

## Gas Charging Review



NTSCMF – 25 October 2017

# Agenda

Area	Detail
UNC Modification 0621	<ul style="list-style-type: none"><li>• Main objectives and deliverables for UNC0621</li><li>• Review of latest draft<ul style="list-style-type: none"><li>• Comments on draft discussed 13 October</li></ul></li><li>• Review of rationale behind proposals and areas of discussion</li></ul>
UNC Modification 0621 Transition arrangements	<ul style="list-style-type: none"><li>• Areas of Transition</li><li>• Discussion on Transition methods</li></ul>
Plan and GB/EU Consultation and change process	<ul style="list-style-type: none"><li>• Impact Assessment – what should be included?</li></ul>
Charging Models	<ul style="list-style-type: none"><li>• Development of Transmission Services CWD spreadsheet and Non Transmission Services spreadsheets alongside UNC0621 development</li></ul>
Next Steps	<ul style="list-style-type: none"><li>• Next Steps for UNC0621</li></ul>

## Gas Charging Review



UNC Modification 0621

Amendments to Gas Transmission Charging Regime

# Gas Charging Review:

## Main objectives and deliverables for UNC0621

Area	Detail
Compliance	<ul style="list-style-type: none"><li>• The intention for the overall proposal for UNC0621 is that it will be compliant with the EU Tariffs Code and this includes any transition arrangements</li><li>• We recognise there may be areas where compliance with aspects of the EU Tariff Code may require further discussion and clarification and potential updates</li></ul>
Delivery	<ul style="list-style-type: none"><li>• UNC0621 proposes a methodology to be in place to impact prices from 2019.</li><li>• The proposal acknowledges that it should deliver a methodology that provides a framework for changes and refinements beyond 2019</li><li>• To refine and update key parts of the proposed methodology over the short term<ul style="list-style-type: none"><li>• There will be a number of ways this could be done and the modification will be updated appropriately</li></ul></li><li>• To support the evolution of the charging regime</li></ul>

# Gas Charging Review:

## UNC0621 – Updated draft published 11 Oct 17

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- Updated draft of UNC0621 published on the NTSCMF pages for 13 October

<https://www.gasgovernance.co.uk/NTSCMF/131017>

- This has been updated from the published UNC0621 available on the modifications page

<https://www.gasgovernance.co.uk/0621>

- The updates were discussed at NTSCMF on 13 October and, at a high level, the following slide captures the views and requests put forward in these discussions

# Gas Charging Review: UNC0621

## Comments on updated draft discussed 13 Oct

Area	Detail
Comments on updated draft discussed at NTSCMF on 13 October 2017	<ul style="list-style-type: none"><li>• There are still EU compliance challenges on the proposals</li><li>• If something is still potentially open to be changed, make this clear in the text</li><li>• If any aspects are based on a methodology or arbitrary values, make this clear</li><li>• Additional thoughts on addressing CWD generated zero prices</li><li>• Highlight components of the proposal that are more either placeholders or background so the solution is easier to follow</li><li>• Provide further detail on reasons for the proposals</li><li>• Provide a timeline of the full series of events including the consultation for UNC0621/EU TAR NC, and any future consultations as needed</li><li>• Would like to understand the parts that would be subject to future change and when and how</li><li>• Share views on Licence changes or potential Licence changes</li><li>• There are some areas that could be included, even if not part of the immediate solution, to provide for easier application if beneficial in the future</li><li>• Balance between what's in UNC and what's not. Too much in code could be counterproductive to the proposals under UNC0621</li></ul>

# Gas Charging Review:

## UNC0621 – Key topics and proposals

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- Under the update draft this reflected our latest views on each topic and presented as a package
- Some areas require further development, either for the overall solution or around the process for change under the proposed solution
- Here we provide some high level views on the proposals and some points for further discussion
- These will be expanded upon to and can be referenced as part of the suite of documents that reflect industry discussions and our proposals for UNC 0621

# Gas Charging Review: Reference Price Methodology (RPM)

Area	Detail
Proposal in draft discussed on 13 October	<ul style="list-style-type: none"> <li>Capacity Weighted Distance for the methodology to calculate reference prices and subsequent reserve prices (through any applicable adjustments)</li> </ul>
Rationale for the proposal	<ul style="list-style-type: none"> <li>Moves to a methodology that provides greater stability, reduced volatility and better predictability for capacity charges</li> <li>Reflects more the use of the network given that the NTS is not in a state of continued expansion</li> <li>Extensive work undertaken to review impacts of changing the current LRMC approach and comparisons to a CWD approach</li> <li>CWD provided a simpler framework and also improvements in line with target objectives for the charging methodology and stakeholder developed objectives.</li> </ul>
Further Discussion	<ul style="list-style-type: none"> <li>Treatment of CWD generated zero prices</li> <li>Accommodating long term Entry Capacity allocated before EIF of the TAR NC and implementation of UNC0621</li> <li>Impacts on proposals for UNC0621</li> </ul>



