

Optional Commodity Charge (“Shorthaul”)

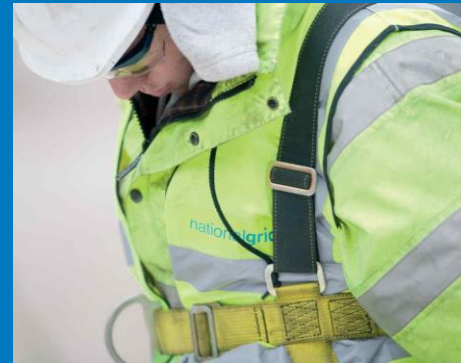


NTS Charging Methodology Forum (NTSCMF)
31 October 2014

Agenda

- Background
 - Overview of shorthaul
 - Reminder of why we are proposing to review shorthaul
- Analysis
 - Analysis to show trends in shorthaul
 - Detailed Analysis on the impact shorthaul as on Commodity charges
- Consideration with other industry developments
- Summary and next steps

Background



Overview of Shorthaul

- Purpose is to have a charging product that discourages inefficient investment and to use the NTS as an alternative
- When used it is an alternative to both the Entry and Exit NTS (SO and TO) Commodity charges
- 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
- Shorthaul was implemented when Commodity Charge was lower than current levels

How Shorthaul Works

- Shipper nominates an exit point and a relevant (non-storage) entry point
- Shippers can nominate a number of exit points against the same entry point but cannot nominate multiple entry points to the same exit point
- NTS Optional Commodity Charge (Shorthaul) is levied on the smaller of the two daily shipper allocations at either the entry or exit point, with the assumption made that any 'extra' gas must come from another entry point or alternatively flowed to another exit point

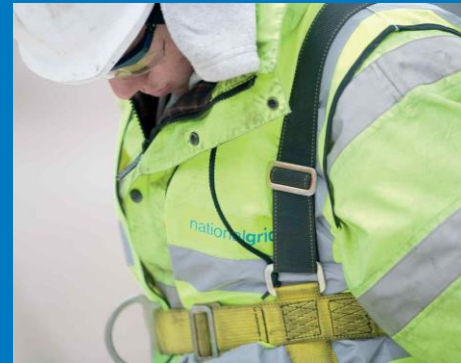
Why we are Proposing to Review?

- 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 being used over larger distances
 - 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 Commodity charges

Overview of the analysis

- The analysis in this presentation is to show the use and impact of shorthaul
- Through NTSCMF we want to build on this analysis working with industry 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

Analysis to show trends in shorthaul



Analysis - Introduction

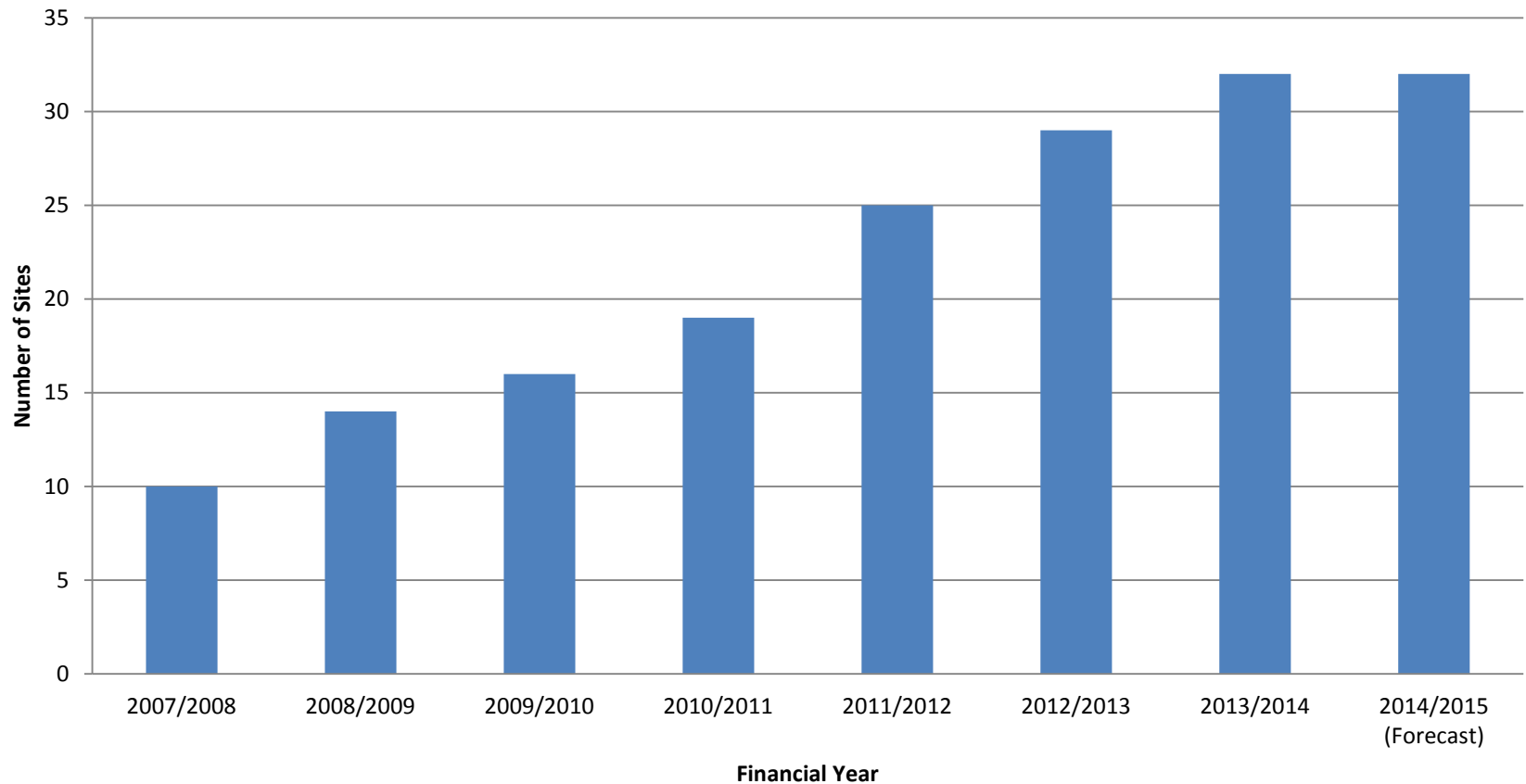
- The use of shorthaul has increased over time
- Shorthaul impacts all Commodity Charges
 - TO Entry and TO Exit
 - SO Commodity (Entry and Exit)
- Some of the trends for shorthaul are shown here:
 - Shorthaul use over time
 - How it has impacted commodity charges
 - Proportion of overall demand volumes
 - Contribution to revenue collection

