

### Gas transmission charging reform

Overview of assessment of National Grid Gas UNC modification proposal relating to the introduction of an entry revenue recuperation charge

November 2021



# The combination of the Postage Stamp and the presence of Existing Contracts (ECs) raises a number of potential concerns

Distortions to competition	<ul> <li>A potential for a competitive advantage for flows at certain Entry Points over others.</li> <li>Possible increase the overall cost of serving gas demand.</li> <li>Possible distortion to future investments</li> </ul>	
Costs from charge volatility	<ul> <li>ECs have significantly complicated forecasting of new capacity,</li> <li>Significant potential for volatile capacity prices from year to year</li> <li>This creates risks for different parties (e.g. Shippers, NGG) if they cannot pass through the costs to customers immediately</li> </ul>	
Distributional concerns	<ul> <li>The relatively narrow charging base to recover costs means high PS prices for new capacity bookings</li> <li>Created significant value for the holders of ECs, and higher costs for customers</li> </ul>	

Potential efficiency concerns

#### "Counterfactual": Current regime

- Allowed Revenue at Entry recovered principally from 'new' Entry Capacity bookings
- New Capacity exposed to full effect of under-recovery driven by forecast errors in capacity bookings

### "Factual": Supplementary flow-based charge

- Percentage of Allowed Revenue at Entry recovered via a new flow-based charge across flows at all Entry Points (except for Interconnection Points)
- ECs are liable to pay a flow-based revenue recovery charge and as a consequence likely forecast error is reduced.

Potential impacts of the modification (factual, compared to counterfactual)

#### Impacts on competition

- Mixed effects (though unlikely to be material).
- Could reduce existing distortions to dispatch.
- But exempting interconnection from the flow-based charge could create a new distortion.

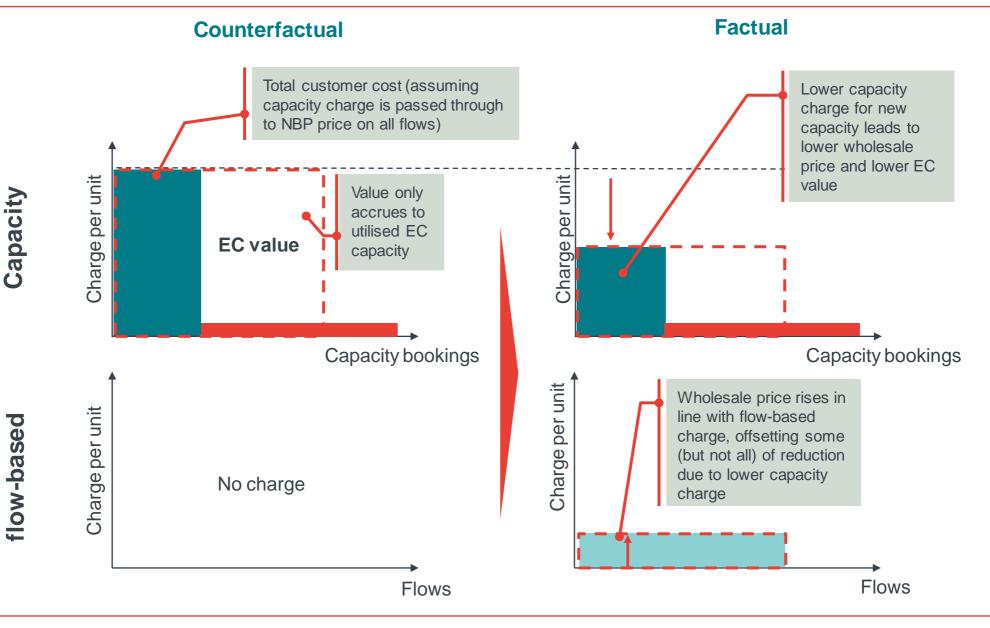
#### Reduced charge volatility

- Could reduce the costs of risk management to the industry.
- While precise savings are highly uncertain, we show that under various assumptions these costs, and hence the benefit of reducing them, are likely to be small.

#### Pure distributional impacts

 Assuming total cost of capacity and commodity passed through to NBP, significant potential benefit for consumers (at the expense of EC holders)

## Distributional impacts - widening the charging base leads to a reduction in the value of the ECs and the cost to consumers





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