# Gas Charging Review: Forecasted Contracted Capacity (FCC)

Area	Detail
Proposal in draft discussed on 13 October	<ul style="list-style-type: none"> <li>• To use Obligated Capacity and transition to a forecast in the short term</li> <li>• Have a transition arrangement to accommodate this change</li> </ul>
Rationale for the proposal	<ul style="list-style-type: none"> <li>• Whilst accept that Obligated may not be the most appropriate to use, that to deliver the most cost reflective prices would require it to be based on a forecast of bookings, it is a reasonable starting point to be in keeping with objectives and deliver improved cost reflectivity in the short term.</li> <li>• Moving from one framework to another, especially moving away from zero capacity prices, will drive unpredictable behavioural changes.</li> <li>• Believe benefit from evidence of these changes post 2019 and in the short term move to a forecast of capacity bookings linked to this evidence.</li> </ul>
Further Discussion	<ul style="list-style-type: none"> <li>• Review those points that may have a zero FCC value thereby generating a zero price – other options besides using the nearest non-zero priced Entry or Exit Point's reference price</li> <li>• Links to EU compliance</li> <li>• Transitional Arrangements (see separate topic) could be better demonstrated</li> </ul>

# Gas Charging Review: Multipliers

Area	Detail
<p>Proposal in draft discussed on 13 October</p>	<ul style="list-style-type: none"> <li>• To have a multiplier as a default, proposal was [1] and to be updated through a subsequent consultation</li> <li>• Multipliers will not be 0</li> <li>• Calculated ex ante</li> </ul>
<p>Rationale for the proposal</p>	<ul style="list-style-type: none"> <li>• A value of 1 places no preference between incentivising Long Term or Shorter Term Capacity bookings</li> <li>• Do not want to have multipliers that put too much downward pressure on the capacity charges thereby driving recovery of revenues elsewhere into the methodology</li> <li>• With no, or little scarcity of capacity, incentivising either Long term bookings or short term bookings for the purposes of signals for investment not needed</li> <li>• Gives those who book the choice of booking long or short term without any cost differential given choice of when to commit, with the same liability</li> <li>• Provides framework to review and update this on an annual basis</li> </ul>
<p>Further Discussion</p>	<ul style="list-style-type: none"> <li>• When is the best time to know the multipliers for October 2019?</li> <li>• When is the best time to know the multipliers for any subsequent year?</li> <li>• Impacts on proposals for UNC0621</li> </ul>

# Gas Charging Review: Interruptible

Area	Detail
<p>Proposal in draft discussed on 13 October</p>	<ul style="list-style-type: none"> <li>• Interruptible will be a discount from corresponding firm capacity product</li> <li>• To have an adjustment calculated through subsequent consultation</li> <li>• Interruptible adjustment will not allow zero reserve prices</li> <li>• Calculated ex ante</li> <li>• Single approach for all points</li> </ul>
<p>Rationale for the proposal</p>	<ul style="list-style-type: none"> <li>• Acknowledge there is a probability of interruption even though it would likely be small, would be subject to National Grid’s forward view of interruption probability. Therefore not zero for probability.</li> <li>• Can use the EU TAR NC framework for interruptible which would use a combination of the probability and an ‘A’ factor linked to the economic value associated to the interruptible capacity.</li> <li>• Need to develop methodology to flesh out the ‘A’ factor – the economic value associated to the interruptible capacity.</li> </ul>
<p>Further Discussion</p>	<ul style="list-style-type: none"> <li>• Is it more appropriate to have a value in the solution?</li> <li>• When is the best time to know the interruptible adjustment applicable for October 2019?</li> <li>• When is the best time to know the interruptible adjustment applicable for subsequent years?</li> <li>• Impacts on proposals for UNC0621</li> </ul>

