Locational Signals
 - Multipliers (or discounts)
 - Behavioural Assessments
 - Next Steps



Summary of second sub group:

What was covered – Objectives Matrix

- Matrix template to compare the Reference Price Models/scenarios to the Licence Objectives, Shipper Objectives and Ofgem's statutory duties.
- It was agreed that the traffic light system would be a useful way to present this information when there are developed options to measure

★ Summary of second sub group: What was covered – Models

- Analysis was showed on the LRMC model and the sensitivities on the prices based on changes to inputs
 - LRMC (inclusive of administered adjustments) showed that supplies /demands, merit order and revenue adjustments drive the largest impacts. Other elements such as the expansion constant, whilst a necessary input as a cost component to the LRMC approach, does not drive much change, compared to the other variables.
- Comparison of CWD and LRMC prices was shown
 - CWD has less range on the prices for an applicable year compared to LRMC
- Postage Stamp Model was produced and prices shown

Linked to NTSCMF – position for reference

- At November's NTSCMF we discussed a number of key topics (locational signals in prices, multipliers) and it was considered helpful for reference to summarise these discussions and conclusions in short summary notes to help future references to these areas
- These will be discussed at the sub group and also at NTSCMF
- Rather than search through minutes of the meetings, these short notes will act as a reference library on key topics.



Summary of second sub group:

nationalgrid

What was covered – Discussion Items

- Action 1101: Locational Signals – one pager – Published and available on NTSCMF page for comments

Summary of second sub group:

What was covered – Discussion Items

- Multipliers (or discounts) – There was a discussion about multipliers and that different users will perceive them in different ways. It was accepted that the initial and simple approach for modelling is to set all multipliers to 1.

Summary of second sub group:

What was covered – Discussion Items

- Behavioural Assessments – Split Entry and Exit into two camps to enable easier assessment of the response to price changes. The following areas should be considered with respect to behavioural analysis: security of supply, use of the NTS and encourage new entrants to the market.

