

NTS Optional Commodity Charge (“Shorthaul”)



NTS Charging Methodology Forum (NTSCMF)
22 July 2015

Agenda

- Recap of previous meetings
- Proposed approach to review the NTS Optional Commodity charge
- Charging Discussion Document NTS GCD11
 - Options
 - Impacts
 - Questions
 - Timescales

Recap of previous meetings



Brief history (1/2)

- Proposals to review from September 2014
- Highlighted some issues with the NTS Optional Commodity charge
 - Highlighted the interaction between shorthaul and other commodity charges
 - Use of the product
 - Cost inputs not updated from 1998

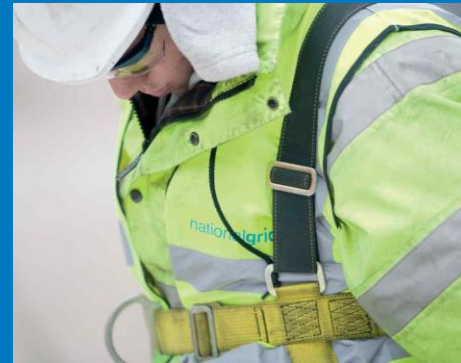
Brief History (2/2)

- Since September 2014 we have shown:

- The impact of the NTS Optional Commodity charge:
 - The interaction with TO and SO Commodity charge setting
 - The collection of revenues and the impact the NTS Optional Commodity charge has
 - The trends in use of the NTS Optional Commodity charge

- Proposed potential solutions

Proposed approach to review the NTS Optional Commodity charge



Review of the NTS Optional Commodity charge

- We had proposed to review to cover:
 - Review the NTS Optional Commodity charge formula to bring the cost inputs up to date
 - Review the access and use regarding the methodology of using the NTS Optional Commodity charge
 - Review the principles underpinning the NTS Optional Commodity charge product to ensure it is relevant and that any changes are in line with the objectives of such a charging product

Feedback on potential review

- Comments from NTS CMF
- Concerns about reviewing the methodology / access and broader objectives of the NTS Optional Commodity charge with other industry developments not finalised
 - EU Tariff Code
 - Ofgem's Gas Transmission Charging Review (GTCR)
- Could review the cost inputs initially as this may help in addressing some of the issues

Response to feedback

- We took on board this feedback:
 - Propose to bring the cost inputs up to date
 - Delay a review of the access and broader methodology of the NTS Optional Commodity charge until a later stage
 - Would ensure discussions timely on the NTS Optional Commodity charge at a time when
 - Impacts on charge as a result of EU Tariff Code and GTCR can be assessed against more certain outcomes
 - Could review arrangements and consider how charging framework may be affected

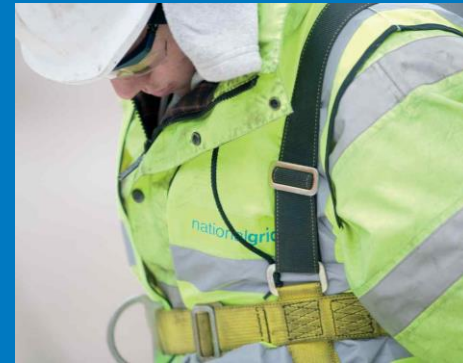
How to update NTS Optional Commodity charge for costs

- A change to the methodology / access or objectives of the NTS Optional Commodity charge would require a UNC Modification
- A change to the costs that update the charging function for the NTS Optional Commodity charge would not
 - Function is not in UNC, it is in the Statement of Transmission Transportation charges
 - Separate governance to update
 - National Grid to initiate and implement updates
- We want to engage with industry via Discussion Document to receive comments on proposals

Why the Discussion Document?

