

Optional Commodity Charge (“Shorthaul”)



NTS Charging Methodology Forum (NTSCMF)
25 November 2014

Agenda

- Background
 - Recap from the last NTSCMF
 - Why we are proposing to review Shorthaul
 - Consideration with other industry developments
- Shorthaul Formula
- Analysis
 - User Groups
 - Impact of RPI on shorthaul rates
 - Interaction of Shorthaul with other Commodity Charges
 - Impact of RPI updated Shorthaul Rates on revenue
- Summary and next steps

Background



Recap from last NTSCMF

- Shorthaul trends over the years
- Shorthaul interaction with other commodity charges
- Impact of Shorthaul on revenue
- Through NTSCMF we want to build on this analysis, working with industry to help shape potential options to consider in reviewing Shorthaul
- With a view in time, developing through NTSCMF, to propose a UNC Charging Modification for reviewing Shorthaul

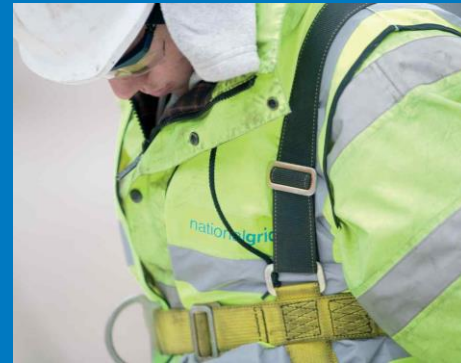
Why we are Proposing to Review?

- The Shorthaul principles have not been reviewed for a number of years
- There are trends and impacts on other charges which are not in keeping with the original intent and purpose of the charge
 - Product not being used as intended as an incentive to not invest in building own pipe and avoiding using the NTS
 - Distance that some of the Shorthaul covers may not be economic to build a pipe
 - Increased impact on the TO and SO Commodity charges

Consideration with other industry developments

- Other industry developments are taking place
 - Gas Transmission Charging Review (GTCR)
 - EU Tariff Harmonisation Code
- Shorthaul is currently out of scope for the GTCR
 - Can be reviewed independent of the GTCR
- Under the EU Tariff Code there will likely be little or no mandatory treatment for what we call shorthaul
 - Becomes a GB discussion that can be done independent of the EU Code

Shorthaul Formula



Shorthaul Formula

- Tariff formula was derived from the estimated cost of laying and operating a dedicated pipeline of NTS specification and based on a range of flow rates and pipeline distances

$$1203 \times [(SOQ)^{-0.834}] \times D + 363 \times (SOQ)^{-0.654}$$

D – Distance from site on non – NG NTS pipeline to elected terminal in km

SOQ – Maximum NTS Exit Point Offtake Rate (MNEPOR) converted to kWh/d at site

Formula Parameters

- Distance – Distance from site on non – NG NTS pipeline to elected terminal in km
- Load factor – 75% of the peak day flows
- Depreciation time for pipeline – Costs were assumed to be fully depreciated over 10 years using a 10 year discount factor
- Minimum Charge – Applicable when distance is zero and is calculated based on the SOQ at the exit point (connection charges)