Assumptions for the analysis

- 2007/08 to 2013/14 is based on actual volumes
- 2014/15 is based on data which was available for April Final Commodity Charge Setting so is using forecasted values

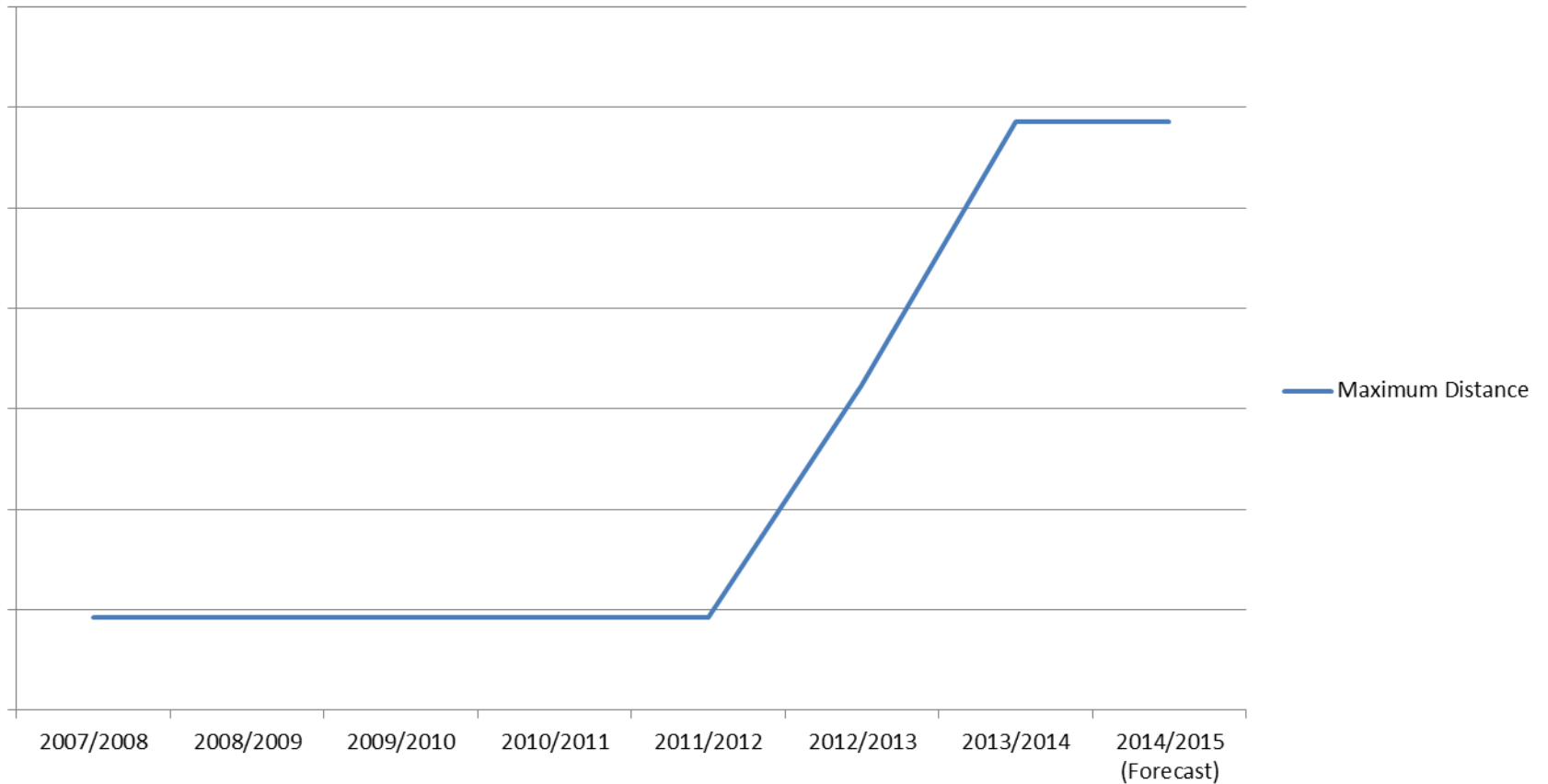
Number of sites on Shorthaul

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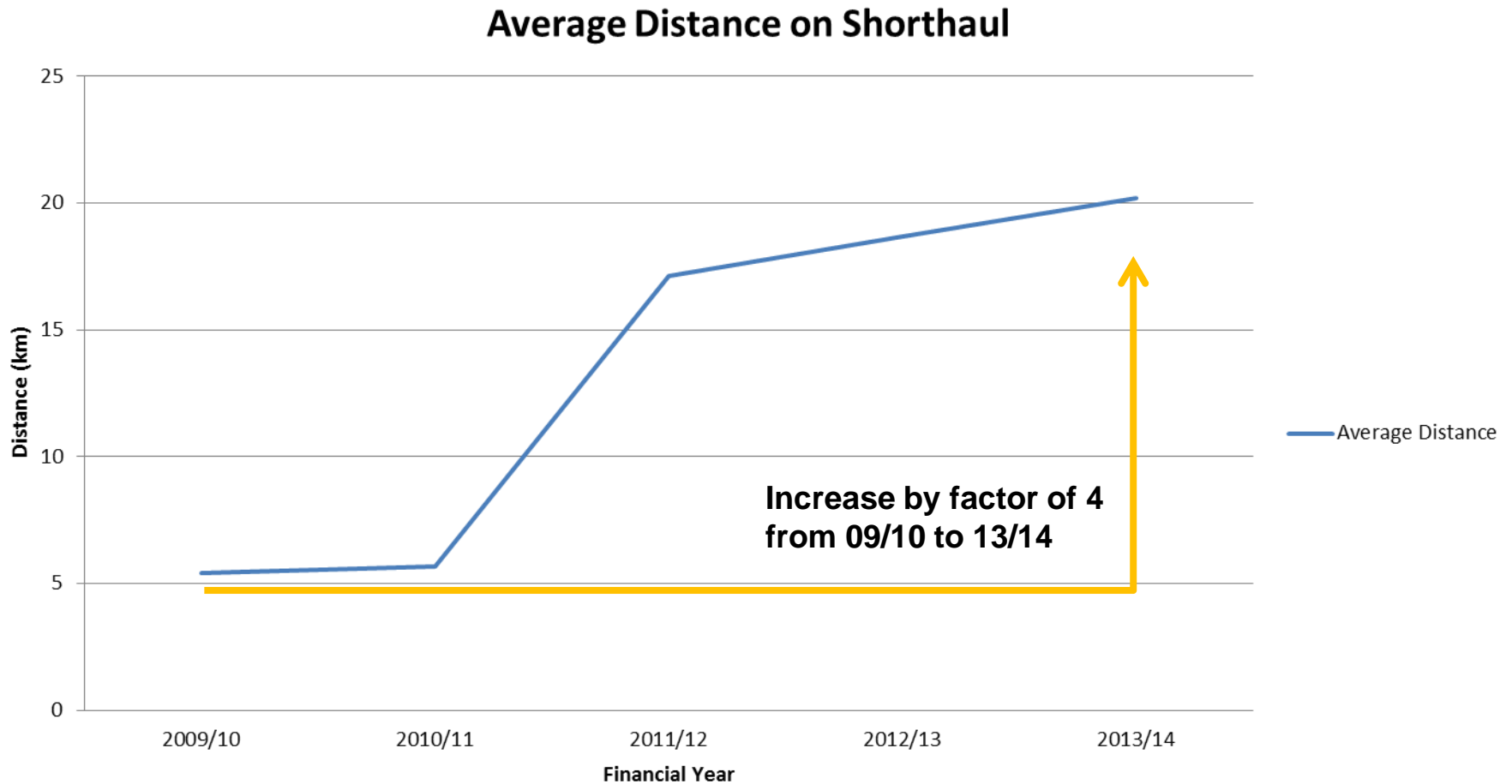