Gas Charging Review



EU Tariff Code – Current Outlook

Colin Hamilton

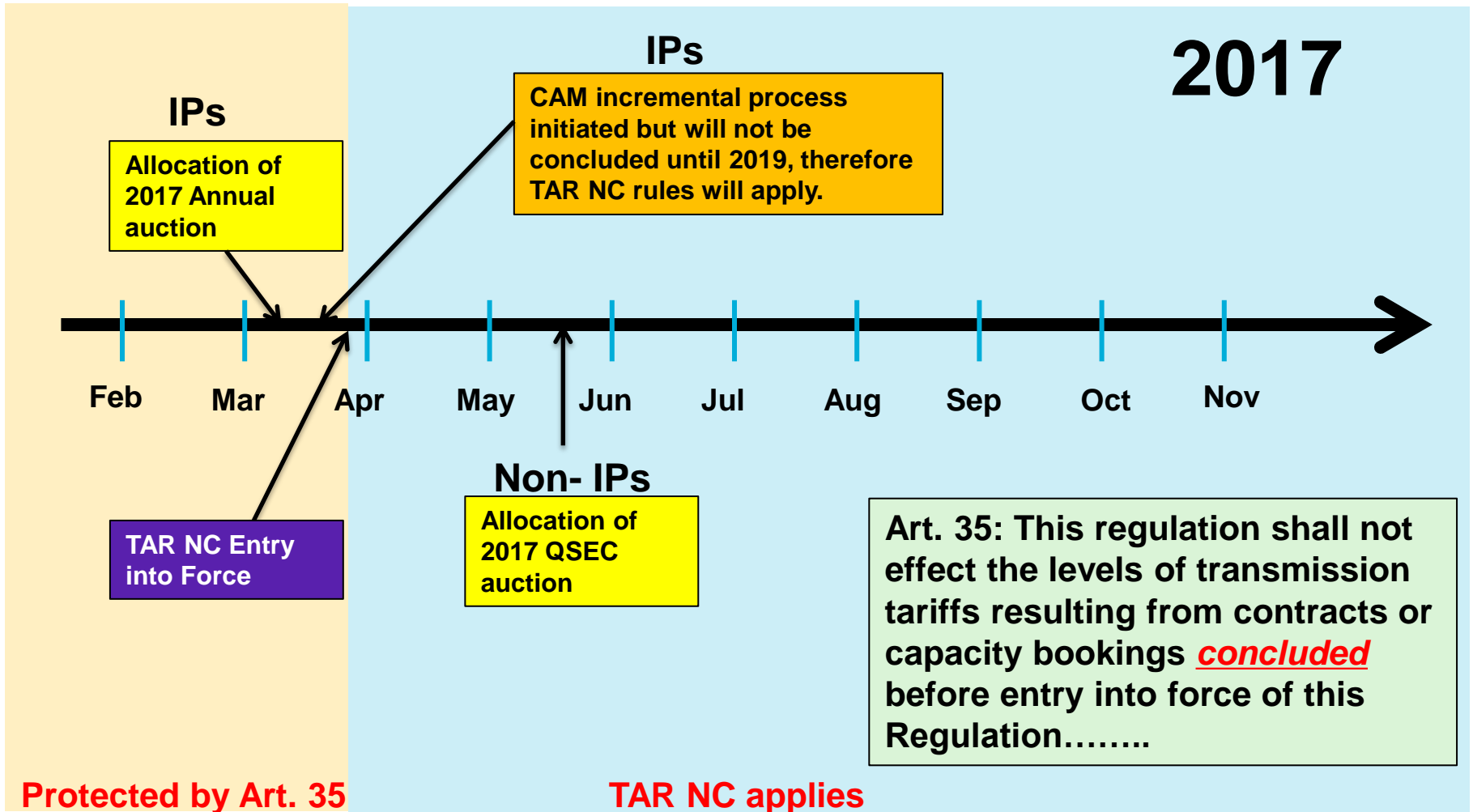


EU Tariff Code: Process Steps

- **Mid-Nov 2016 – mid-Feb 2017:** Council and EU parliamentary scrutiny
- **Early March 2017:** EC - formal adoption and publication of TAR NC (~ 3 week process)
- **Late 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



Auction timeline vs when TAR NC applicable





TAR NC: Article 35: Existing contracts

- NG sought legal advice re meaning of final version of Article 35. In summary they stated:
 - It places a clear cut-off date for any existing contracts to which TAR would not apply.
 - It applies to all contracts concluded prior to the entry into force of TAR; and
 - If the contract does not foresee any change in the levels of capacity or energy tariffs other than for indexation then TAR NC would not apply to those contracts.
 - For GB, the UNC would be the relevant contract

