

Optional Commodity Charge (“Shorthaul”)



NTS Charging Methodology Forum (NTSCMF)
9 February 2015

Agenda

- Reminder of previous meetings
- Actions from last NTSCMF
- Investment Costs
- Next steps

Action 1101

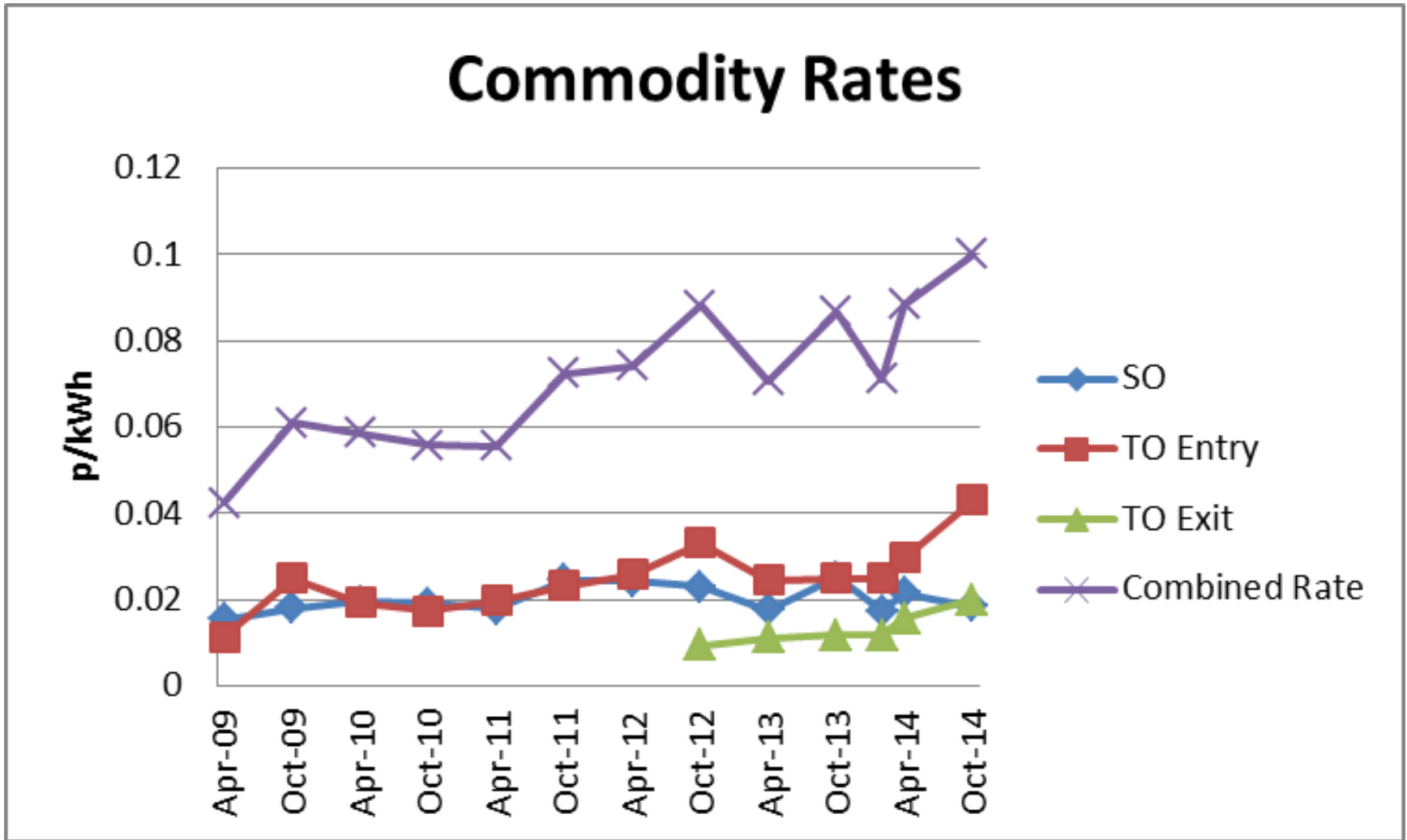


Action 1101

- “National Grid NTS to evaluate the historical commodity rate increases since 1998 and compare to the RPI applied in the modelling.”
- Historical RPI rates compared to the Commodity Rate changes
 - To see trends of RPI change and trends of commodity charge changes
 - RPI rates are average yearly RPI rates* in applicable year