Maximum Distance on Shorthaul

Maximum Distance on Shorthaul

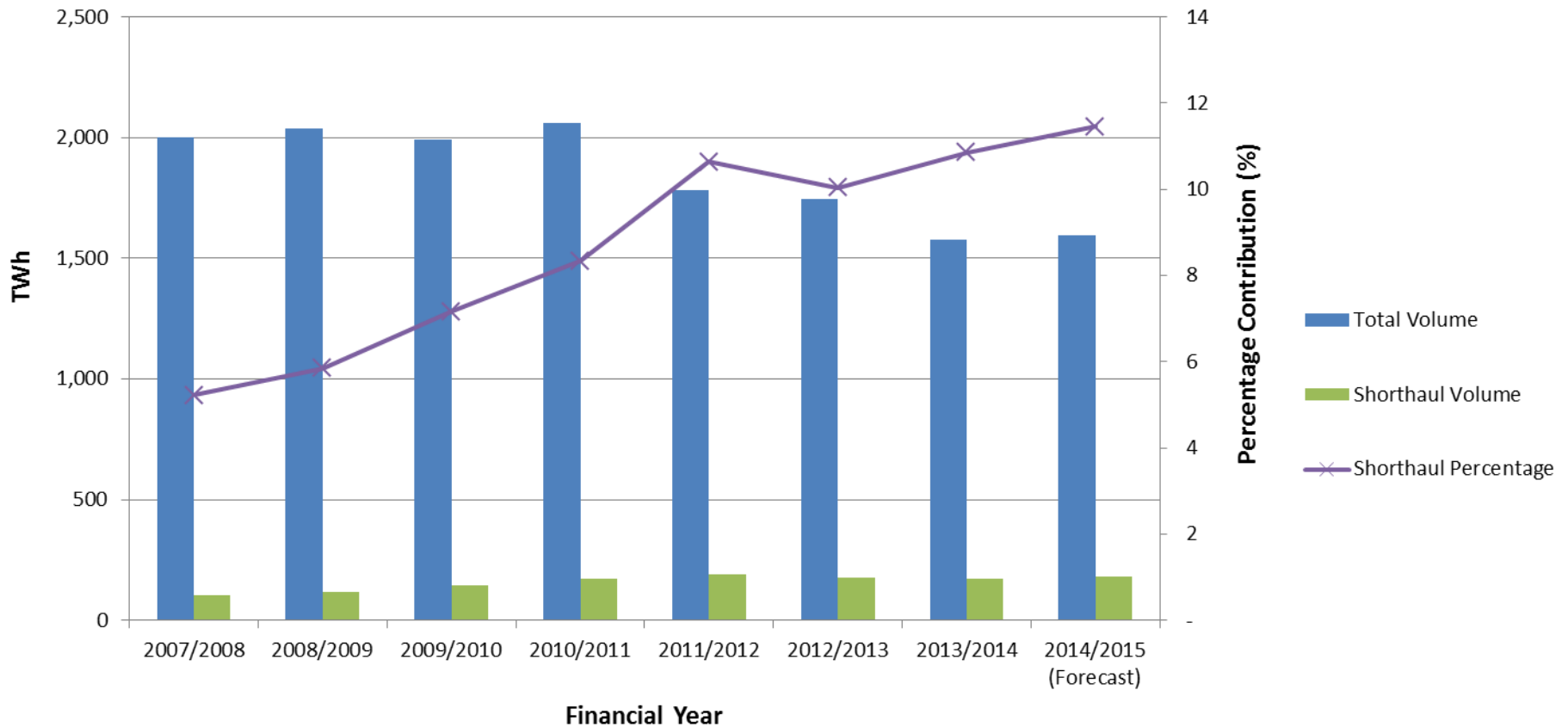


Average Distance on Shorthaul



Shorthaul Yearly Volumes

Shorthaul volume percentage contribution to total volume



Assumptions – Impacts on Commodity Rates

- Based on data which was used when setting April Final Commodity charges for applicable financial year