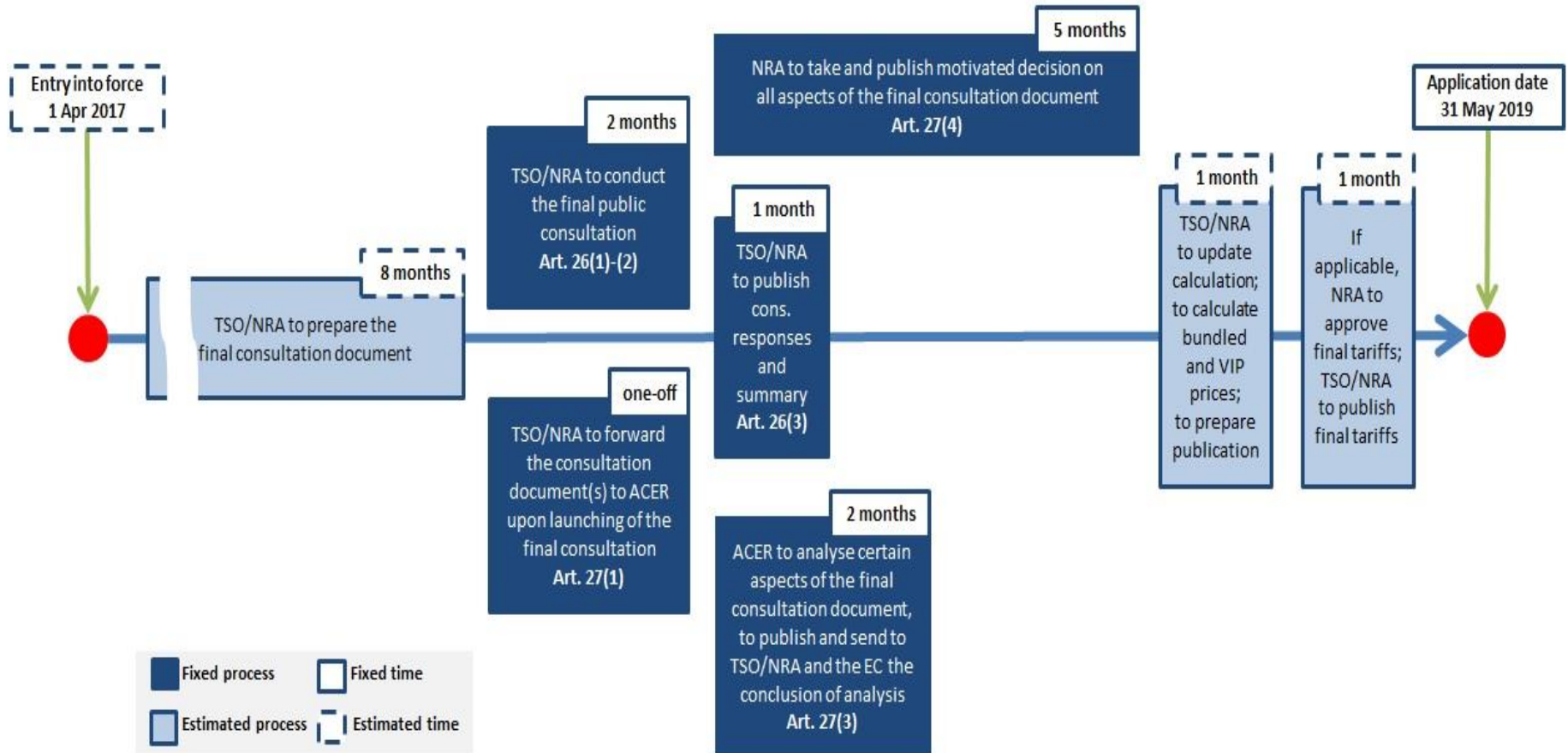


TAR NC: Article 35: Existing contracts

- NG still awaiting response from Legal on additional questions re Art.35
 - *Question is whether the “contract” refers to capacity only or to all charges under the UNC*
 - *Interactions with reconciliation? - When it comes to the year of use for the capacity, can there be an additive element that Users may be subject to (as part of the other articles – 4, 6, 23, 24) that would mean capacity Users will need to pay more than the “protected” price?*
 - *Can we assume that for the IP annual auction the capacity sold is “protected” under Art .35 and for the QSEC run in the same month any capacity sold will not be subject to the protection?*