# Gas Charging Review: Specific Capacity Discounts

Area	Detail
Proposal in draft discussed on 13 October	<ul style="list-style-type: none"> <li>Storage to receive 50% discount from the CWD generated capacity charge</li> <li>No other specific capacity discounts proposed</li> </ul>
Rationale for the proposal	<ul style="list-style-type: none"> <li>We have considered the positions put forward. On some areas we do not agree with the “value” attributed to certain categories and other aspects we understand the desire to consider in making a decision for a proposal however we do not believe we can address all of these as they are subject to the views of other industry participants.</li> <li>We have yet to hear views in support of any discounts beyond our proposals for Storage and Interconnection (those parties who have formal provided representation to date).</li> <li>Mindful that any discounts have the potential to drive recovery of revenues elsewhere into the methodology</li> <li>Some criteria assessed against are better suited to consideration under an Impact Assessment</li> <li>Aligns with the minimum proposed under the TAR NC therefore ensuring compliance with the TAR NC</li> </ul>
Further Discussion	<ul style="list-style-type: none"> <li>Views from other industry parties on certain categories receiving discounts</li> <li>Should any other categories from Article 9 of the TAR NC be considered for inclusion into the solution, even if not being used in the proposal for UNC0621 as a placeholder to permit easier future changes if beneficial to do so at an appropriate time.</li> <li>Impacts on proposals for UNC0621</li> </ul>

# Gas Charging Review: Avoiding Inefficient Bypass of the NTS

Area	Detail
Proposal in draft discussed on 13 October	<ul style="list-style-type: none"> <li>• Transmission Services only charge (no link to Non Transmission)</li> <li>• Methodology can be in the UNC, any formula can be outside to allow efficient update over time allowing components to be updated each year.</li> <li>• Use of a distance cap for use of the charge (initial value of [50km] placed in draft)</li> <li>• Recognise this must work with the overall methodology and framework both from October 2019 and with the Transition approach.</li> </ul>
Rationale for the proposal	<ul style="list-style-type: none"> <li>• Given the size of the current charges not paid by shorthaul users and paid by non shorthaul users this is something in need of material change</li> <li>• Should be reviewed along with the rest of the methodology given the interaction with other charges</li> <li>• To be in keeping with the objectives of the charge being for “short” distances and not have a material influence on other charges</li> <li>• Should be a genuine alternative to investment.</li> </ul>
Further Discussion	<ul style="list-style-type: none"> <li>• Further development needed, based on the overall charge calculation.</li> <li>• Needs to work with the overall charging framework including how any transition arrangements may be accommodated.</li> </ul>

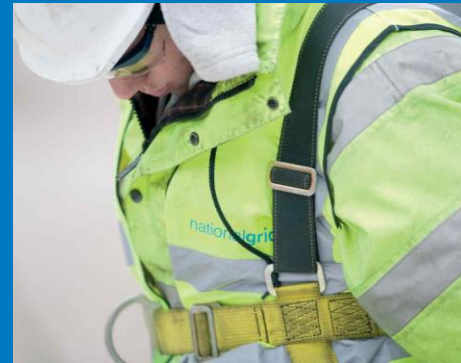
# Gas Charging Review: Transmission Services Revenue Recovery

Area	Detail
Proposal in draft discussed on 13 October	<ul style="list-style-type: none"><li>• Primarily managing Revenue Recovery through a flow based recovery charge</li><li>• Recovered across flows excluding storage flows (as flow based charges are currently)</li></ul>
Rationale for the proposal	<ul style="list-style-type: none"><li>• Provides an established way for managing revenue recovery compared to the expected unpredictable changes in capacity bookings</li><li>• Storage exemption avoids double counting flows</li><li>• Expect to reduce in line with the transition for FCC under the CWD approach</li></ul>
Further Discussion	<ul style="list-style-type: none"><li>• Compliance still an outstanding question for levying a revenue recovery via a flow based charge</li><li>• Application of revenue recovery charge at IPs</li><li>• Links to Transition arrangements</li></ul>

# Gas Charging Review: Non Transmission Services Charging

Area	Detail
Proposal in draft discussed on 13 October	<ul style="list-style-type: none"><li>• Primarily levied through a flow based recovery charge to recover revenues not anticipated to be collected from St Fergus Compression, DN Pensions and NTS Metering charges.</li><li>• Recovered across flows excluding storage flows (as flow based charges are currently)</li></ul>
Rationale for the proposal	<ul style="list-style-type: none"><li>• Provides an established way for managing revenue recovery compared to the expected unpredictable changes in capacity bookings</li><li>• Storage exemption avoids double counting flows</li><li>• Expect to reduce in line with the transition for FCC under the CWD approach</li></ul>
Further Discussion	<ul style="list-style-type: none"><li>• Are there any further questions for Non Transmission Charging?</li></ul>