- We show the calculated Commodity rates (p/kWh) before and after shorthaul is taken into account in setting Commodity charges
- Looking at all Commodity Charges
 - TO Entry, TO Exit and SO Commodity Charges (Entry and Exit)
 - Combined commodity charges
- Review the percentage impact of including shorthaul over time

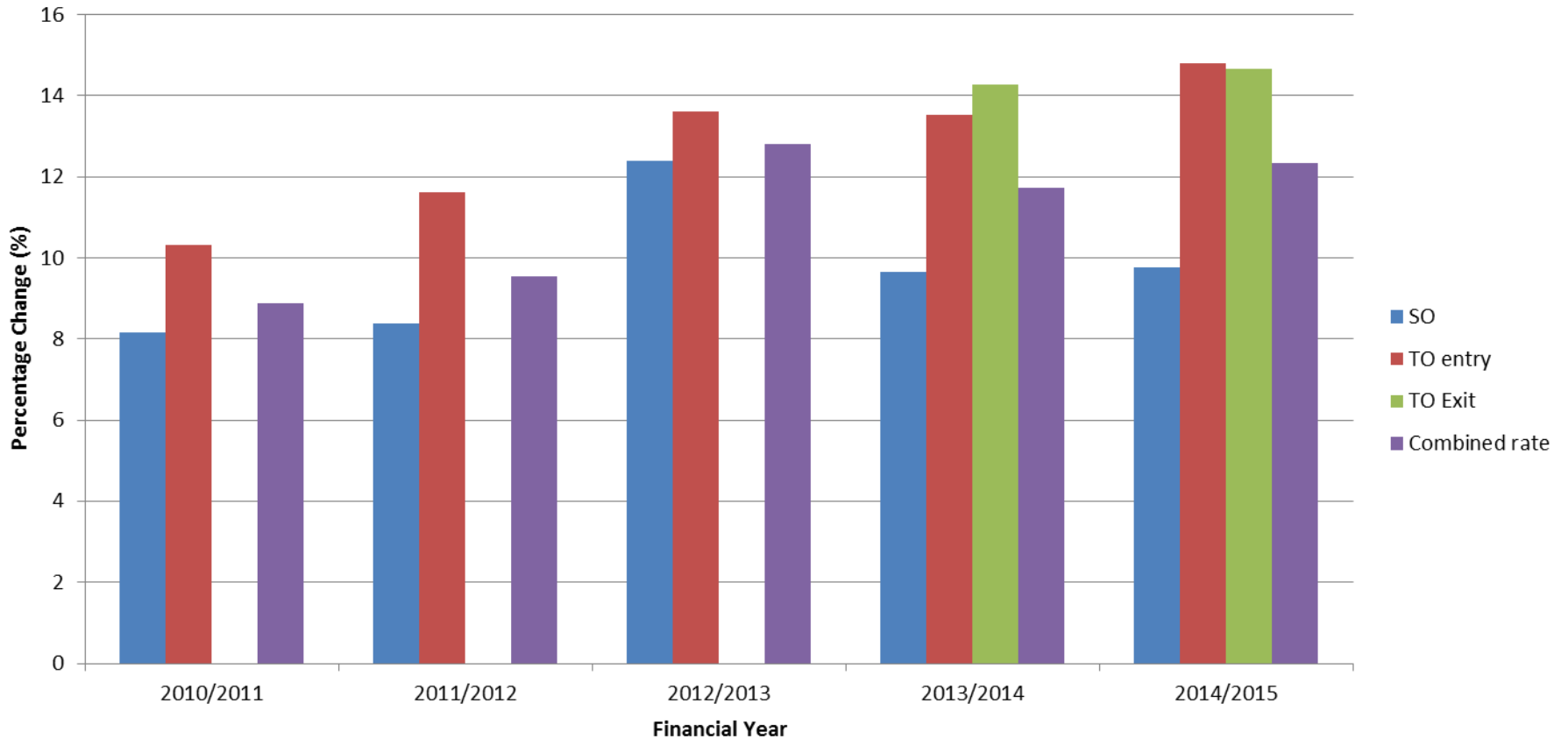
Shorthaul impact on commodity charges – excluding all Shorthaul