EU TAR NC Consultation Timeline



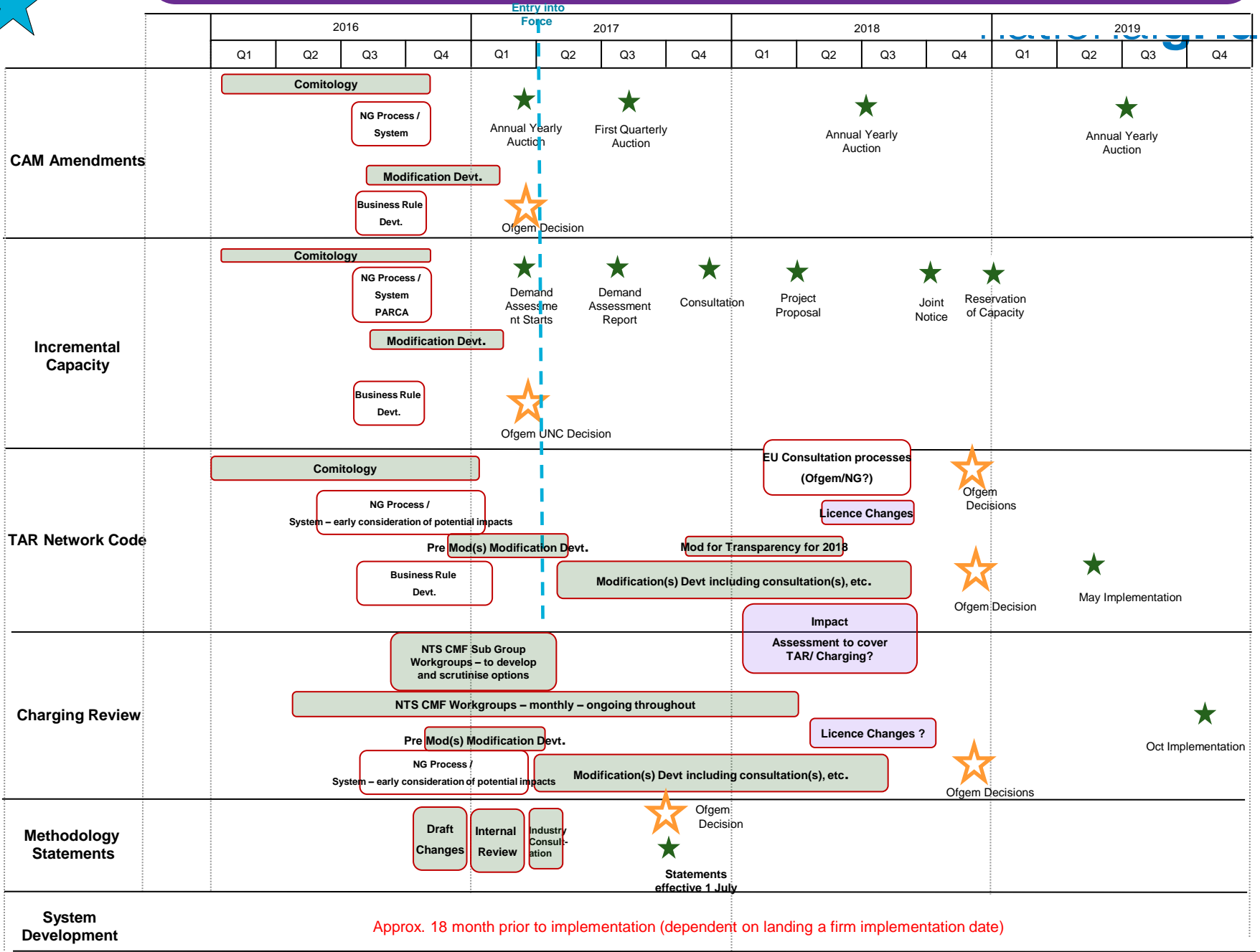


TAR NC Consultation Timeline

- TSO/NRA to conduct the final public consultation – min 2 months (fixed, Article 26(1)-(2));
- TSO/NRA to publish consultation responses and their summary – within 1 month as from point (2) above (fixed, Article 26(3));
- ACER to analyse certain aspects of the consultation document, publish the conclusion of its analysis and send it to the TSO/NRA and the EC – within 2 months as from point 2 above (fixed, Article 27(3));
- NRA to take and publish a motivated decision – within 5 months as from point (2) above (fixed, Article 27(4));
- TSO/NRA to update the calculation of tariffs and prepare the publication – 1 month as from point 5 above (estimate);
- NRA to approve and publish the final tariffs – 1 month as from point 6 above (estimate).



Indicative Timeline



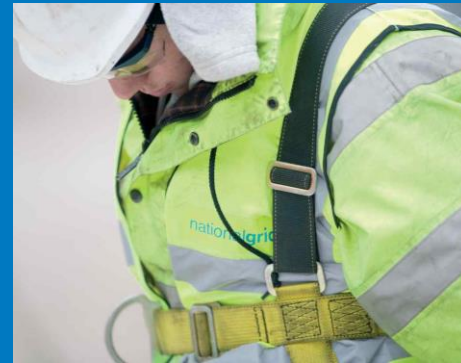
★ TAR NC: Consultation with directly connected stakeholders

- Art 28: at same time as main consultation NRA must consult with:
 - NRAs of all directly connected Member States
 - relevant stakeholders
- NRA to consult on
 - Level of multipliers
 - Level of seasonal factors, if applicable
 - Levels of discounts if any for LNG terminals and infrastructure for ending isolation (Art 9(2))
 - Level of discounts for interruptible capacity at IPs (Art 16)

