

## Update on reviewing the Optional Commodity Charge ("Shorthaul")



NTS Charging Methodology Forum (NTSCMF)  
06 May 2015

# Agenda

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- Reminder of previous meetings on Shorthaul
- Reminder of some Potential Solutions and Consequences
- Feedback from February NTSCMF
- Proposed approach
- Next steps

## Reminder of previous meetings on Shorthaul

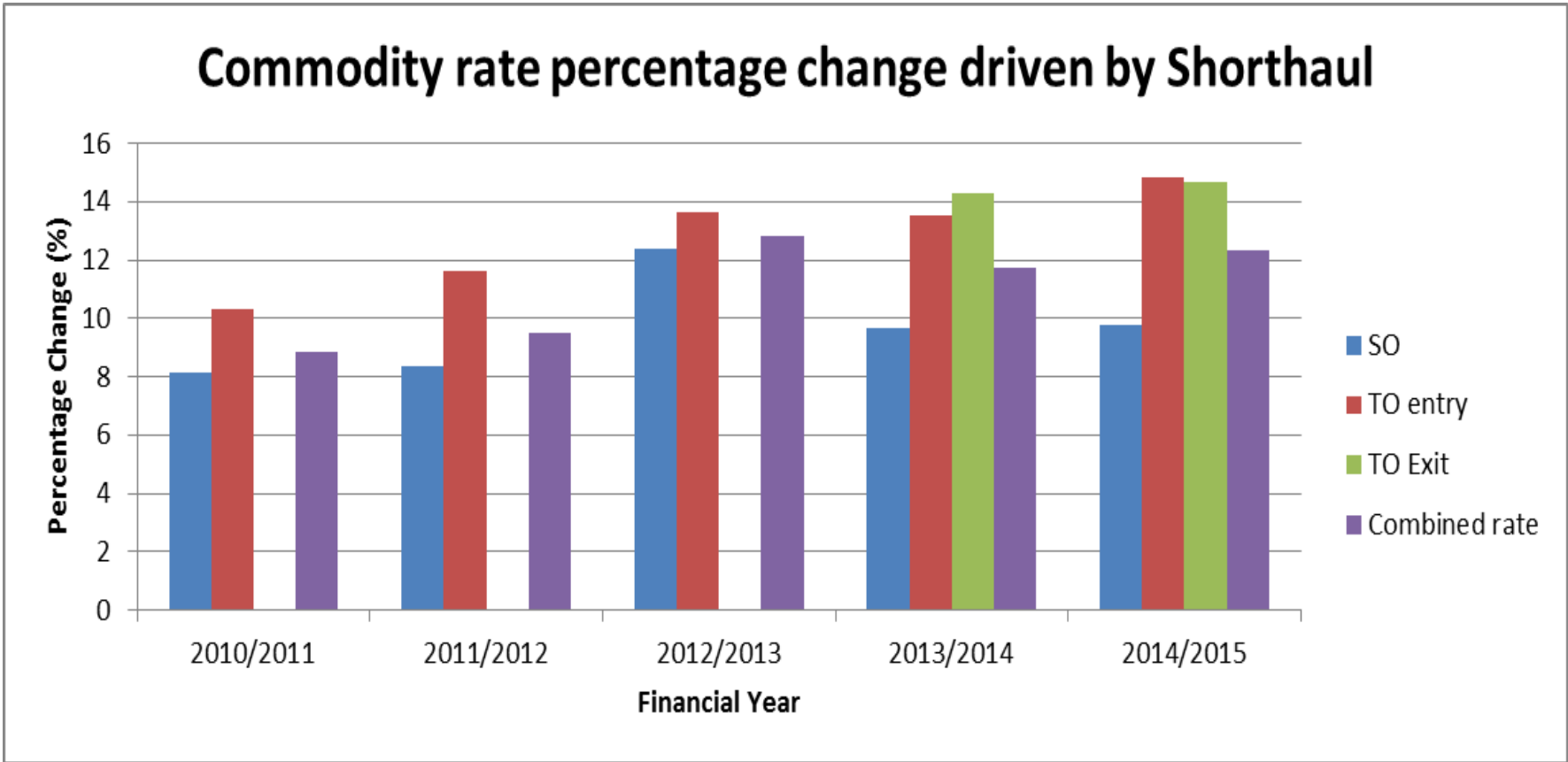


## Brief history of review proposal

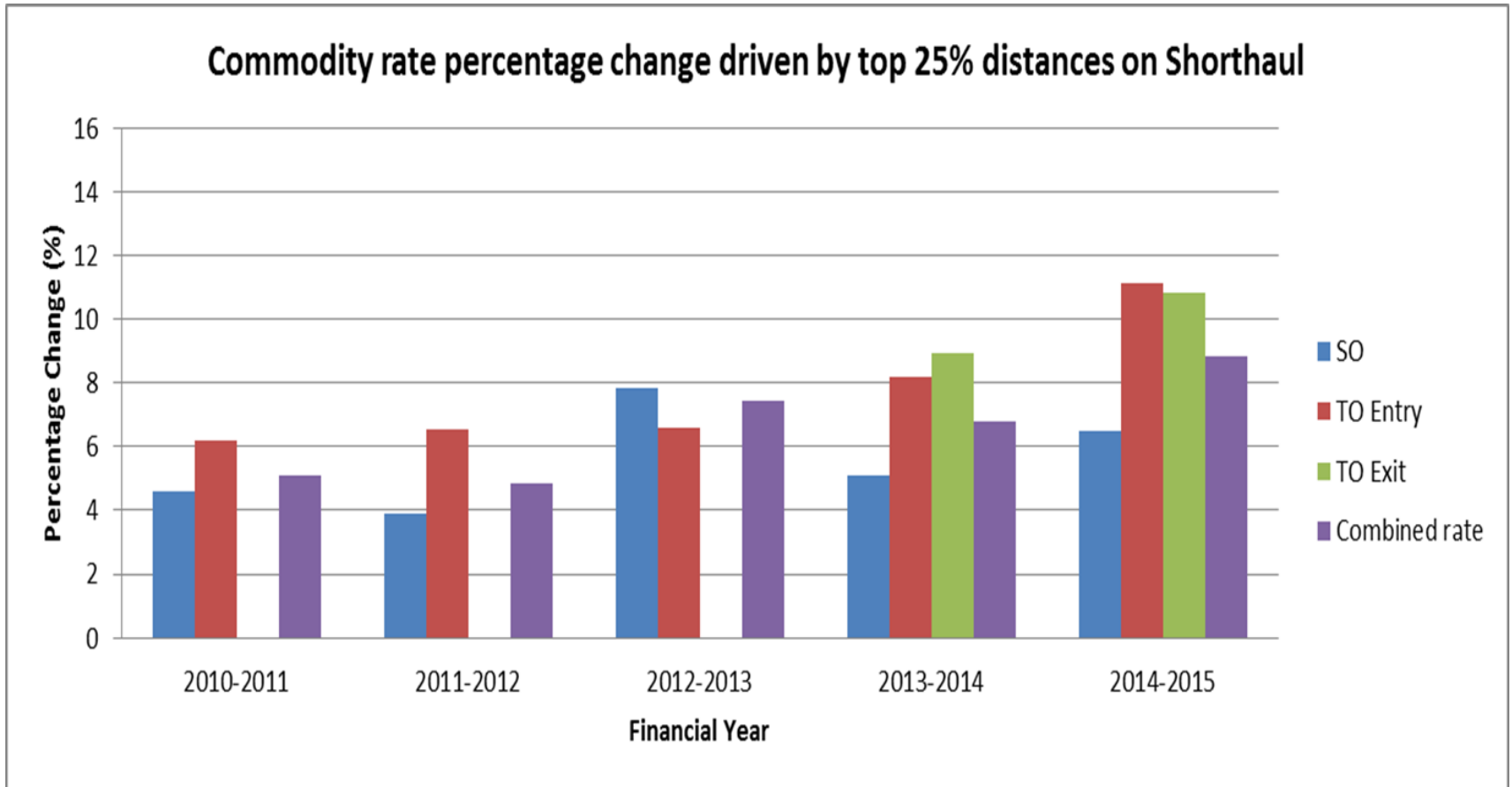
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- Proposals to review shorthaul
- Discussed shorthaul trends over the years
- Discussed how shorthaul interacts with other charges and how revenues are collected
- Looked at the impact of updating the shorthaul rates based on RPI
- Discussed the principles and objectives of shorthaul
- Discussed possible solutions on how to review shorthaul

# Commodity Rate percentage change driven by Shorthaul



# Commodity Rate percentage change driven by Shorthaul



# Impact of Shorthaul on Revenues

Formula year 2014/15

(All Values in £m)	Current contributions	Impact of removing % of shorthaul (grouped by distance)	
		Top 25% (by distance)	100% (i.e. no shorthaul)
Revenue from top 25% (by distance) on shorthaul	14	71	68
Revenue from Remaining 75% (by distance) on shorthaul	2	2	74
Revenue from Normal Commodity	624	569	500
<b>Total Commodity Revenue*</b>	<b>642</b>	<b>642</b>	<b>642</b>

*-i.e. if the top 25% of shorthaul (by the distance over which shorthaul is taken) were not on shorthaul, and on a recalculated normal commodity, the revenue from that group would increase from £14m to £71m and revenue from shippers not on shorthaul would decrease from £624m to £569m.*

*-\*Totals may not match sum of numbers due to rounding in the individual numbers to nearest £m*

