

## **NTSCMF / Sub Group – Revenue Recovery – Transmission Services Revenue**

Some key terms in relation to Transmission Services:

<b>Term</b>	<b>Detail</b>
<b>Transmission Services</b>	<p><i>“Transmission services means the regulated services that are provided by the transmission system operator within the entry-exit system for the purpose of transmission”</i> as defined in Tariff Network Code (TAR NC).</p> <p>The revenue associated to Transmission Services is collected through the charging framework and Article 4 provides a series of criteria to follow. For GB the working assumption is that Transmission Services can broadly be considered to be equivalent to Transmission Owner (TO) activities.</p>

### **Background**

As part of the current GB charging framework revenue recovery is a combination of capacity and commodity charges. For Transmission, this broadly equates across to Transmission Services. The revenue value for Transmission Services would therefore be equivalent to what is referred as TO revenue less the value of DN Pensions. This is a working assumption pending Legal confirmation of the interpretation of both Transmission and Non-Transmission services.

The main article under the TAR NC related to this area is Article 4 which applies to all GB entry and exit points. Article 4 provides a number of criteria for the recovery of Transmission Services revenue. For information some key extracts are included in the Appendix.

### **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.
- When considering “predominantly” capacity based recovery of Transmission Revenue, it was acknowledged that this may mean different levels to people (e.g. 100% or 51%).
- There are options as to how capacity uplift for revenue recovery might be done to recover for any anticipated revenue shortfall (or reduction in the case of anticipated over recovery). Options include using, for example, adjustments such as unit price adjustments, scaling and those provided for under the TAR NC. Modelling will provide a range of options for adjusting capacity charges.
- 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.

### Version Control

V0.1	First draft based on sub-group on 19.12.16
V0.2	Second draft based on sub-group on 18.01.17
V0.3	Update based on discussion at NTSCMF on 01.02.17

### Appendix

Some key extracts from Article 4:

“2. Transmission tariffs may be set in a manner as to take into account the conditions for firm capacity products.

3. The transmission services revenue shall be recovered by capacity-based transmission tariffs.

As an exception, subject to the approval of the national regulatory authority, a part of the transmission services revenue may be recovered only by the following commodity-based transmission tariffs which are set separately from each other:

- (a) a flow-based charge, which shall comply with all of the following criteria:
  - (i) levied for the purpose of covering the costs mainly driven by the quantity of the gas flow;
  - (ii) calculated on the basis of forecasted or historical flows, or both, and set in such a way that it is the same at all entry points and the same at all exit points;
  - (iii) expressed in monetary terms or in kind.
- (b) a complementary revenue recovery charge, which shall comply with all of the following criteria:
  - (i) levied for the purpose of managing revenue under- and over-recovery;
  - (ii) calculated on the basis of forecasted or historical capacity allocations and flows, or both;
  - (iii) applied at points other than interconnection points;
  - (iv) applied after the national regulatory authority has made an assessment of its cost-reflectivity and its impact on cross-subsidisation between interconnection points and points other than interconnection points.”