User Groups

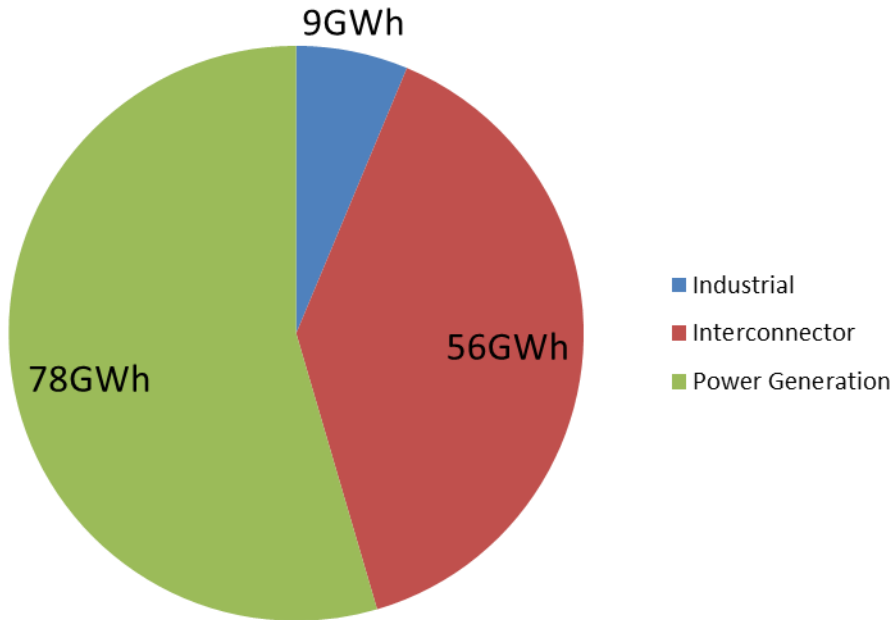


The Distribution of Shorthaul between user groups

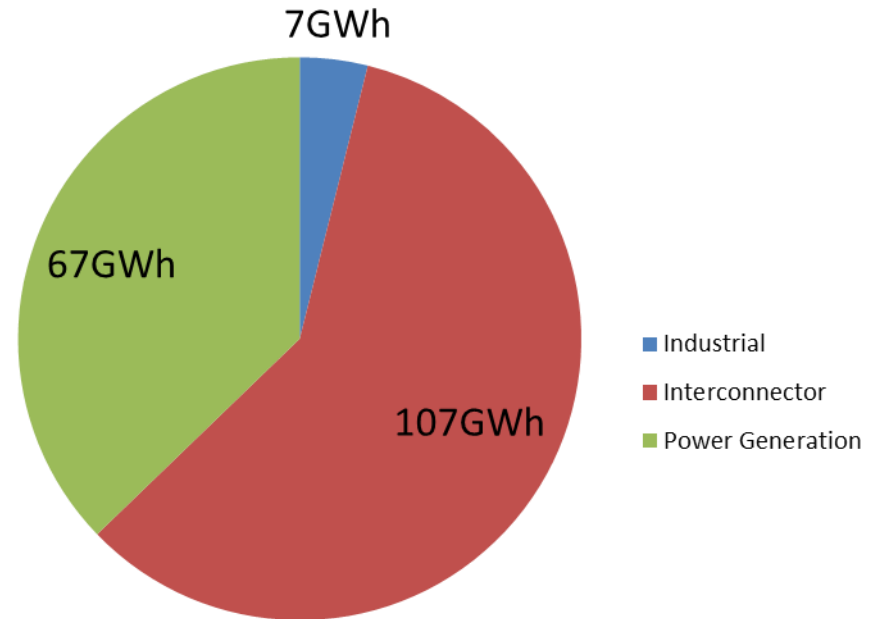
- Using 2007/2008 and 2014/2015 forecast data
- Looking at all the Shorthaul sites and the top 25% distances
- The distribution of Shorthaul between the different user groups:
 - Industrial
 - Power Generation
 - Interconnectors