*-Full details of this analysis available at:*

[http://www.gasgovernance.co.uk/sites/default/files/Optional%20Commodity%20Charge%20\("Shorthaul"\)%20v1.0%20-%20Updated.pdf](http://www.gasgovernance.co.uk/sites/default/files/Optional%20Commodity%20Charge%20()

# Impact of applying RPI to Shorthaul nationalgrid rates 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*

***-\*Totals may not match sum of numbers due to rounding in the individual numbers to nearest £m***

***Full details of this analysis available at:***

***[http://www.gasgovernance.co.uk/sites/default/files/25%20November%20%20NTSCMF%20\(Shorthaul\)%20Presentation%20%201%200.pdf](http://www.gasgovernance.co.uk/sites/default/files/25%20November%20%20NTSCMF%20(Shorthaul)%20Presentation%20%201%200.pdf)***



## Reminder of some Potential Solutions and Consequences



# Potential solutions and consequences

Possible solutions	Potential consequences
Review of the Shorthaul Formula and include into the UNC	<ul style="list-style-type: none"> <li>• More cost reflective product</li> <li>• Would likely increase some Shorthaul Rates</li> <li>• Have some form of adjustment year to year that may increase some Shorthaul Rates</li> <li>• Reduce impact on other charges / subsidy reduced</li> </ul>
Revise access and use	<ul style="list-style-type: none"> <li>• More realistic alternative to investment</li> <li>• Take account of regime / market changes</li> <li>• Could be less attractive to some</li> <li>• Provides more certainty for setting charges</li> </ul>
Review Shorthaul principles	<ul style="list-style-type: none"> <li>• Shorthaul rates could change</li> <li>• Would depend on what principles or objectives were amended</li> <li>• Could change which charges it provides exemptions from</li> </ul>

## Impacts of any change to shorthaul

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- If we looked to review all these items at the same time:
  - Objectives and relevance
  - Access and use of the product
  - Shorthaul formula
  
- This would require a UNC Modification and an update to The Statement of Gas Transmission Transportation Charges

## Key aspects of review and change impact

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Key aspects of shorthaul	A change would impact:
Shorthaul Formula	The Statement of Gas Transmission Transportation Charges
Principles and Objectives	UNC
Accessibility and use	UNC

## Feedback on material to date and on review

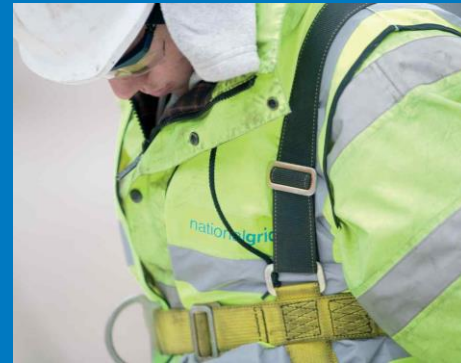


# Broad Summary of Feedback at February NTSCMF

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- Recognition that costs should be more up to date
- Concerns were raised on reviewing all aspects of shorthaul at a time when Ofgem's Gas Transmission Charging Review and the EU Tariff Code were not finalised
- We should consider updating cost elements of the shorthaul rate formula as a short term solution that may address some of the issues brought on by shorthaul
- Full comments in the minutes:
  - <http://www.gasgovernance.co.uk/ntscmf/090215>
- We have taken comments on board in updating our approach to reviewing shorthaul

## Proposed approach



## How we propose to progress shorthaul review

- Split the review of shorthaul into two areas
- Allows review of key aspects to progress independently

Area of work	Key aspects of shorthaul	Action	A change would impact:
1	Shorthaul Formula	Progress update to costs components of shorthaul rate formula	The Statement of Gas Transmission Transportation Charges
2	Principles and Objectives of Shorthaul	Keep these under review at NTSCMF to discuss	UNC
	Accessibility and use of Shorthaul		



## Engagement

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- As we look at these two work streams, the formula update is not part of the code
- We still want to ensure that stakeholders are engaged on any proposals put forward
- We propose to do a charging discussion document on our option for updating the costs that are in the formula for calculating shorthaul rates
  - Allows stakeholders the opportunity to comment

## Next Steps



## Next Steps – approach to updates

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- Updating the investment cost numbers that are used in the formula
- Provide analysis of the investment cost update on the shorthaul rates and normal commodity rates.
- Creating options of updating the costs embedded in the formula.
- Keeping review of the principles and objectives of shorthaul at future NTSCMFs. As time progresses allows reflections on other industry developments (GTCR and EU Tariff Code) to be considered.

## Next Steps - What will be produced

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- Publish a discussion document early June showing how the formula is being updated
- Feedback from interested stakeholders to be submitted by early / mid July
- We will then consider the responses to the discussion document and then provide notice to industry on how we will progress that may involve:
  - Updating the formula and give notice to those that are to be affected by the shorthaul rates changing