★ TAR NC: Consultation with directly connected stakeholders

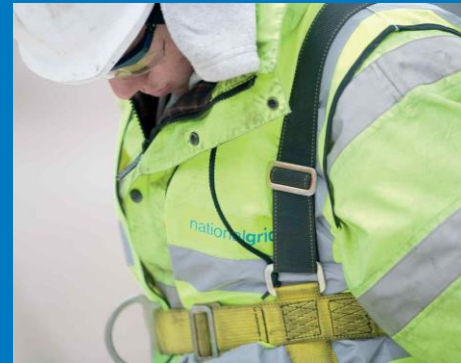
- NRA must consider positions of these neighbouring NRAs in their motivated decision
- Consultation required every year
 - Publication of NRA's decision required at least 30 days before start of tariff period
- This annual review of discounts and multipliers means that these are theoretically subject to annual revision

Gas Charging Review



Issues Log

Gas Charging Review



Next Steps



Next Steps – Sub Groups

- In order to be in a position to develop an end to end charging framework, to facilitate a Spring 2017 UNC Modification, it will be necessary to consider a wider range of items that form part of the charging framework
- We are proposing a set of ambitions that we believe will help the sub group to support NTSCMF in establishing:
 - Targets for the group to help with expectations
 - Set clear actions and timescales to deliver against
- In the next slide we present a proposed agenda for discussion



Gas Charging Review: Sub Group development next steps

Proposed Agenda	Sub Group Ambition	Some key topics to discuss, present proposals on
December 2016	<ul style="list-style-type: none">• Focus on identifying most appropriate reference price methodology for further development and end to end modelling• Continue Behavioural assessments to help inform a behavioural response approach for use in modelling and inform one pager on the stance	<ul style="list-style-type: none">• Legal views on key topics when available, working assumptions if not
January 2017	<ul style="list-style-type: none">• Focus on end to end modelling to incorporate all areas needed to complete it• Legal views on key topics when available	<ul style="list-style-type: none">• Incremental• Interruptible• Multipliers• Behavioural assessments (and links to Forecasted Contracted Capacity)• Shorthaul
February 2017	<ul style="list-style-type: none">• Build in additional components on end to end modelling• Legal views on key topics when available	<ul style="list-style-type: none">• Behavioural assessments
March 2017	<ul style="list-style-type: none">• Developing, discussing and updating draft UNC Modification	<ul style="list-style-type: none">• Bringing all aspects of the framework together



Next Steps – End to End development

- We have touched on a key items (existing contracts, revenue reconciliation to name a few), however we need to consider a comprehensive list of items that form part of the charging framework
- These are GB and EU related
- Are there aspects of these that would benefit from a proposal now to enable the delivery of an end to end solution that expedites the change process
- On the next five slides we have put a list together along with, for some, a proposal for discussion on how we could proceed



Proposal for development of E2E model (1/5)

Item	Summary	Proposal for development of E2E model
Reference Price Methodology	The method by which Capacity charges are calculated along with adjustments for the purposes of revenue recovery	To be determined through Sub Group and NTSCMF.
Auction Structure	Are there any changes to make for the current range of auctions and capacity products for Entry and Exit that are currently in place or changed as a result of CAM updates	Leave as is, and as per changes delivered for CAM updates from 2017.
Formula Year and Tariff Year	The issue of having a Gas Year of October to September and the Revenue Year (or Formula Year) of April to March.	Not to amend and leave as it is.
NTS Pensions Deficit recharge	The dedicated charge to recover DN Pension Deficits and levied directly to the DNs.	To leave as it is, with the values calculated as they are at present. May be some interaction with categorising under Transmission or Non Transmission Services.