User groups based on Shorthaul Volume

Total Shorthaul Volume 07/08
143 GWh

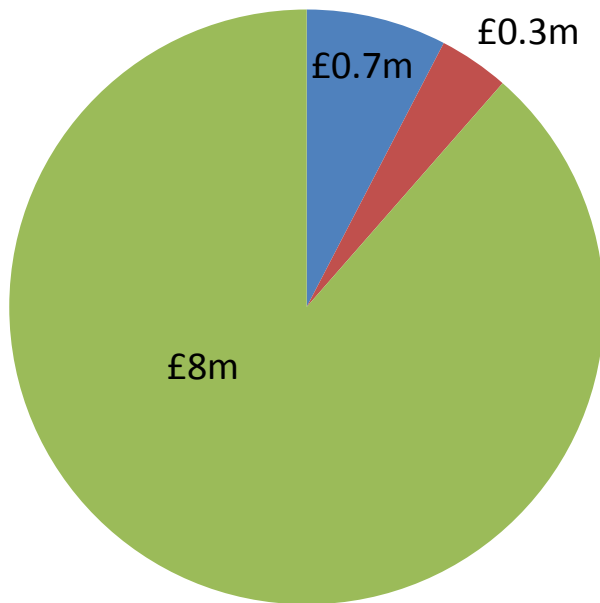


Total Shorthaul Volume 14/15
182GWh

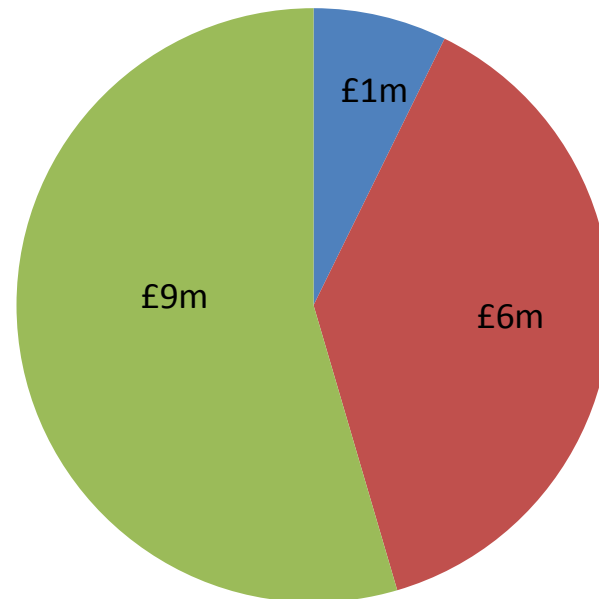


User groups based on Shorthaul Revenue

Total Shorthaul Revenue 07/08
£9m

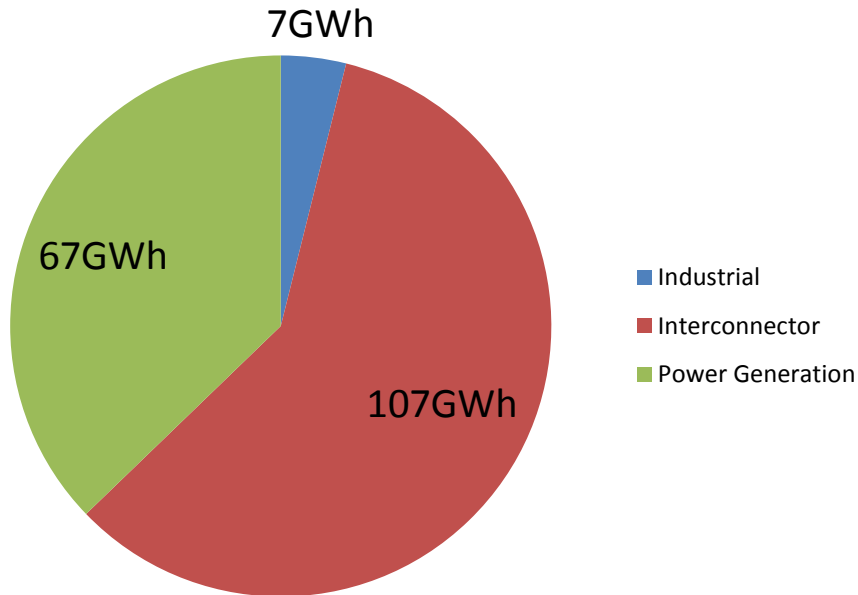


Total Shorthaul Revenue 14/15
£17m

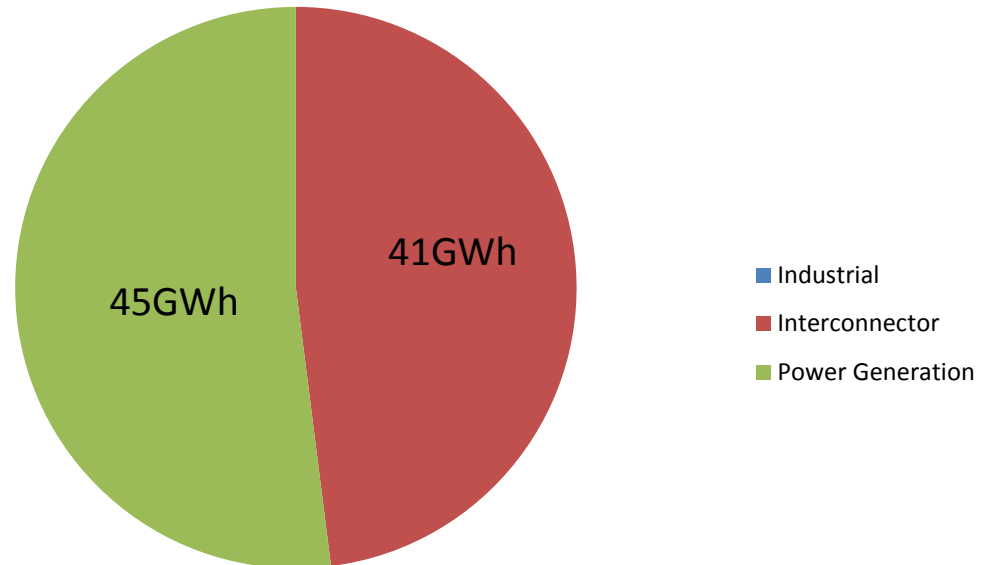


Top 25% Distance sites grouping by Volume

Total Shorthaul Volume 14/15
182GWh

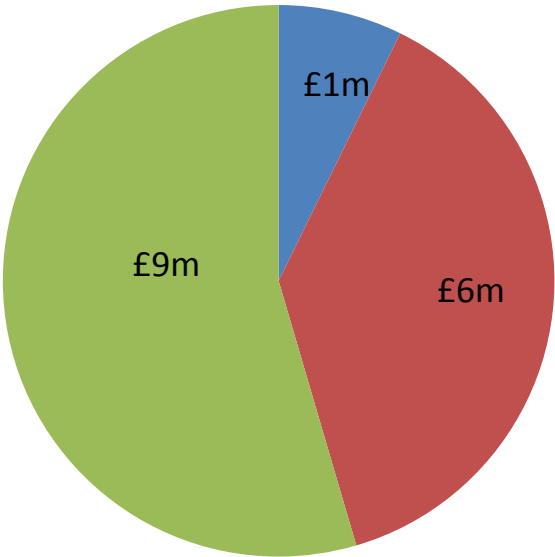


Volume for the Top 25% Shorthaul Distances
86GWh



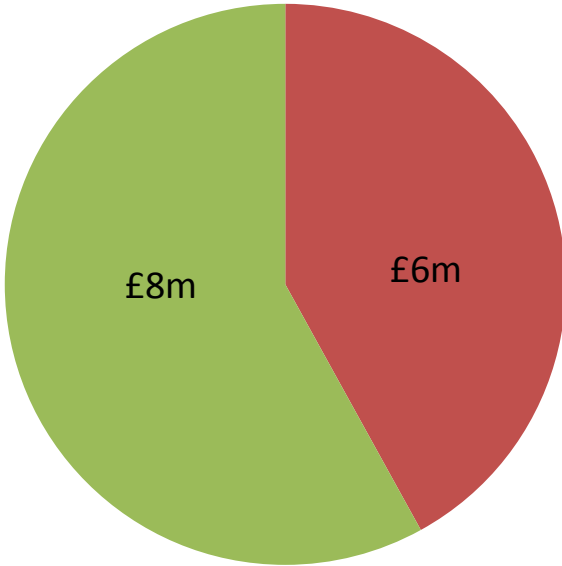
Top 25% Distance sites grouping by Shorthaul Revenue