- Updating the cost input in the formula is not part of the UNC
- National Grid decided to use the NTS Gas Charging Discussion (NTS GCD) document to:
 - Communicate options
 - Explain the rationale behind the options
 - Consult on implementation timelines
 - Seek feedback on proposed review approach
- Link to Discussion Documents on NG Website:
<http://www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Charging-methodology/Gas-Charging-Discussion-papers/>

NTS GCD11: *Updating the Cost Inputs to the NTS Optional Commodity Charge Function*



<http://www2.nationalgrid.com/UK/Industry-information/System-charges/Gas-transmission/Charging-methodology/Gas-Charging-Discussion-papers/>

Discussion Document Summary

- The Governance process for updating the NTS Optional Commodity charge
- The two proposed options for updating the inputs to the existing formula in the Transportation Statement
- Impact of the proposed solutions on NTS Optional Commodity charges, TO and SO Commodity charges and on revenue collection
- The proposed timelines
- Inviting views and comments from the industry through specific questions on the proposals

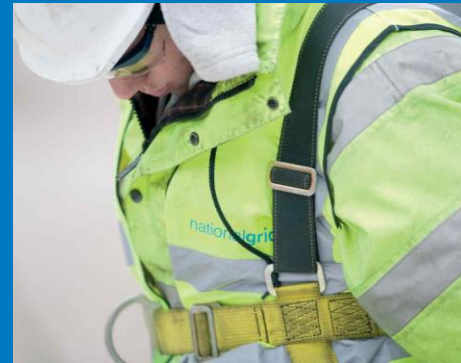
Governance process for updating shorthaul

- The function that is used to calculate the individual shorthaul rates is published in the Transportation Statement and sits outside the UNC.
- Update to the formula itself would not require a UNC Modification. Therefore, this change will be subject to the relevant Licence Obligations relating to Charging
- The requirement is for National Grid to publish it's intended changes with the relevant notice periods.

Rationale behind the proposed Options

- Ensuring the underlying assumptions in generating the current NTS Optional Commodity charge formula, where possible, remain unchanged
- Keeping the change simple - using the same structure in the formula thereby only resulting in updates to the four numerical constants in the equation
- Using two approaches to updating the cost elements:
 - Costs provided under the RIIO-GT1 price control
 - Publicly available indices

NTS GCD11: Two Options for updating costs



Option One

- **Using pipe sizes and unit costs that were provided under the RIIO-GT1 Price Control**
 - The costs that underpin the calculation for shorthaul would be based on costs related to National Grid's Price Control settlement agreed by Ofgem
 - Only uses those pipe sizes for which National Grid received unit costs as part of the RIIO-GT1 Price Control agreed with Ofgem
 - The 0km (connection cost) is based on 14.55% of the project cost at 50km distance for the different flow rates
 - Indexed 09/10 costs to 2015/16 prices using RPI

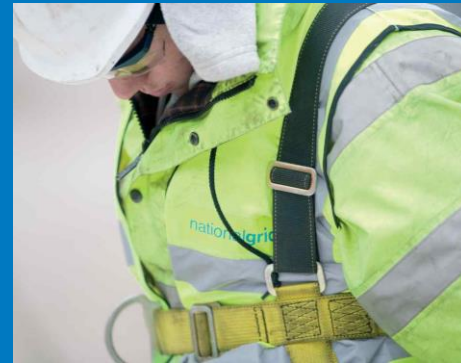
Option Two

- **Updating the current portfolio of unit costs using publicly available indices and including the pipe sizes and unit costs that were provided for under the RIIO-GT1 Price Control.**
 - Uses the current portfolio of pipe sizes and adds to them the unit costs for the three pipe sizes agreed under the RIIO-GT1 price control
 - Uses a steel index and RPI to update the unit costs for the current portfolio of pipe sizes.
 - Index fixed costs from 1998 up to 2015/16 using RPI. This applies only to those pipe sizes / flow rate combinations that would require the use of a pipe diameter that is part of the current portfolio

Options: Comparison of Portfolio of pipe sizes

Current Portfolio	Option One Portfolio	Option Two Portfolio
50 mm		50 mm
100 mm		100 mm
150 mm		150 mm
200 mm		200 mm
300 mm		300 mm
450 mm		450 mm
600 mm		600 mm
	610 mm	610 mm
	915 mm	915 mm
	1220 mm	1220 mm