Proposal for development of E2E model (2/5)

Item	Summary	Proposal for development of E2E model
Storage Discount for Capacity under EU Tariffs Code	Discount for Capacity under EU Tariffs Code mandates a minimum of 50%. This is Article 9 of the EU Tariffs Code. This is the only discount mandated by Article 9.	To have the capacity discount for storage set at 50%. No other discounts from Article 9.
Use of Fixed Prices (as per EU Tariffs Code)	Fixed Prices (as per definition under the TAR NC Art 24) that would only be available for incremental (if used at all).	Not to use fixed prices as outlined in the EU Tariffs Code as problematic to apply across GB.
Entry / Exit Split	The % split between Entry and Exit used in the Charging Methodology. Currently 50:50.	Maintain 50:50.
Seasonal Factors	Seasonal Factors are an option as a multiplier at Interconnection Points under the EU Tariffs Code	Not to use seasonal factors



Proposal for development of E2E model (3/5)

Item	Summary	Proposal for development of E2E model
Multipliers	For the calculation of adjustments to reserve prices for specific auctions / capacity products. Discounts (or multipliers less than 1) are currently applied in GB.	Establish a value as 1 for the time being for the purposes of modelling, recognising links to the Behavioural Assessment work. Subject to development and links to behavioural work and establishing purpose of multipliers.
Revenue Reconciliation	The method by which charges can be reconciled and establishing which charges can influence others by means of under or over recovery.	Maintain Entry and Exit reconciliations as done currently so Entry and Exit separately reconciled. This is a working assumption pending Legal confirmation.
Interruptible	Calculation of interruptible prices for capacity. EU Tariffs Code articles on interruptible mandate IP specific only however will need to form part of the discussion about IP / Non IP application of changes (i.e. single or dual regime).	To be discussed and developed through subsequent sub groups and NTSCMFs.



Proposal for development of E2E model (4/5)

Item	Summary	Proposal for development of E2E model
Transmission Services revenue recovery	Should this be predominantly Capacity revenue	Having an RPM that is linked to revenue recovery.
Non Transmission Services revenue recovery	Should this be predominantly Commodity? Currently this is the case.	<p>If broadly equating to today then would be via commodity charges. By largely preserving the SO (as Non Transmission) recovery via Commodity.</p> <p>To be discussed and developed through subsequent sub groups and NTSCMFs.</p>
Existing Contracts	Entry Capacity contracts concluded prior to the Entry into Force of the EU Tariffs Code.	<p>Working assumption that the price established is protected however may not preclude the use of additional chargeable values for the purposes of revenue recovery when payable.</p> <p>Working assumption pending Legal confirmation.</p>



Proposal for development of E2E model (5/5)

Item	Summary	Proposal for development of E2E model
Forecasted Contracted Capacity (Issues log ref. TCMF03)	The use of a capacity forecast used as an input to the RPM. Needs to be suited to the RPM and aim of Capacity charges.	Being discussed via issues log ref. TCMF03. To be discussed and developed through subsequent sub groups and NTSCMFs.
IP / Non IP application	Whether on certain aspects of the charging framework there is separate treatment of IP and Non IPs.	Will be linked to individual issues however, to be discussed and developed through subsequent sub groups and NTSCMFs.
Shorthaul	What changes may be required or beneficial for the Shorthaul charge	To be discussed and developed through subsequent sub groups and NTSCMFs. Will have links potentially to RPM and how Transmission and Non Transmission is recovered.

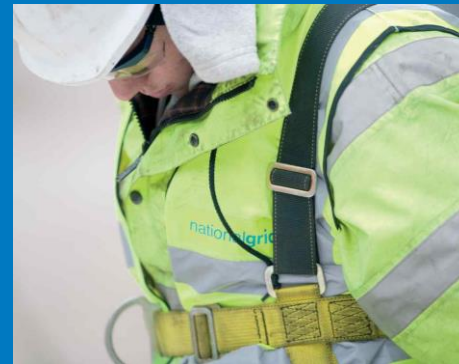


Next Steps – End to End development

- The aim of the list is to try and identify areas of the framework that we can make early proposals against to focus the attention of the review and keep to the timelines to deliver in line with the EU Tariffs Code
- Some of these items would not impact the production of a UNC Modification (e.g. multipliers) as the method could be the UNC with values in the Charging Statement

Contact us:

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

Colin Williams
Charging Development Manager
Tel: +44 (0)1926 65 5916
Mob: +44 (0)7785 451776
Email: 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

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

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