## Gas Charging Review



UNC Modification 0621  
Transition arrangements



# Gas Charging Review:

## Transition arrangements Discussion

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- UNC0621 has some components that we believe should be updated in the short term
- A transition requires an end point and view of what that change would be, whilst also maintaining compliance with EU TAR NC
- As an example, for FCC, this could be obligated from October 2019 then after a defined period it is based on a capacity forecast
- There may be other aspects that could be included, however FCC is perhaps the most influential
- There will be methods of how to accommodate this to provide the certainty and predictability of change

## Gas Charging Review



Plan and change process

# Gas Charging Review: Plan and Change process

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- UNC0621 and the EU requirements for consultation
- Discussed one consultation to be used for both based on the UNC0621 workgroup report incorporating any alternates
- Ofgem issued “Consultation on proposals to implement aspects of Regulation (EU) 2017/4601, the European Network Code on harmonised transmission tariff structures for gas (TAR NC)” on 4 October 2017
  - Responses due on or before 1 November 2017

[https://www.ofgem.gov.uk/system/files/docs/2017/10/tar\\_nc\\_implementation\\_proposals.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/10/tar_nc_implementation_proposals.pdf)

# Gas Charging Review: Impact Assessment Questions (1)

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- At 26 September NTSCMF and 13 October NTSCMF discussed providing input to help shape any impact assessment
- For any impact assessment, beneficial to capture thoughts on:
  - What should an Impact Assessment contain?
  - What impacts or analysis would parties like to see in an Impact Assessment?
  - What could be covered in UNC0621, if appropriate, that can support an impact assessment?

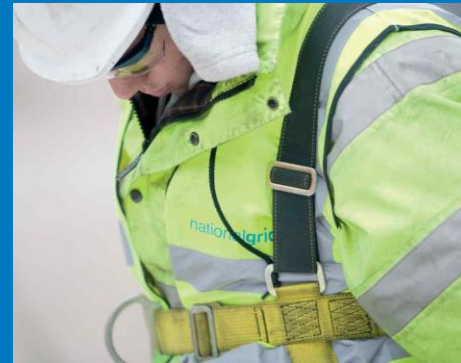
# Gas Charging Review: Impact Assessment Questions (2)

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- This is to help shape the Ofgem impact assessment
- Suggestions can be collated and shared to NTSCMF and to Ofgem with any relevant parts potentially included into UNC0621 analysis where appropriate
- Suggestions or requests should be sent to:

[box.transmissioncapacityandcharging@nationalgrid.com](mailto:box.transmissioncapacityandcharging@nationalgrid.com)

## Gas Charging Review



Development of Transmission Services CWD spreadsheet and Non Transmission Services spreadsheets alongside UNC0621 development

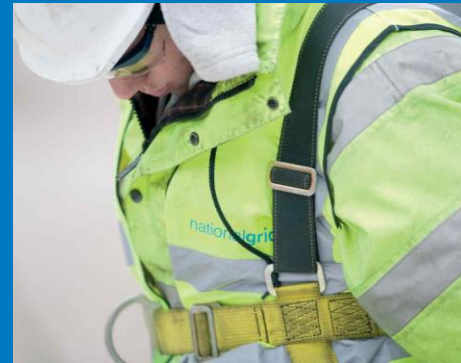
# Gas Charging Review: Charging Model development

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## Further development

- Transmission Services:
  - Cost Allocation assessment to be added
  - Updates to align with UNC0621 developments
  
- Non Transmission Services:
  - Updates to align with UNC0621 developments
  
- Likely mid to late November for next update

## Gas Charging Review



UNC0621 Modification  
Next Steps



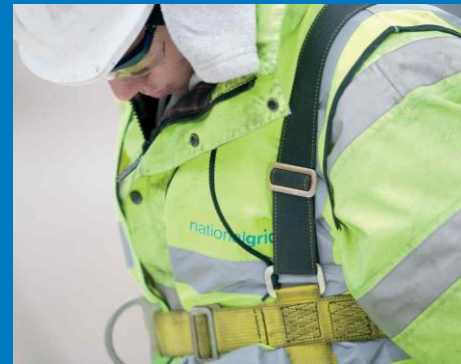
# Gas Charging Review: UNC0621 Next Steps

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- Further development and refinement of UNC0621 with updates applied to another draft
- Development and publication of updated charging models
- Preparation for starting workgroup report
- Next NTSCMF is 6 November 2017

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