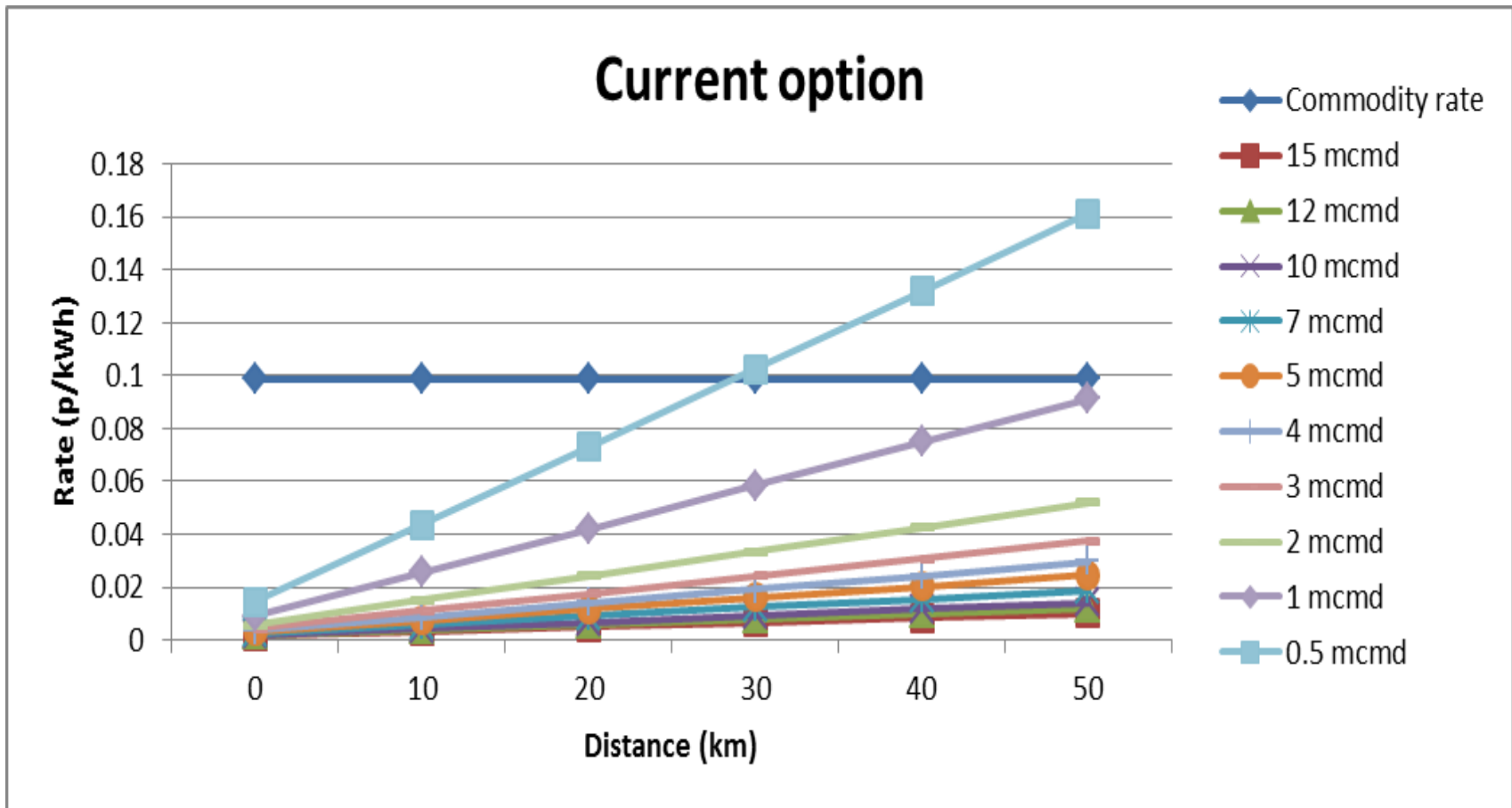
NTS GCD 11: Rates Under the Proposed Options