	Original 2010/11	Excluding Shorthaul 2010/11	Original 2011/12	Excluding Shorthaul 2011/12	Original 2012/13	Excluding Shorthaul 2012/13	Original 2013/14	Excluding Shorthaul 2013/14	Original 2014/15	Excluding Shorthaul 2014/15
SO	0.0196	0.0180	0.0179	0.0164	0.0242	0.0212	0.0176	0.0159	0.0215	0.0194
TO Entry	0.0194	0.0174	0.0198	0.0175	0.0257	0.0222	0.0244	0.0211	0.0297	0.0253
TO Exit							0.0112	0.0096	0.0157	0.0134
Combined Rate (TO and SO)	0.0586	0.0534	0.0556	0.0503	0.0741	0.0646	0.0708	0.0625	0.0884	0.0775
Difference in Combined Rate	0.0052		0.0053		0.0095		0.0083		0.0109	

All rates in p/kWh

Commodity rate percentage change driven by Shorthaul

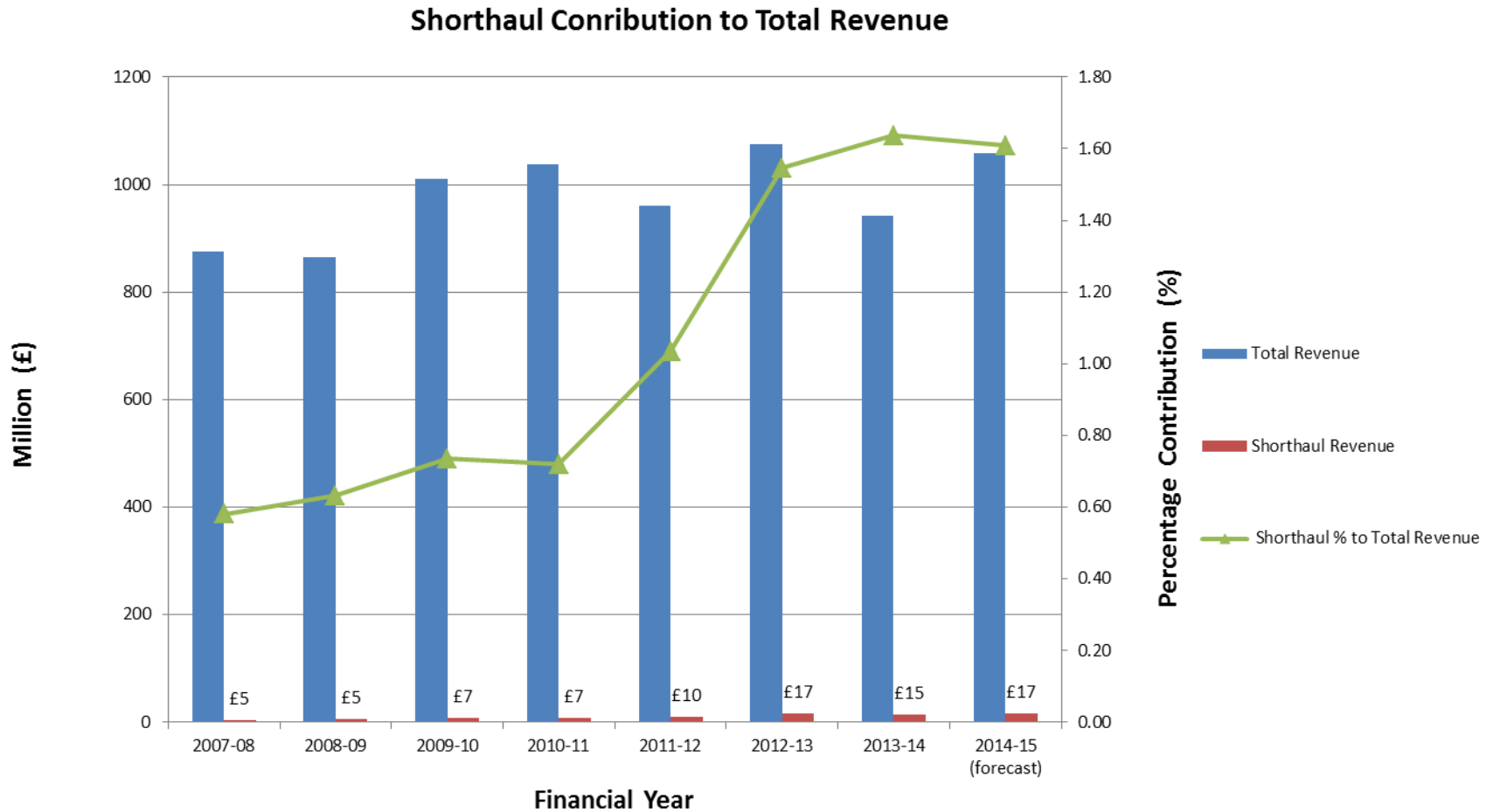
Commodity rate percentage change driven by Shorthaul



