DN Entry Pricing

Deep Dive for DCMF

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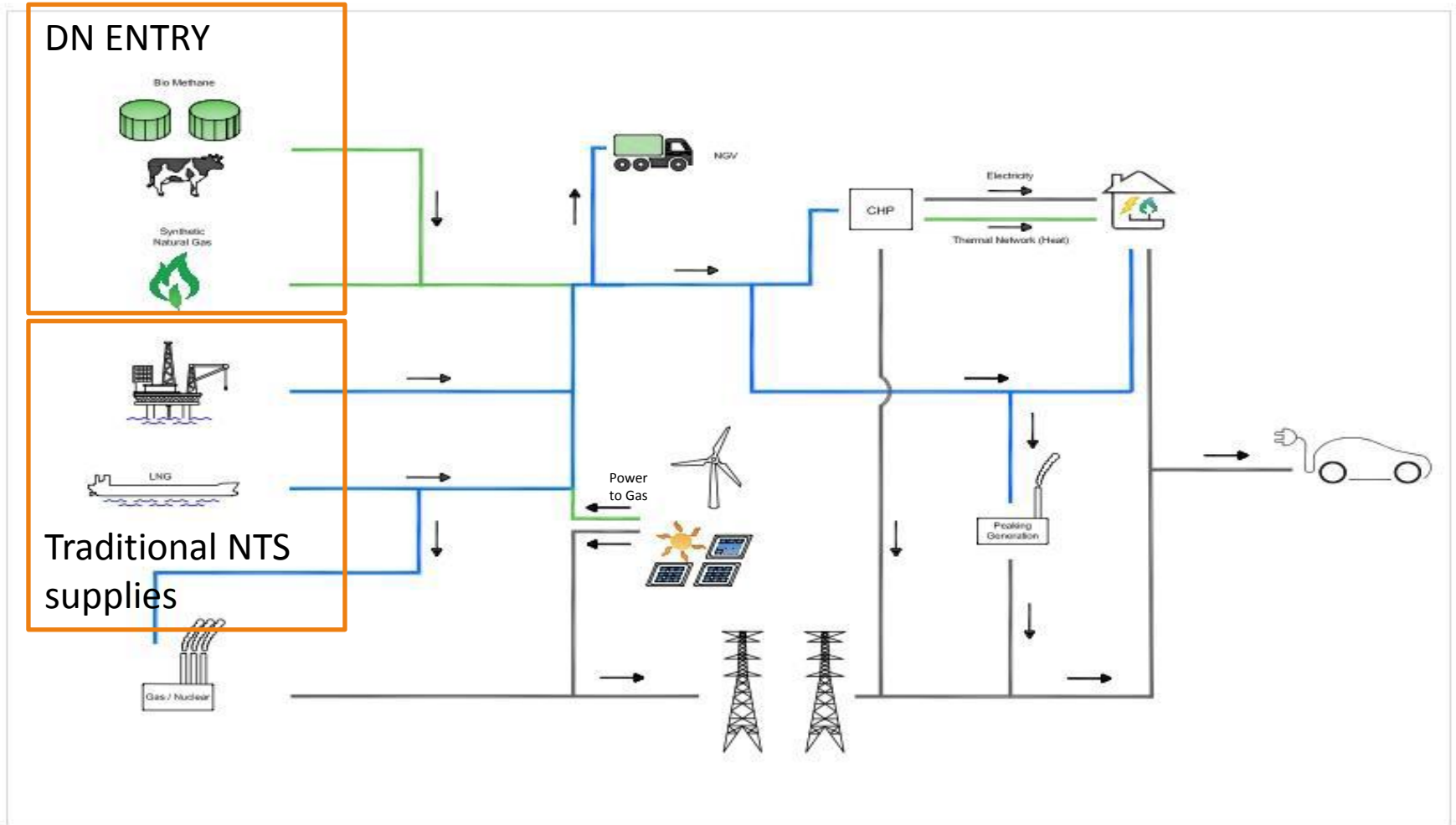UTILITIES
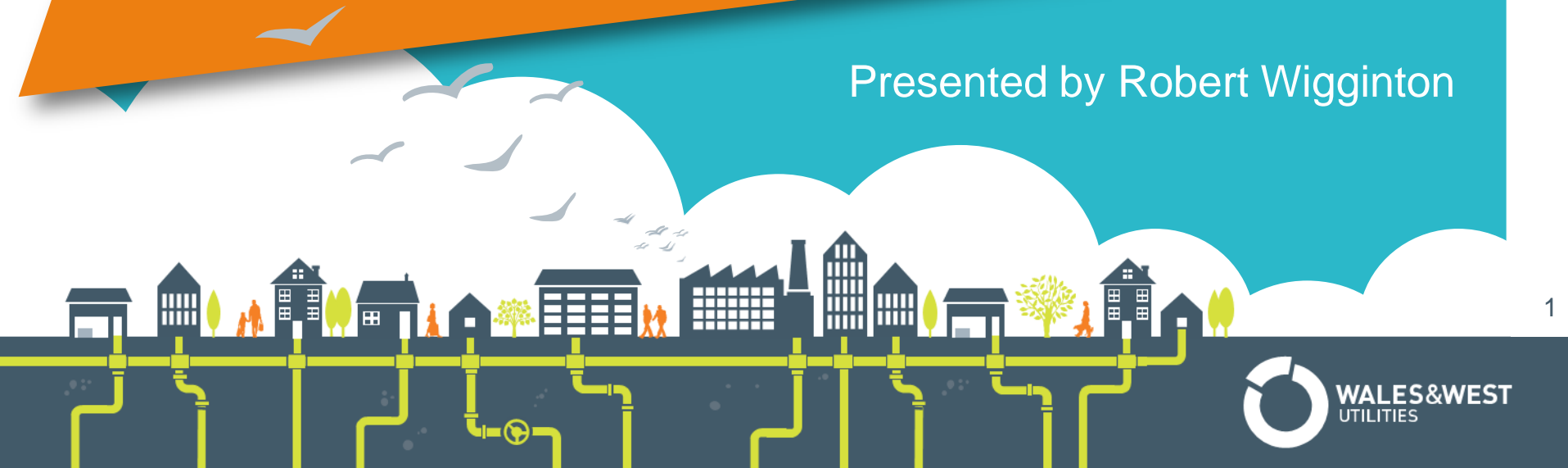
Aim

