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# DN vs NTS pricing, especially Commodity vs Capacity splits

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# Objectives

**Highlight how the two pricing models differ in the application of their charging. Specifically:**

- **Entry vs Exit complexity**
- **Commodity vs Capacity split (and cost reflectivity)**

**Resulting in a number of questions considered at this point to not be sufficiently addressed.**



# Entry vs Exit Complexity

	DN	NTS	Conclusion
Entry	Reliant on entry from the NTS. Increasing market of embedded green gas however not firm or currently significant in flow	Variety of sources with different parties at play. Much more complex	Hard to make direct comparisons therefore this presentation <b>DOES NOT</b> attempt to compare Entry
Exit	Large number (c20m) of varied customers (falling into three broad groups) all supplied either directly or via a CSEP (connected System Entry Point). Obligations to supply a 1:20 event without unplanned interruption or supply loss.	c250 exit points. Customers can be put into specific customer groups with relative ease and these groups broadly homogenous in need. Obligations to supply a 1:20 event without unplanned interruption or supply loss.	At a simple level comparisons have merit especially considering some DNs have similar industrial and power loads to that of the NTS.
UNC Section Y	8 pages (3 of which consider DN Entry)	54 Pages	Is it really 7 times more complex?



## Capacity vs Commodity at Exit

Recovery made by DN vs NTS through Commodity charges

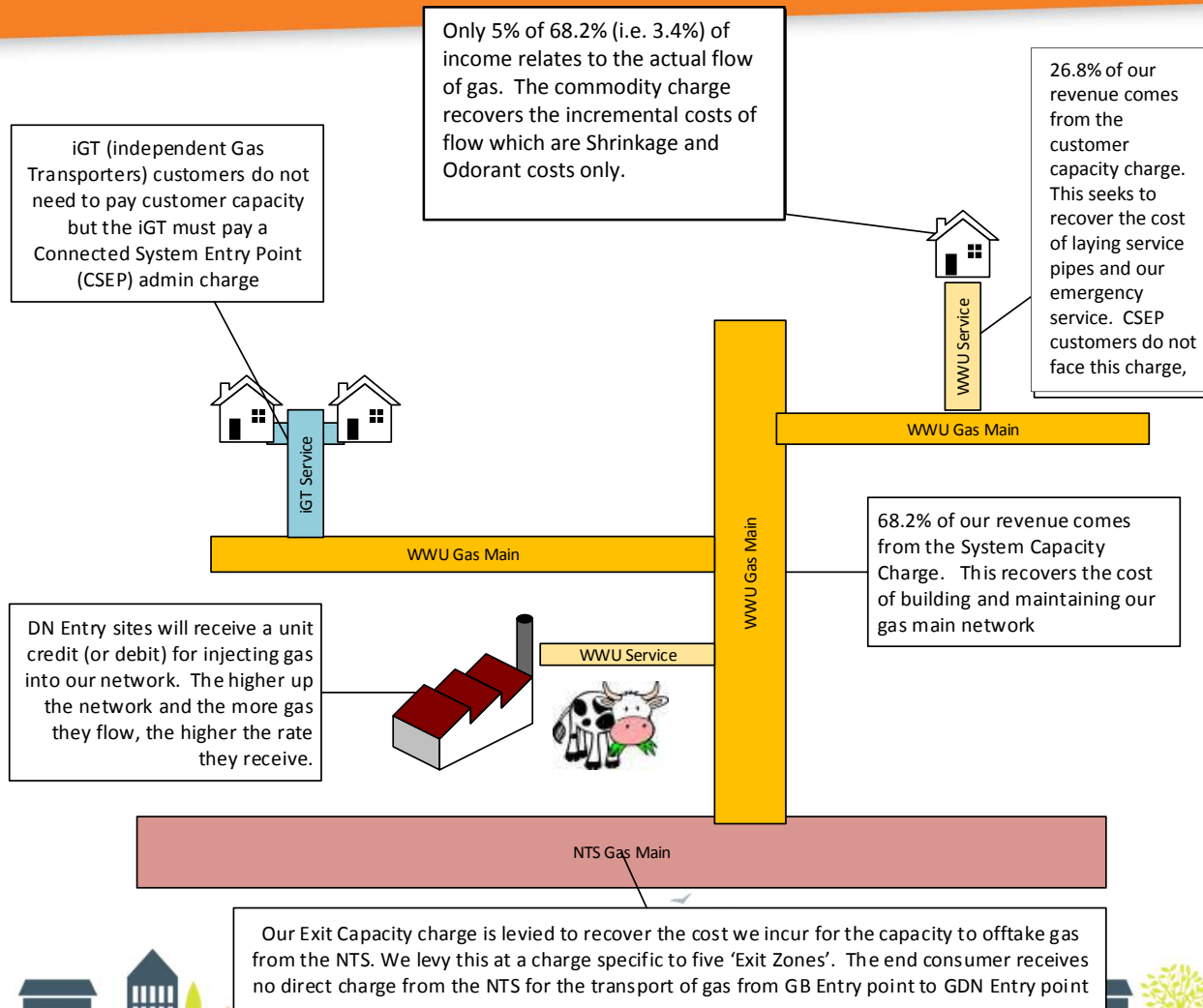
3.4% (DN) vs 53.9% (NTS)

