

SGN -NTS Charging Methodology update

Background

This note is to make interested parties aware of changes that are under discussion in industry working groups regarding changes to the NTS charging methodology and to ensure there is sufficient visibility for parties to engage in the proposed changes.

National Grid is proposing under UNC modification 0621 to move the manner in which it recovers the cost of using the national transmission system (NTS) from the current Long-Range Marginal Cost (LRMC) method to a Capacity Weighted Distance (CWD) approach. National Grid is making these changes to promote stability in the charging structure they levy and improve compliance with the EU tariff codes¹.

These changes are not expected to change the overall cost recovered by National Grid, however it will have a substantial impact on the distribution of charges across our customers in different licence areas.

Proposed Changes

The proposed changes take place in two parts. The first is a change in the way that National Grid charges for the use of the NTS system and the second is a change in the way that National Grid collects the charges for the NTS system.

Change in Charging Methodology (transitional regime): Historically the modelling of gas transmission charges has reflected a notion of locational supply and demand and resulted in relation to supply and demand (reflective of system usage), this has resulted in relatively low charges to Scottish customers (as the majority of natural gas has entered the system from the North Sea) and relatively high charges to Southern customers. The new approach changes the charging methodology to reflect an unconstrained system which assumes that an offtake can be supplied by any entry point. As a result, there will be variation in charges across the country, however charges in the denser southern areas will be lower than the less dense regions that are further away.

It is proposed that this change will be implemented by National Grid in October 2019, this change will feed directly through to us as the distribution network in that year, and there is then a prescribed two-year lag² before we – the distribution networks – pass this onto suppliers via our exit capacity charges. Note that distribution networks have no control as to how the impacts of this change will be passed through to end consumers.

Change in Collection Methodology (enduring regime): The second change is to the way in which National Grid collects funds. The forecasted exit capacity costs are currently recovered by National Grid through the charges they levy on us- the distribution networks – and we then pass these onto suppliers through our component of the bill. The associated revenue recovery is currently recovered through a commodity charge recovered directly by National Grid from suppliers. Under the new collection methodology 100% of the National Grid charges relating to exit capacity will come through us – the distribution networks – which will then be passed onto suppliers.

In principle, this should be a zero-sum change, as charges that are coming through the supplier bill from National Grid will instead flow through the supply bill from the local distribution company. However, this component may become more volatile as National Grid introduces the new forecasting methodology – currently we forecast the maximum offtake required by our customers and are charged on that basis, whereas the new methodology will be a National Grid forecast of demand that we have limited involvement in.

It is proposed that this change will be implemented by National Grid in 2021, this change will feed directly through to us as the distribution network in that year, and again there is a prescribed two-year lag before this is shown in the suppliers' bill. Due to the timing of the proposals being implemented mid-way through the financial year (in line with the gas year) and in two stages the forecasted changes are likely to impact distribution charges from 2020/21 through to 2023/24.

Financial Impact

As stated above, the net financial impact on National Grid should be minimal, as the overall charge recovered is set through a regulatory process and will not change. However, the regional variations are substantial according to the region within which a customer is based. At SGN we operate two licences – Scotland and Southern – and these licence areas are divided into charging zones - Southern has four charging zones and Scotland has eight.

¹ EU proposals 2017/460 (Article 4 (3))

² This is set out in the charging methodology Special Condition 1D

In the table below, we have provided the average bill impact of these changes on customers according to customer bands. These provide an estimated range based on current proposals. Band 1 are domestic customers, bands 2 to 4 are large domestic light commercial customers, 5 to 7 are more standard commercial customers through to light industrial in bands 11 and 12. Bands 13 and 14 have are large industrial consumers and have been amalgamated to protect confidentiality. Please note that the impact identified below reflects the impact of the exit capacity cost element of the proposed modification only and does not encompass any change in allowances or under/over recoveries from prior years.

Southern Licence Area collection of National Grid Costs

Band	Maximum Annual Consumption (MWh/yr)	Current		New Charging Methodology		New Collection Methodology	
		Min	Max	Min	Max	Min	Max
1	73	£7	£13	£6	£7	£12	£14
2	147	£50	£105	£42	£57	£82	£109
3	293	£102	£210	£86	£113	£166	£220
4	440	£191	£360	£161	£197	£310	£380
5	586	£250	£510	£210	£270	£400	£530
6	733	£310	£660	£260	£360	£500	£690
7	2,198	£530	£1,140	£450	£620	£870	£1,190
8	2,931	£2,000	£2,000	£1,080	£1,680	£2,080	£3,270
9	5,861	£1,830	£2,960	£1,530	£1,600	£2,980	£3,080
10	14,654	£3,380	£7,190	£2,850	£3,880	£5,520	£7,480
11	29,307	£6,810	£14,130	£5,720	£7,640	£11,110	£14,710
12	58,614	£15,920	£32,410	£13,390	£17,520	£25,980	£33,730
13-14	>293,000	£23,920	£85,610	£20,120	£72,000	£39,050	£139,740

Scotland Licence Areas collection of National Grid Costs

Band	Maximum Annual Consumption (MWh/yr)	Current		New Charging Methodology		New Collection Methodology	
		Min	Max	Min	Max	Min	Max
1	73	£0	£0	£6	£7	£9	£9
2	147	£0	£1	£40	£47	£59	£61
3	293	£1	£1	£82	£96	£121	£127
4	440	£1	£2	£145	£164	£210	£220
5	586	£1	£3	£198	£230	£290	£310
6	733	£2	£3	£250	£280	£370	£390
7	2,198	£3	£7	£460	£570	£680	£750
8	2,931	£6	£12	£860	£950	£1,250	£1,300
9	5,861	£9	£20	£1,410	£1,570	£2,050	£2,100
10	14,654	£18	£40	£2,720	£3,140	£4,030	£4,280
11	29,307	£37	£92	£5,470	£6,620	£8,110	£9,740
12	58,614	£82	£193	£12,160	£15,400	£18,020	£20,430
13-14 (*)	>293,000	£230	£1,190	£36,780	£85,560	£50,030	£126,500

SGN also have very large customers that are not identified above, many of these very large customers may also have direct connections to the national transmission network and may be able to benefit from this through a 'short-haul' adjustment.

Next Steps

As stated previously these charges could impact supplier bills from 2021 onwards. However, development discussions on the changes are currently taking place, and whilst the final determination will rest with Ofgem, this is an important opportunity to express an opinion on the proposals put forward. These meetings are open sessions, with agendas and minutes available on the Joint Office of Gas Transporters website - <https://www.gasgovernance.co.uk/0621>.

The changes are expected to be issued to consultation in May. This consultation is again open to all, if you are a consumer your supplier and trade association should also be able to further explain the impacts or facilitate how to engage with the process. As a network provider with customers in the South and Scotland, SGN is remaining impartial in this debate.