Total Shorthaul Revenue 14/15
£17m



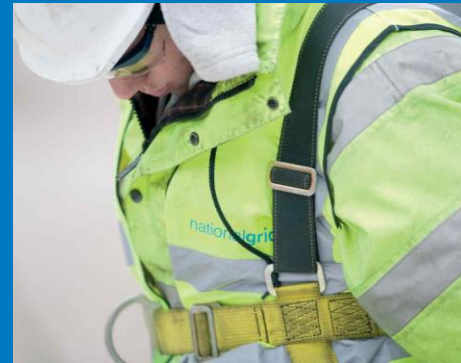
- Industrial
- Interconnector
- Power Generation

Top 25% Shorthaul Distances Revenue
£14m



- Industrial
- Interconnector
- Power Generation

Impact of RPI on Shorthaul rates



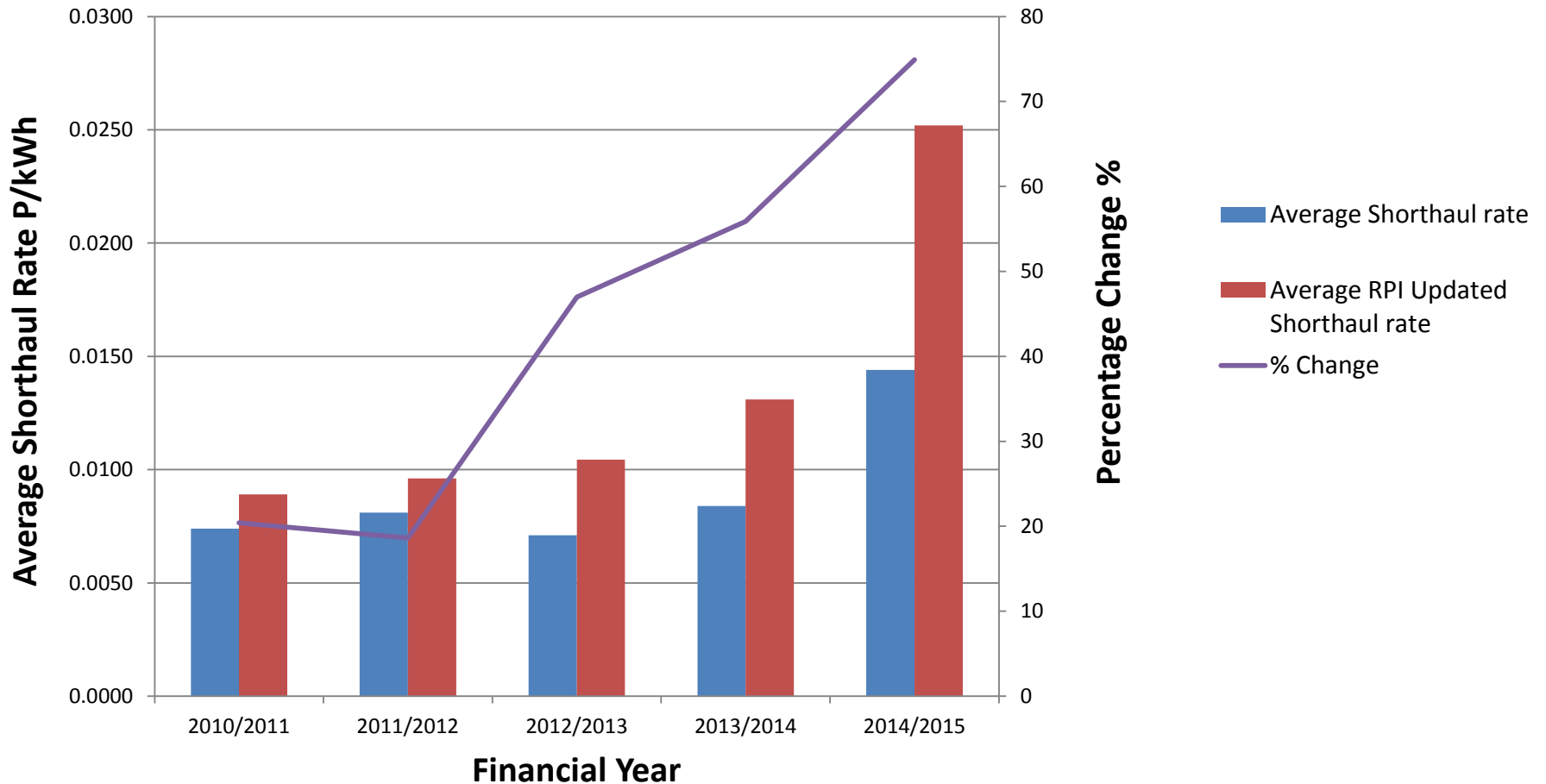
Assumptions – RPI Impact on Shorthaul Rates