- What is a DN Entry Site?

- Pricing Methodology
  - Opex Cost
  - DN Entry Credit
  - ECN Credit

- Considerations and Questions

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What is a DN Entry Site?

DN ENTRY

Traditional NTS supplies

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How many are there?

- For 2016/17 78 Price Notifications have been published. Some additional sites will be added to this list during the remainder of 2016/17 with more expected in following years.

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What unit rate do sites receive?

- The charge is calculated in accordance with Section 7 of the Transportation Charging Principal Section Y (available from http://www.gasgovernance.co.uk/TPD)

$$Charge\ (which\ may\ be\ a\ debit\ or\ a\ credit)$$
$$= Opex\ Cost - ECN\ Credit$$
$$- LDZ\ System\ Credit$$

- It will be a debit where Opex > ECN + LDZ
- It will be a credit where Opex < ECN + LDZ

Opex Element

- Each DN site will have:
  - Generic Opex costs associated with it, e.g. Rhinologists
  - Potentially specific opex cost like operation of a pump exclusively to support that site
- Networks assessed the average opex cost at the start of the price control and inflate this annually by RPI as this is considered more efficient than reassessing the methodology annually. Where costs are no longer considered reflective, Networks can reassess this.

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Opex Element (cont.)

- The rate applied is then calculated as a ratio of:

$$Opex\ rate = \frac{Total\ Annual\ Opex\ Cost}{Forecast\ annual\ injection\ from\ that\ site}$$

- The UNC does not provide for any true up where the annual injection is different to that forecast.

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ECN Credit

- The ECN credit assumes that the DN need not book Exit Capacity from the NTS therefore saves on NTS Exit Capacity costs.