The DN proportion reflects the outcome of DNPC07 **LDZ System Charges Capacity Commodity Split** <https://www.gasgovernance.co.uk/dnpc07>

This was a further development on DNPCR03 where the recovery was moved from 50:50 Capacity : Commodity.



# How do DN collect their Income



Ultimately the Capacity charge provides the user a set level of availability.

This reflects the largely inflexible and fixed nature of the cost base for the network of putting infrastructure in to support that potential demand.

## K factors – Low and stable for Gas DNs

WWU for 2017/18 is forecasting a 'K' of 0.2% (£0.8m from an allowance of £403.2m). This meets two of the desires from this forum of reduced volatility and also predictability.

There is no need for a commoditised capacity charge to make up the difference. Factors which assist this are:

- **Only annual capacity products are available** therefore the DN has much better information prior to price setting regarding the total capacity required.
- Currently where large sites use more than the SOQ they committed to they are subject to a ratchet charge which acts as an **incentive to accurately forecast**. This sees marginal usage at four times the price for 365 days, rather than at a discount for just the day (or free in the case of the NTS connections currently)
- Collecting only 3.4% of revenue from commodity removes sensitivity to actual flows in year given the costs reflect capacity required, not used.



NTS receive 53.9% of their revenue through Commodity  
And DN customers pay 80% of revenue for half the capacity

Charges Faced	Capacity	TO commodity	SO commodity	TOTAL
DNO (shippers charged via DN's )	186,440,410	-	-	186,440,410
LDZ (shippers charged directly)	-	100,977,332	77,623,898	178,601,230
<b>DN end customer bill faced by Shippers</b>	<b>186,440,410</b>	<b>100,977,332</b>	<b>77,623,898</b>	<b>365,041,640</b>
All NTS Customers	209,959,142	120,198,419	125,048,024	455,205,585
<b>% DN vs Total</b>	<b>89%</b>	<b>84%</b>	<b>62%</b>	<b>80%</b>

**DN customers face 80% of the Exit Costs**

kWh	Long term		Short term		TOTAL
	Firm	Firm	Off peak		
DNO	4,298,478,330	5,405	75,785,572		4,374,269,307
INDUSTRIAL	61,693,864	2,055	12,891,676		74,587,595
INTERCONNECTOR	403,725,995	67,632,907	628,884,191		1,100,243,093
Power Station	684,764,195	125,433	681,330,437		1,366,220,066
Storage Site	664,975,560	1,166,658	1,029,032,726		1,695,174,944
<b>Grand Total</b>	<b>6,113,637,945</b>	<b>68,932,457</b>	<b>2,427,924,602</b>		<b>8,610,495,005</b>
<b>DNO share of total</b>	<b>70%</b>	<b>0%</b>	<b>3%</b>		<b>51%</b>

**Yet account for only 51% of the capacity demanded**

If DN customers only faced 51% of the revenue this would reduce their bill by £133m

Is this £133m value for money and what does it buy those customers.





## Areas to review

- **DNs identified those costs directly related to the marginal flow of a unit of gas. These were shrinkage and odorant costs. This gave rise to the c3.4% commodity recovery in place today. Has NTS done anything similar to help quantify the cost reflectiveness of their charging?**
- **What does the premium paid in Long Term booking vs short term provide its user and is this value for money (i.e. what is £133m paying for or is it a cross subsidy)?**
- **The EU Tariff code is not aiming to amend any of the products available. Can the charges however be used as a disincentive to short term exit bookings which increase the likelihood of under/over recovery. For example a multiplier of 10?**





THANK YOU

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