- Based on data which was used when setting April Final Commodity charges for applicable financial year
- All rates inflated from 1998 with average yearly RPI* rates to give adjusted rates in applicable year.
 - SO Commodity charges (Entry and Exit)
 - Combined Commodity Charges
- Percentage impact of updating the rate using RPI over time
- Assumes no change in behaviour

* RPI rates are taken from the ONS website

RPI Impact on Average Shorthaul Rates

RPI Impact on Shorthaul rates



Interaction of Shorthaul with other Commodity Rates



Assumptions – Impacts on Commodity Rates

- Based on data which was used when setting April Final Commodity charges for applicable financial year
- All rates inflated from 1998 with average yearly RPI* rates to give adjusted rates in applicable year.
 - SO Commodity charges (Entry and Exit)
 - Combined Commodity Charges
- Percentage impact of updating the rate using RPI over time
- Assumes no change in behaviour

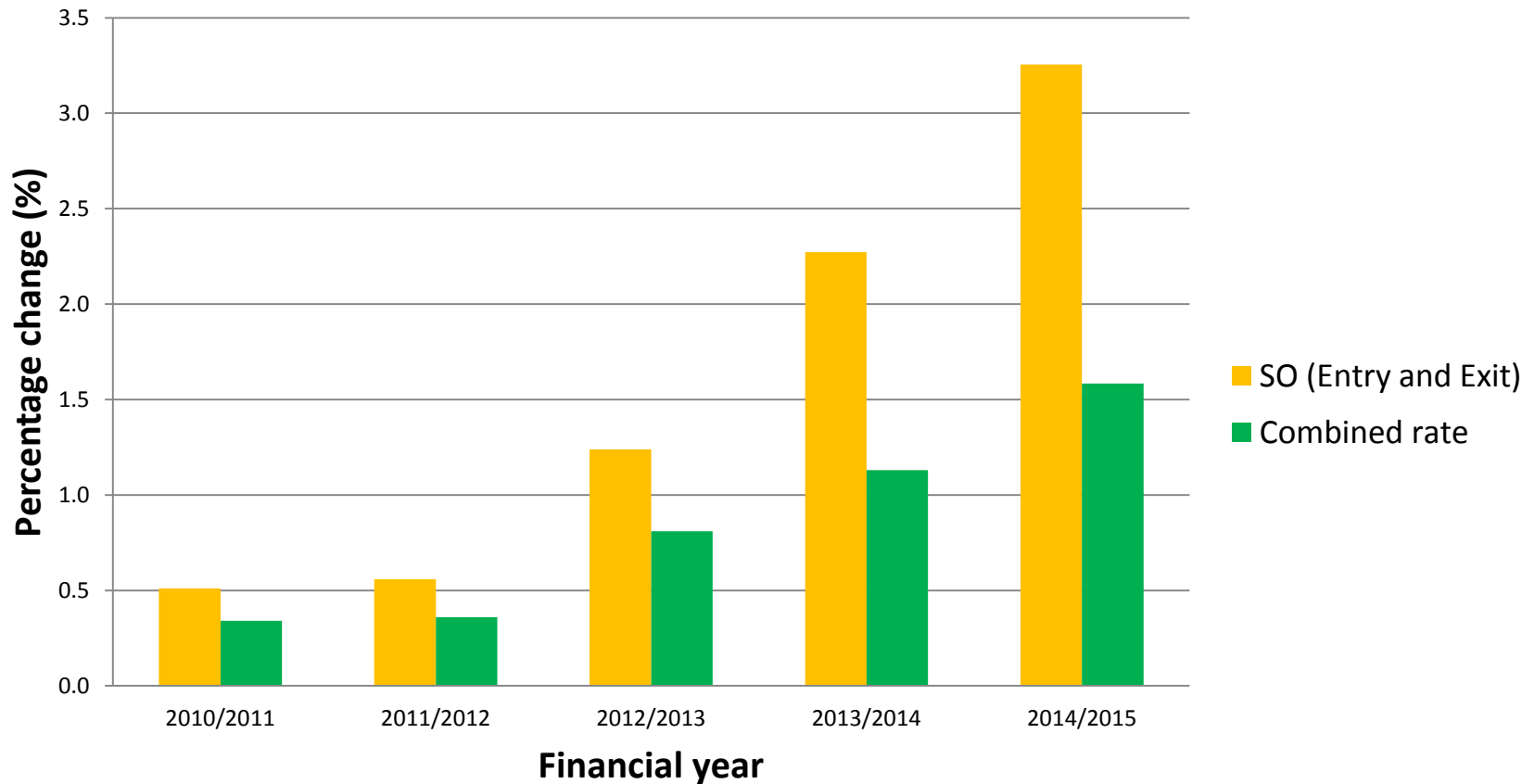
* RPI rates are taken from the ONS website