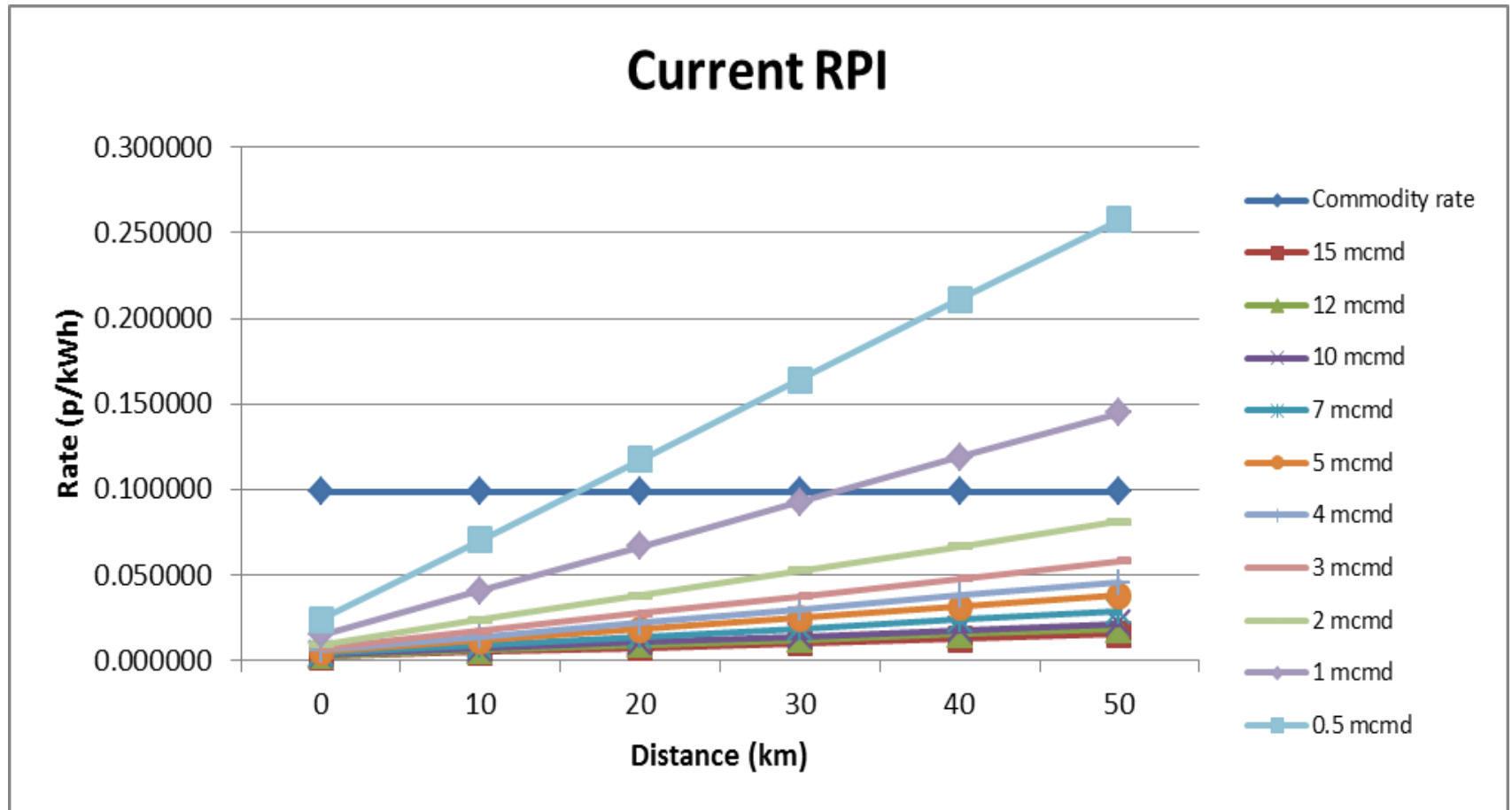
NTS GCD11: Options in Document nationalgrid for comparisons

- **'Current'** refers to the current arrangements for the NTS Optional Commodity charge.
- **'Current RPI'** takes the current arrangements and adjusts all cost components using RPI to update them to 2015/16 prices.
- **Option One** is bringing costs up to 2015/16 prices using unit costs that were part of RIIO-GT1 Price Control.
- **Option Two** is bringing costs up to 2015/16 prices using a combination of the existing portfolio of pipe diameters and including the pipe sizes and unit costs that were part of RIIO-GT1 Price Control.