Assumptions when looking at the Revenue impacts of shorthaul

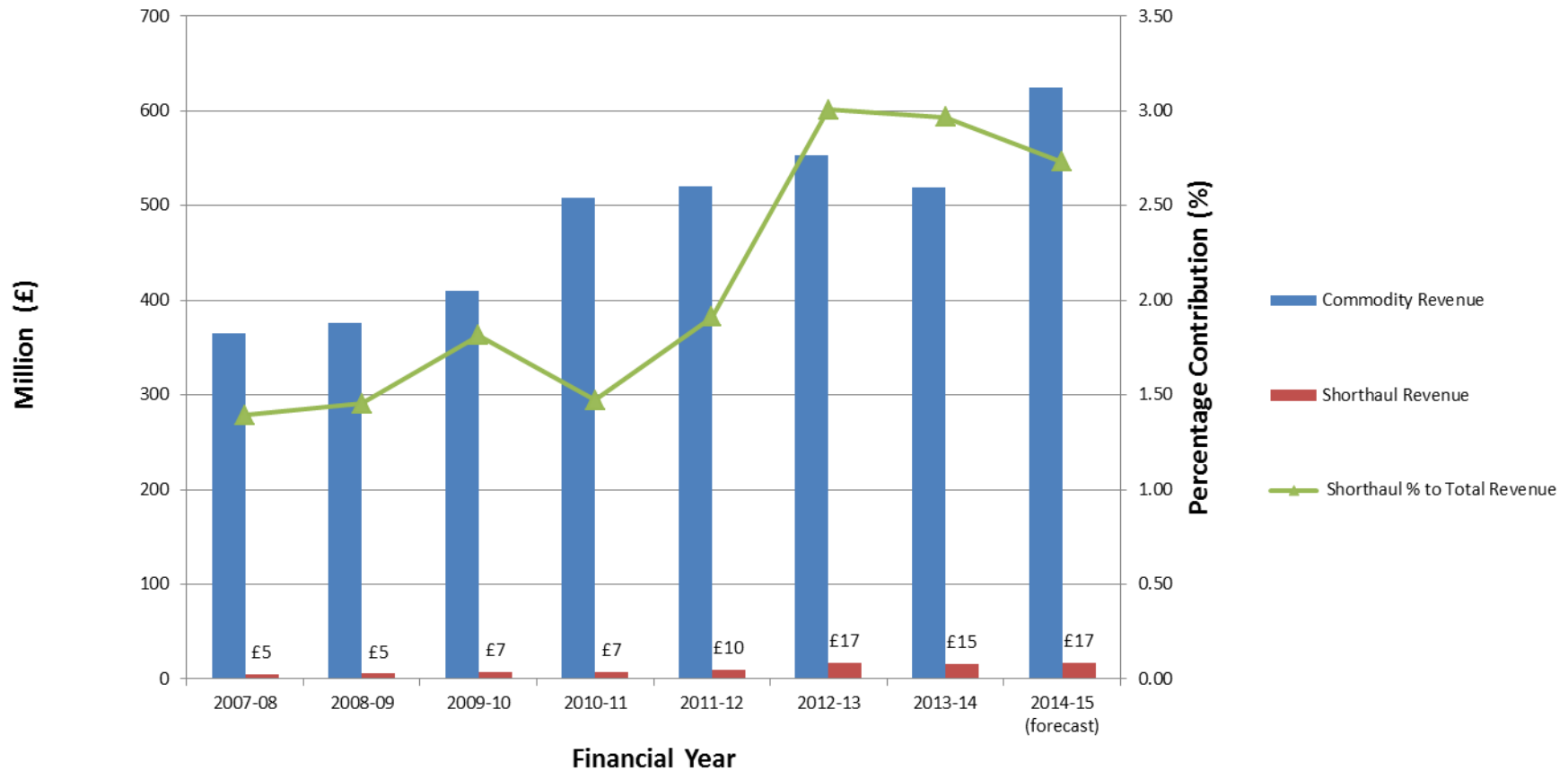
- 2007/08 to 2013/14 is based on actual volumes
- 2014/15 is based on data which was available for April Final Commodity Charge Setting

Shorthaul contribution to total revenue



Shorthaul contribution to Commodity revenue

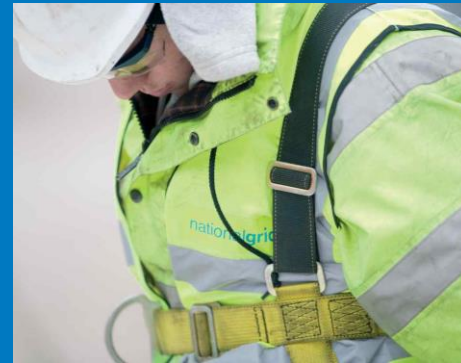
Shorthaul Contribution to Commodity Revenue



Summary

- Number of Exit points with shorthaul increased by threefold from 10 to 32 from 07/08 to 14/15.
- Average distance up by factor of 4 from 09/10 to 13/14
- Shorthaul impact means that combined commodity rates are 12% higher as a result for 14/15
- Shorthaul makes up c.11% of total volume and contributes c.1.6% of total revenue and c.2.5% of commodity revenue
- Some more detail on the interaction of shorthaul with commodity charges is in the following slides