Updated RPI Shorthaul rates impact on Commodity Charges

	Original 2010/11	With RPI Updated Shorthaul 2010/11	Original 2011/12	With RPI Updated Shorthaul 2011/12	Original 2012/13	With RPI Updated Shorthaul 2012/13	Original 2013/14	With RPI updated Shorthaul 2013/2014	Original 2014/15	With RPI Updated Shorthaul 2014/2015
SO (Entry and Exit)	0.0196	0.0195	0.0179	0.0178	0.0242	0.0239	0.0176	0.017	0.0215	0.0208
TO Entry	0.0194	0.0194	0.0198	0.0198	0.0257	0.0257	0.0244	0.0244	0.0297	0.0297
TO Exit							0.0112	0.0112	0.0157	0.0157
Combined Rate (TO and SO)	0.0586	0.0584	0.0556	0.0554	0.0741	0.0735	0.0708	0.0696	0.0884	0.087
Difference in Combined Rate	0.0002		0.0002		0.0006		0.0012		0.0014	

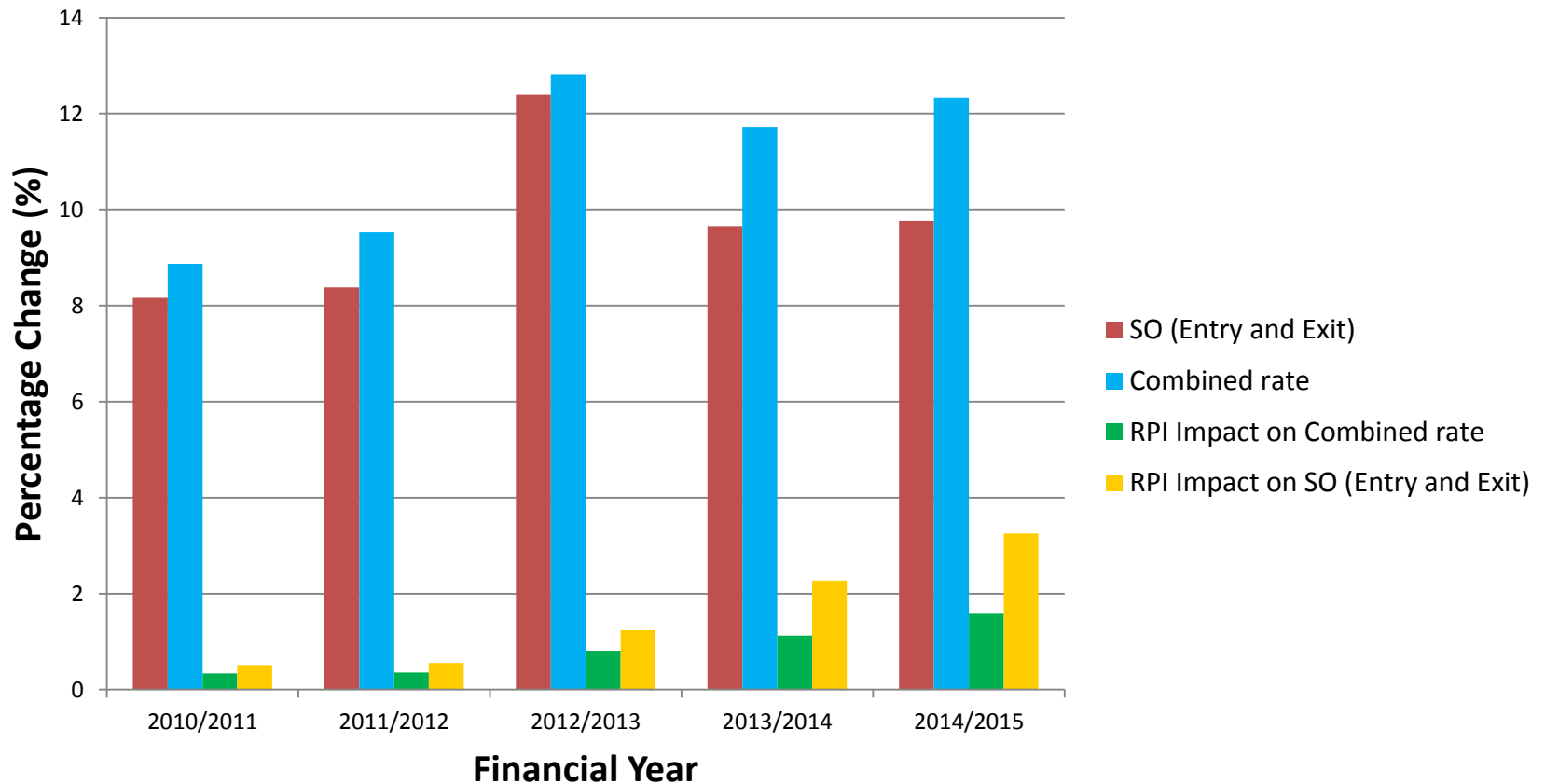
Commodity Rate percentage change driven by RPI update on Shorthaul

