Centrica plc

Alternative Proposal to UNC Modification 0636 – Updating the parameters for the NTS Optional Commodity Charge – Introducing the NTS Optional Capacity Charge

Pre-Modification Discussion

28th February 2018

Introduction of an Optional Capacity Charge

The proposal is to replace the current Optional Commodity Charge with an Optional Capacity Charge.

The change will take effect from 1st October 2019 to provide an enduring solution that takes account of changes to transmission charges required by the EU Tariff network code.

The solution will ensure that no system points are economically discriminated against.

The methodology for deriving Optional Capacity Charges will become a part of the UNC, ensuring appropriate transparency and governance.

NTS Optional Charges – Current Method

A shipper can elect to pay an Optional Commodity Charge based on a deemed straight-line transportation between a selected entry point and exit point. The charge is payable on the minimum of the entry point and exit point gas flows on any given gas day.

By paying the Optional Commodity Charge the shipper avoids having to pay the standard entry and exit commodity charges on the relevant quantity of gas.

However, the new charging methodology being developed by industry under UNC Mod 621 (plus alternatives) could progressively move towards a more capacity-based charging solution so it is natural that the Optional Commodity Charge approach should be replaced with one based on Optional Capacity Charges.

Optional Capacity Charges – Advantages

A new methodology that is aligned with the principles underpinning a Capacity Weighted Distance approach for allocating transmission services revenue costs.

It works for all system entry and exit points, overcomes problems being encountered in trying to adapt the current Optional Commodity Charge approach to the proposed new methodology under UNC Mod 0621, and ensures compliance with the EU Tariff network code.

Simple to derive entry and exit capacity charges for short-haul routes.

Longer short-haul distances result in higher optional capacity charges.

Dynamic – capacity charges will automatically change when reserve prices change.

Provides an enduring solution, a straightforward methodology and appropriate governance.

Calculating Optional Capacity Charges

We propose a method for determining optional capacity charges and how they are applied to the "Applicable Quantity" for a gas day.

For a relevant entry point, the optional entry capacity charge will be calculated as the entry point's reserve price multiplied by the ratio of the short-haul distance to the entry point's capacity weighted distance.

Similarly, for the relevant exit point the optional exit capacity charge will be calculated as the exit point's reserve price multiplied by the ratio of the short-haul distance to the entry point's capacity weighted distance.

The approach reflects the relative contribution a short-haul route would make to the cost recovery (based on capacity weighted distances) at the entry and exit points. This is consistent with the CWD methodology for cost allocation.

Applicable Quantity

The Applicable Short-Haul Quantity (Q) on any gas day will be calculated as:

MIN { CAPen, CAPex, FLOWen, FLOWex } where

CAPen = the shipper's entry capacity entitlement

CAPex = the shipper's exit capacity entitlement

FLOWen = the shipper's allocated entry quantity (gas flow)

FLOWex = the shipper's allocated exit quantity (gas flow)

Therefore, optional capacity charges will only apply when gas is flowed and capacity is booked.

NTS Optional Transportation – Other Charges

The following charges will not be applied to the Applicable Quantity:

Non-Transmission Services (SO) commodity charges

Transmission Revenue Recovery Charges (whether commodity or capacity)

For capacities and flows that exceed the Applicable Quantity (Q), the standard set of transportation charges will apply.

e.g. if CAPen > Q then the standard entry capacity charges will apply to (CAPen – Q) units of capacity.

e.g. if FLOWex > Q then the standard exit commodity charges will apply to (FLOWex – Q) units of gas throughput at the exit point.

Next Steps

The Proposal will be formally raised by the 2nd of March for consideration by the UNC Modification Panel on the 15th of March.

The Panel will be asked to refer the proposal to the UNC 0636 Workgroup for consideration and further development.