Detailed Analysis on the impact shorthaul as on Commodity charges



Shorthaul Interaction with Other Charges

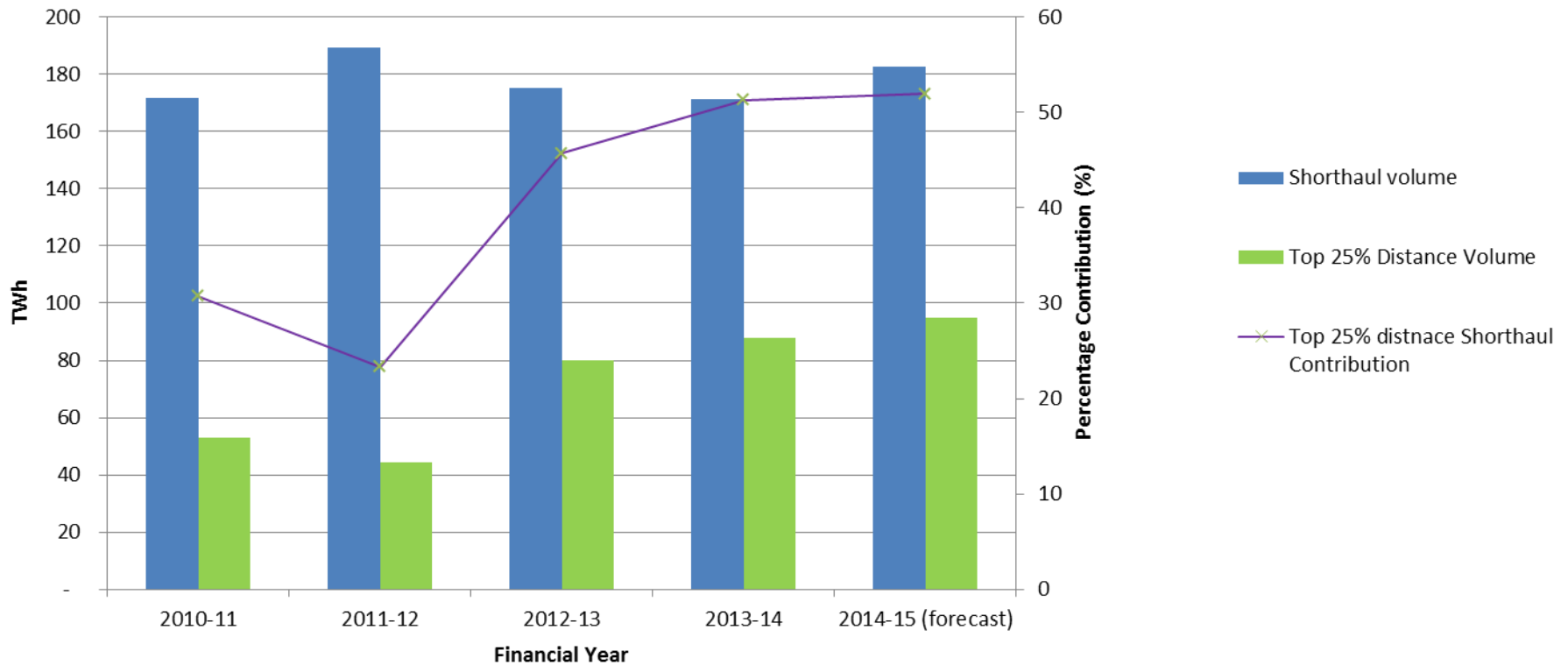
- Shorthaul has a direct influence on other charges, particularly the commodity charges
- The charging base used to calculate commodity charges is reduced by the shorthaul volumes thereby increasing the Commodity Rates
- Where shorthaul is charged the revenue collected is less than it would be through normal Commodity charges
- Shorthaul is not adjusted to RPI rates and this contributes to the commodity charges being higher

Shorthaul impact on commodity charges – Analysis

- Analysis looks at the impact that there would be on Commodity Rates and revenues collected from shorthaul and commodity charges if:
 - Shorthaul was not a product
 - Top 25% (based on distances shorthaul is taken over) were removed and charges adjusted accordingly
- Based on the April commodity rates for applicable financial year