Commodity rate percentage change driven by RPI rates

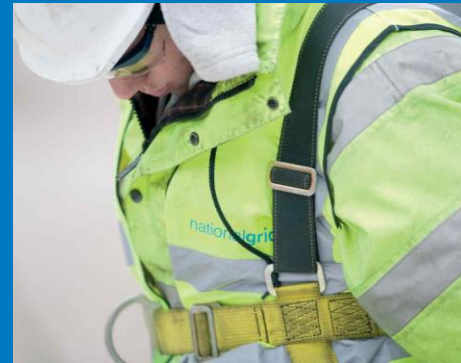


Commodity rate percentage change driven by RPI

Commodity rate percentage change driven by Shorthaul and RPI



Impact of updated Shorthaul Rates on Revenues

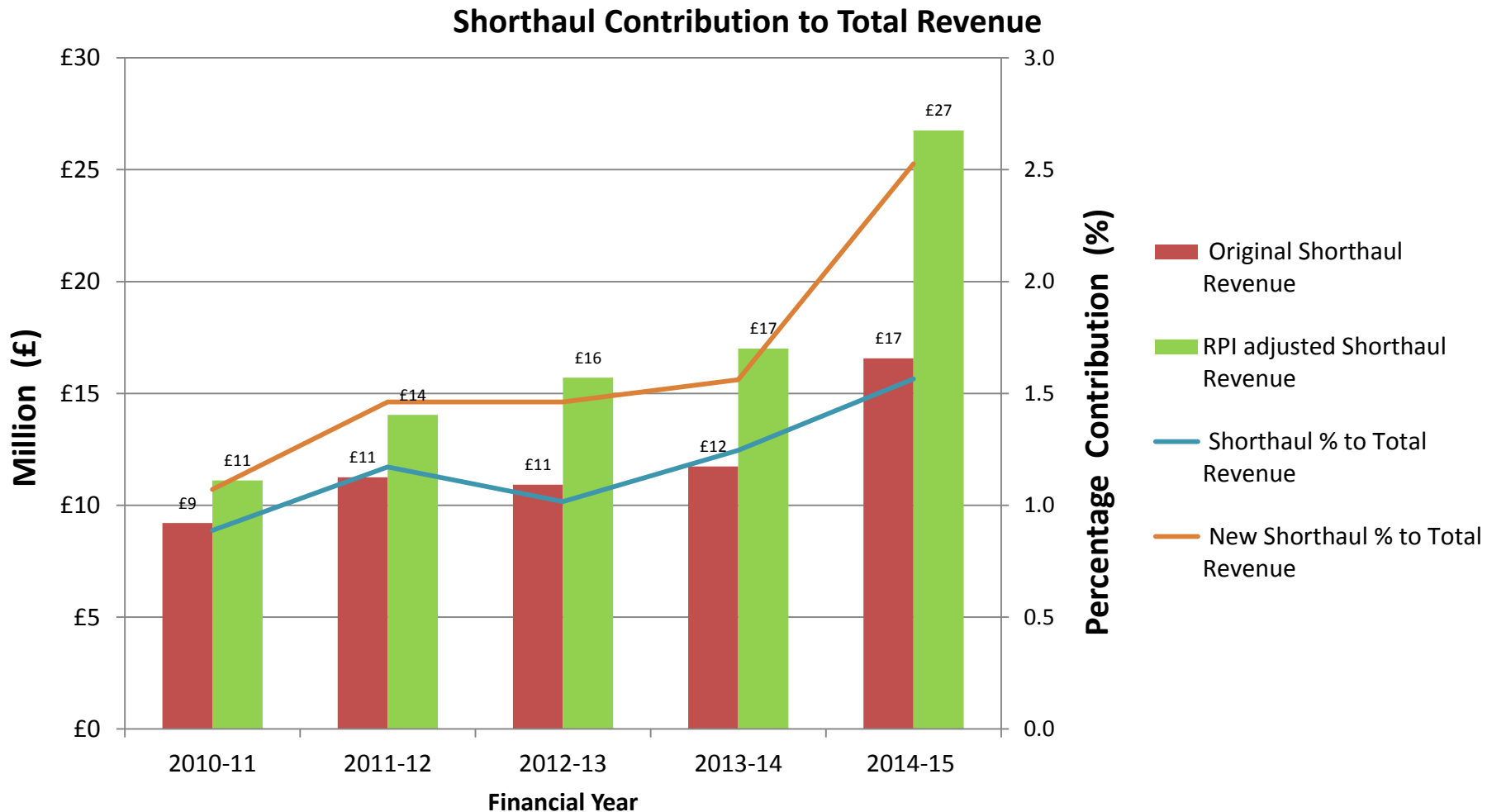


Assumptions for the analysis

- 2007/08 to 2014/15 is based on data which was available for April Final Commodity Charge Setting so is using forecasted values
- The RPI rates* used are the yearly rates
- Assumes no change in behaviour