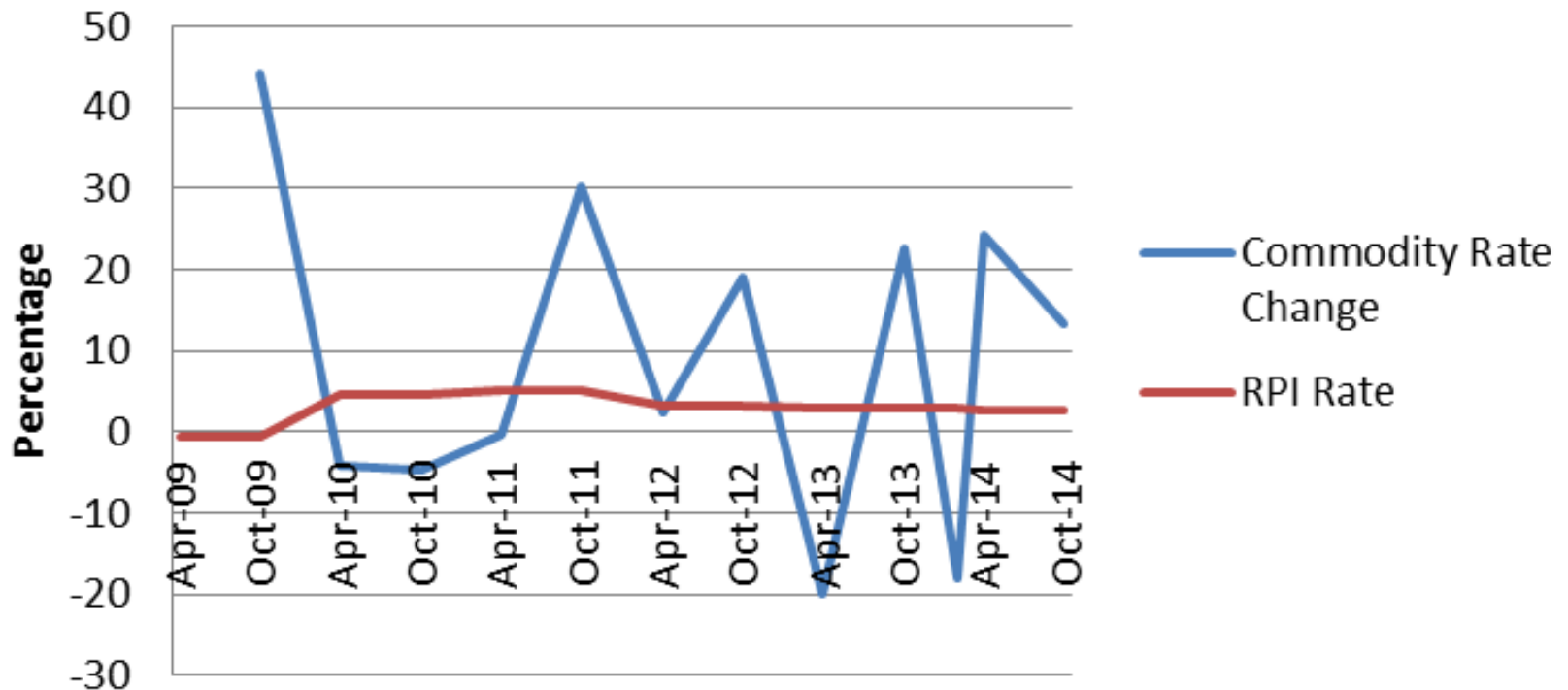
* RPI rates are taken from the ONS website

Changes to Commodity Rates: Absolute variances (p/kWh)

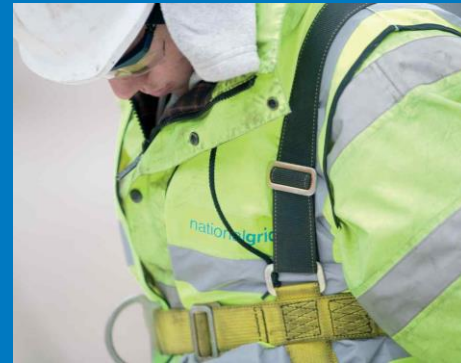


Comparison of variances to RPI and Commodity rates

Commodity Rate change against RPI rate



Action 1102



Action 1102

- “National Grid NTS to strip out TO commodity charge and identify the impact of shorthaul in the context of replacing SO Commodity only.”

- Impact on Commodity charges of Shorthaul if only replaced SO Commodity charges rather than all Commodity charges

Action 1102 - Assumptions

- In the calculations we removed those volumes / revenues where Shorthaul rates were above the relevant years SO rate
- Increased the volume which would pay TO commodity rates by these Shorthaul volumes
 - Would now pay TO Commodity charges as Shorthaul only replacing SO Commodity
- Updated commodity rates and compared against the original rates
 - Based on April Commodity charges

SO Commodity

	2010/11 Original	Shorthaul only replace SO Charges 2010/11	2011/12 Original	Shorthaul only replace SO Charges 2011/12	2012/13 Original	Shorthaul only replace SO Charges 2012/13	2013/14 Original	Shorthaul only replace SO Charges 2013/14	2014/15 Original	Shorthaul only replace SO Charges 2014/15
SO	0.0196	0.0196	0.0179	0.0179	0.0242	0.0242	0.0176	0.0176	0.0215	0.0215
TO Entry	0.0194	0.016	0.0198	0.0163	0.0257	0.0199	0.0244	0.0192	0.0297	0.0236
TO Exit							0.0112	0.0087	0.0157	0.0125
Combined Commodity	0.0586	0.0552	0.0556	0.0521	0.0741	0.0683	0.0708	0.0631	0.0884	0.0791
Difference	0.0034		0.0035		0.0058		0.0077		0.0093	