Top 25% distances volume contribution

Top 25% Shorthaul Distance Contribution as percentage of Total Shorthaul Volume



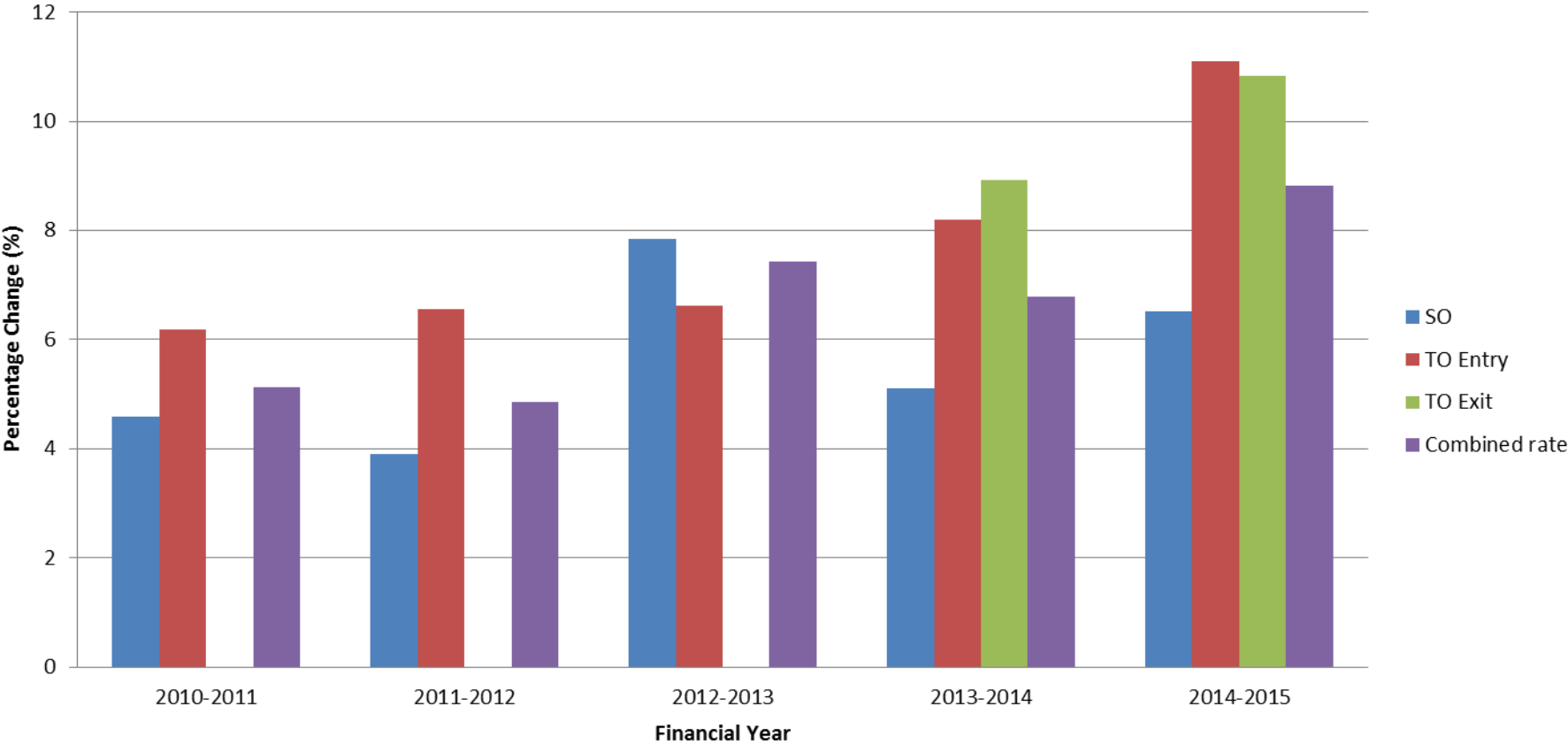
Top 25 % Distance Impact on Commodity charges – remove top 25% distances

	Original 2010/2011	Less 25 % top distance 2010/2011	Original 2011/2012	Less 25 % top distance 2011/2012	Original 2012/2013	Less 25% top distance 2012/2013	Original 2013/2014	Less 25% top distance 2013/2014	Original 2014/2015	Less 25% top distance 2014/2015
Original SO	0.0196	0.0187	0.0179	0.0172	0.0242	0.0223	0.0176	0.0167	0.0215	0.0201
Original TO entry	0.0194	0.0182	0.0198	0.0185	0.0257	0.024	0.0244	0.0224	0.0297	0.0264
Original TO Exit							0.0112	0.0102	0.0157	0.014
Combined	0.0586	0.0556	0.0556	0.0529	0.0741	0.0686	0.0708	0.066	0.0884	0.0806
Difference	0.003		0.0027		0.0055		0.0048		0.0078	

All rates in p/kWh

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
Total Commodity Revenue*	642	642	642

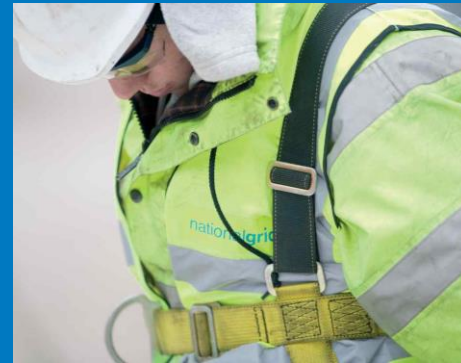
-i.e. if the top 25% of shorthaul (by the distance over which shorthaul is taken) were not on shorthaul, and on a recalculated normal commodity, the revenue from that group would increase from £14m to £71m and revenue from shippers not on shorthaul would decrease from £624m to £569m.

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

Summary

- Shorthaul is influencing other charges more as volumes increase
- The distance at which shorthaul is being used is increasing
- The purpose of shorthaul should be relevant and kept under review
- We believe shorthaul should be reviewed
 - The impact on the other commodity charges is increasing

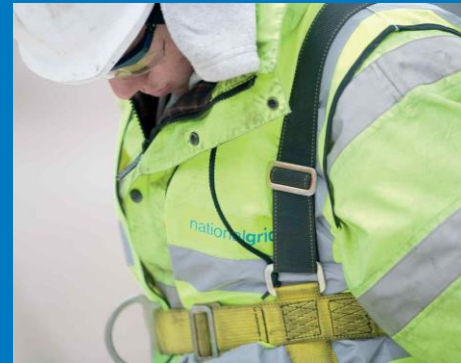
Consideration with other industry developments



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

Next Steps



Next Steps – Overview

- Provide additional analysis to future NTSCMFs
 - Address actions from NTSCMF
 - Working with you to shape analysis and options
- 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

- We will produce analysis of the various options and present back to the next NTSCMF for discussion
 - What sort of analysis would be useful?
- As part of the analysis and consideration of the options leading to a potential UNC Modification we will look at what may need to be updated, including
 - UNC
 - Transportation charging statement
 - Invoicing - xoserve