The average LDZ ECN charge for the DN is calculated as:

$$Average\ LDZ\ ECN = \frac{\sum_{All\ z}[ECN_Z \times SOQ_Z]}{\sum_{All\ z}[SOQ_Z]}$$

where:

ECNz is the LDZ ECN charge in zone z;

SOQz is the forecast Supply Point capacity in zone z; and

means the sum across all NTS Exit Zones z within theDN.

LDZ System Credit

- Taking gas from a higher pressure tier to a lower pressure tier results in costs to networks, for example compressor costs.
- Therefore there is a saving dependent on where gas is injected (with the lowest tiers attracting the largest saving).
- The rate is calculated through a four step approach:
  1. An assessment is made for the % composition of commodity charge to transfer gas through each pressure tier (this occurred at the start of this price control)
  2. The current commodity rate is split by the % composition in Step 1
  3. The avoided cost will be represented by the sum of all upstream costs avoided
  4. As commodity represents only 5% of DN system charges, this is uplifted to represent 100% of System charges levied.

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LDZ System Credit - example

Pressure Tier	Step 1 % of Commodity Rate saved	Step 2 Current Commodity Rate	Step 3 Upstream costs saved at 95% level	Step 4 Uplifted to 100% level
LTS	9%	0.0026	0	0
IP	6%	0.0017	0.0026 (LTS)	0.0520
MP	13%	0.0039	0.0043 (LTS+IP)	0.0866
LP	72%	0.0214	0.0082 (LTS+IP+LP)	0.1646
		0.0296		
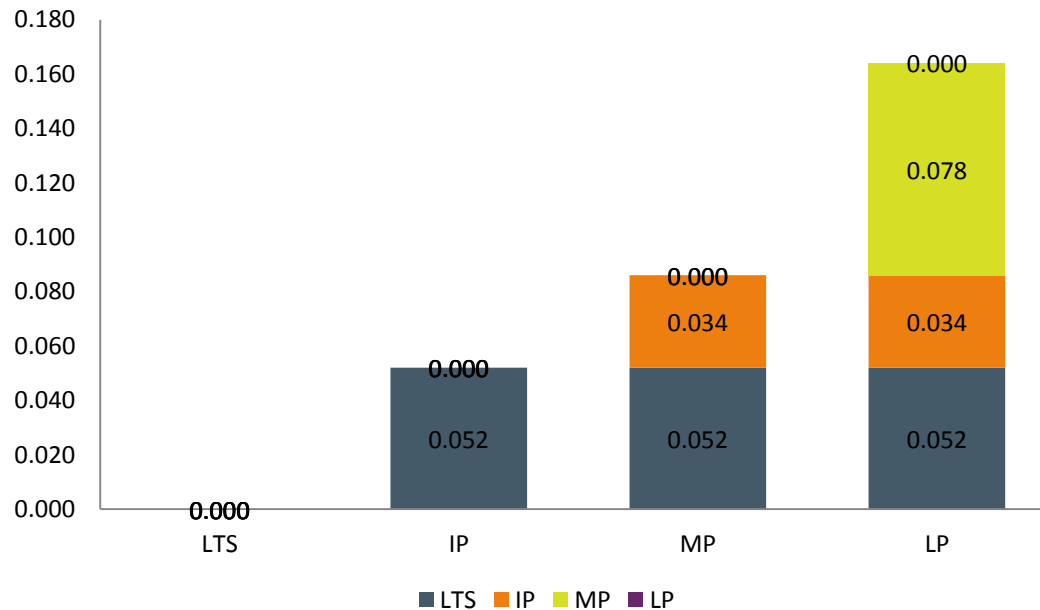
Recap on inputs

- The charge formula:

$$Charge\ (+or\ -) = Opex\ Cost\ (+) - ECN\ Credit - LDZ\ System\ Credit$$

- As networks collect allowed revenue, it is the consumers on that network which will fund through a higher commodity charge any net payment to the sites (or receive lower charges where the sites are a net debit).

Questions and thoughts

What does the future look like?

Daft question… but I don't get why <…>

That's great but what I really care about is…

Improvements in the methodology?

Does this mean the consumer pays more or less?

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