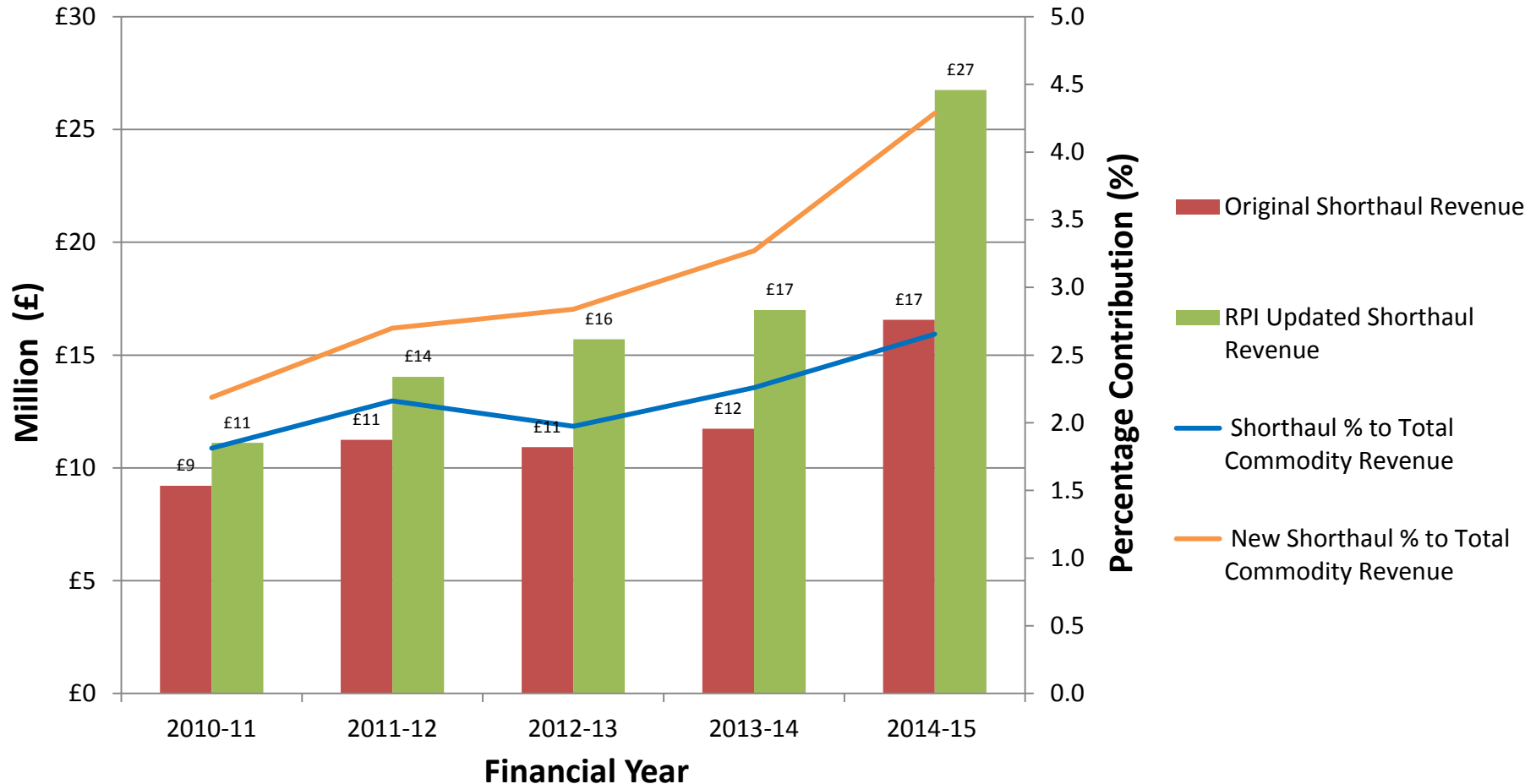
* RPI rates are taken from the ONS website

Shorthaul contribution to total revenue



Shorthaul contribution to Commodity revenue

Shorthaul Contribution to Commodity Revenue



Impact of RPI on Revenues

Formula year 2014/15

(All Values in £m)	Impact of updating shorthaul rates using RPI	
	Current contributions	After RPI updates
Shorthaul Revenue	17	27
Revenue from Normal Commodity	624	615
Total Commodity Revenue	642*	642*

Summary

- RPI only influences the SO (Entry and Exit) and the combined Commodity rates
- RPI impact on average Shorthaul rate increased from c.20% in 2010/11 to c.75% 2014/15
- Adjusting Shorthaul for RPI has an impact on combined Commodity Rate of c.3% in 2014/15
- RPI has a very small influence on the rates and revenues.

Next Steps – Overview

- Provide additional analysis to future NTSCMFs
- Build a list of potential options for Shorthaul and the analysis for those options
 - In addition to those we list, are there any options we should be considering?
 - This will help us plan our analysis and be able to present back to future NTSCMF meetings
- With a view to raise a UNC Modification

Next Steps – Potential Options for consideration

- Review Formula
 - Investment costs
- Review Eligibility
 - Distance
 - Volume
- Review Flexibility
 - Changing between Entry and Exit Points
- Review Rules
 - What rate the Shorthaul charge replaces
- *Are there any others we should be considering?*

Next Steps - Actions

- Produce additional background and analysis regarding investment costs to present back to future NTSCMF's
- Discuss potential options
 - Consider potential impacts at high level
- Consider potential options
- Raise UNC Modification (if required)