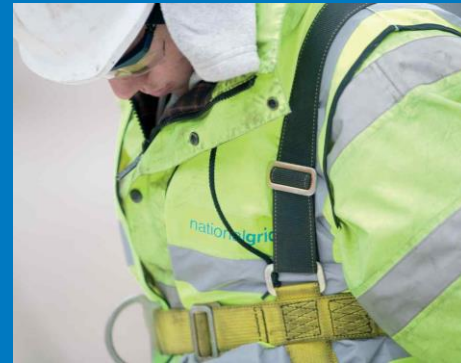
Potential impact of updating Investment Costs



Potential impact of updating Investment Costs

- Currently based on levels set at the time of shorthaul implementation
- Considering an update to the investment costs more in line with current estimates and reviewing the formula then:
 - When comparing against the rate of the Combined Commodity (TO and SO) Rate for October 2014
 - Estimates are that Shorthaul would only viable over distances of around 50km
 - Reaching threshold of when shorthaul rates exceed the combined commodity rates (as at Oct 2014)
 - Will vary dependent on volumes

Action 1103: Shorthaul principles, why change and high level impact of potential solutions



Shorthaul High Level Principles / Objectives

- When Shorthaul was introduced the high level principles were:
 - Discourage inefficient bypass of the NTS system
 - Conceived for shorter distances
 - Cost Reflectivity
 - Based on investment costs and SOQs
 - Competition
 - Available to all but may not be suitable for all
 - To be relatively small in it's influence recognising the interaction with other charges

Cost Reflectivity

Intent	Why Change?
Investment Costs used were applicable in 1998 when Shorthaul was introduced	<ul style="list-style-type: none"> • Not been updated to reflect any changes in investment cost to date • Other charges are updated to reflect changes (e.g. via impact of costs in allowed revenues)
Connection Costs used were applicable in 1998 when Shorthaul was introduced	<ul style="list-style-type: none"> • Not been updated to reflect any changes in in costs
SOQ (MNEPOR) used in relation to a load factor	<ul style="list-style-type: none"> • Load factor needs to be brought up to date
<p>Shorthaul Rates set based on first time Shorthaul is taken</p> <p>Was not envisaged as a “fixed” price product</p>	<ul style="list-style-type: none"> • Changes to rates should be reviewed in some way to reflect changes from year to year • E.g. such as applying inflation or other methodology in calculation.

Avoid inefficient bypass of the NTS system

Intent	Why Change?
<p>Introduced for large supply points situated close to terminals. Although no explicit limit on shorthaul was built in, this was essentially built in based on level of commodity at the time</p>	<ul style="list-style-type: none"> • Cap was essentially built in based on level of commodity at the time. • There is a likely threshold over which investment is unlikely relative to size and distance • Combined Commodity Rate has increased to levels that are beyond what was envisaged.
<p>Ensure NTS pipelines are utilised to avoid inefficient market investment</p>	<ul style="list-style-type: none"> • For the distances over which it is being requested currently it may not be economic for all those requesting to build a pipe
<p>No rules regarding eligibility of charge</p>	<ul style="list-style-type: none"> • Even if not thinking of building a pipe can have Shorthaul
<p>No rules regarding switching of Entry and Exit Points</p>	<ul style="list-style-type: none"> • Not going to be economical to build two pipes and only use one on a regular basis

Facilitate fair competition

Intent	Why Change?
<p>Replace combined commodity rate when used for large supplies over small distance that would have built their own pipe and not used NTS pipe.</p> <p>To minimise inefficient investment.</p>	<ul style="list-style-type: none"> • As Combined Commodity Rate has increased those on Standard Commodity Rates are subsidising those which are paying Shorthaul rates. • Should consider link to investment for shipper, and for any product, the assumed costs should be reviewed
<p>Consideration and Interaction with other charges was expected to be small</p>	<ul style="list-style-type: none"> • Interaction with other commodity charges is high. • Large subsidy from those not on shorthaul.
<p>Access and use of the product was envisaged to be an alternative to investment costs and not a flexible product that could be changed frequently</p>	<ul style="list-style-type: none"> • Access and flexibility (use) should be reviewed against the objectives of the product • Needs to consider changes in regime since 1998 to present • Should be relative to investment costs for those likely to invest.

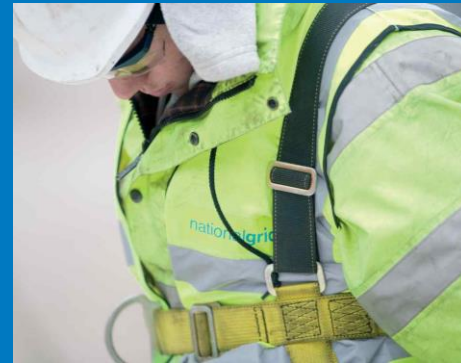
Potential Solutions and Consequences



Potential solutions and consequences

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

Next Steps



Next Steps

- Raise a UNC MOD in next few months to review the key aspects of Shorthaul
- The MOD will focus on
 - Objectives and relevance
 - Access and use of the product
 - Shorthaul formula
- Develop the UNC MOD and potential solutions with industry through a UNC MOD workgroup