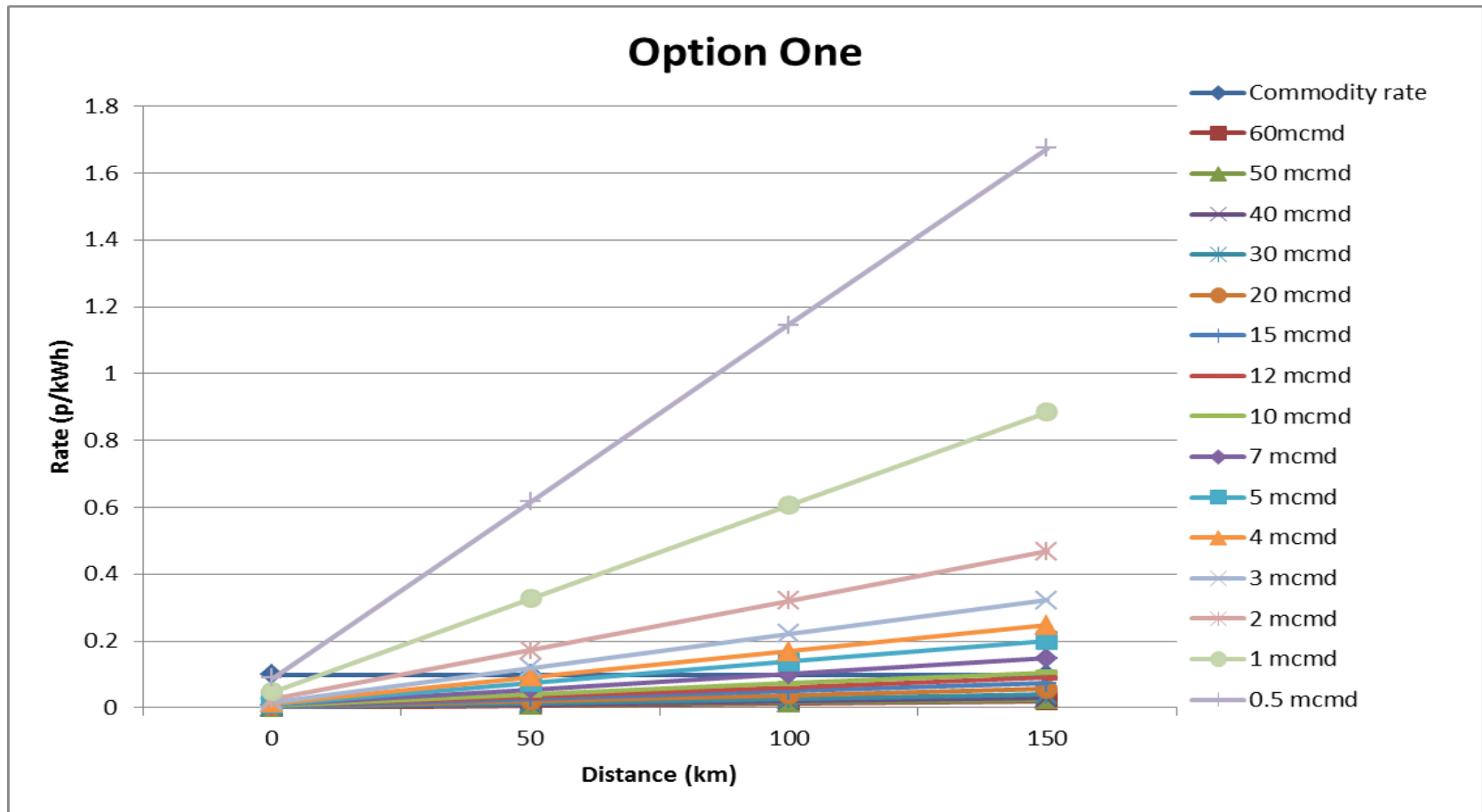
NTS GCD11: Current Option



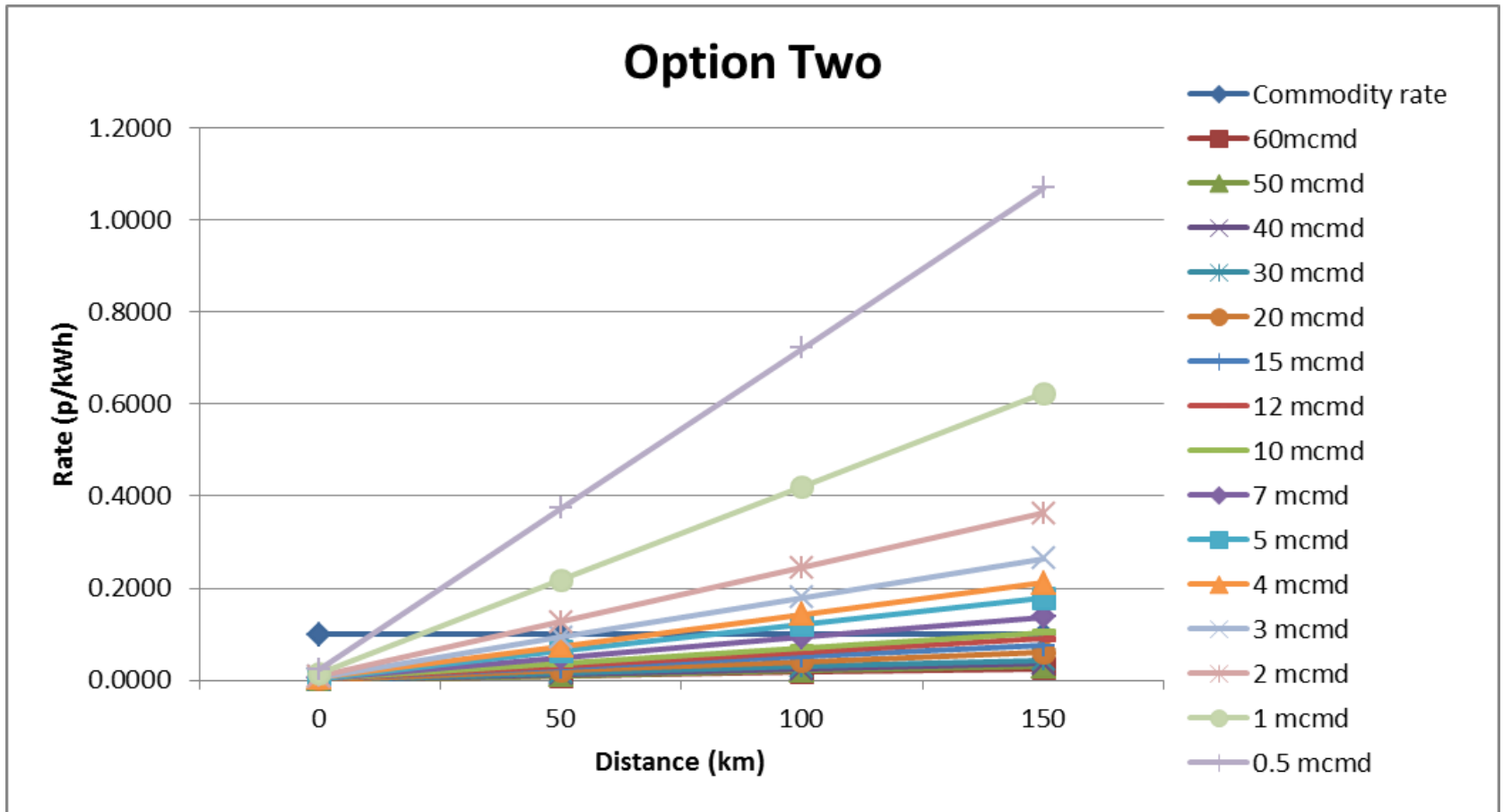
NTS GCD11: Current RPI



NTS GCD11: Option One



NTS GCD11: Option Two



NTS GCD 11: Impacts



NTS GCD11: Key assumptions for impacts

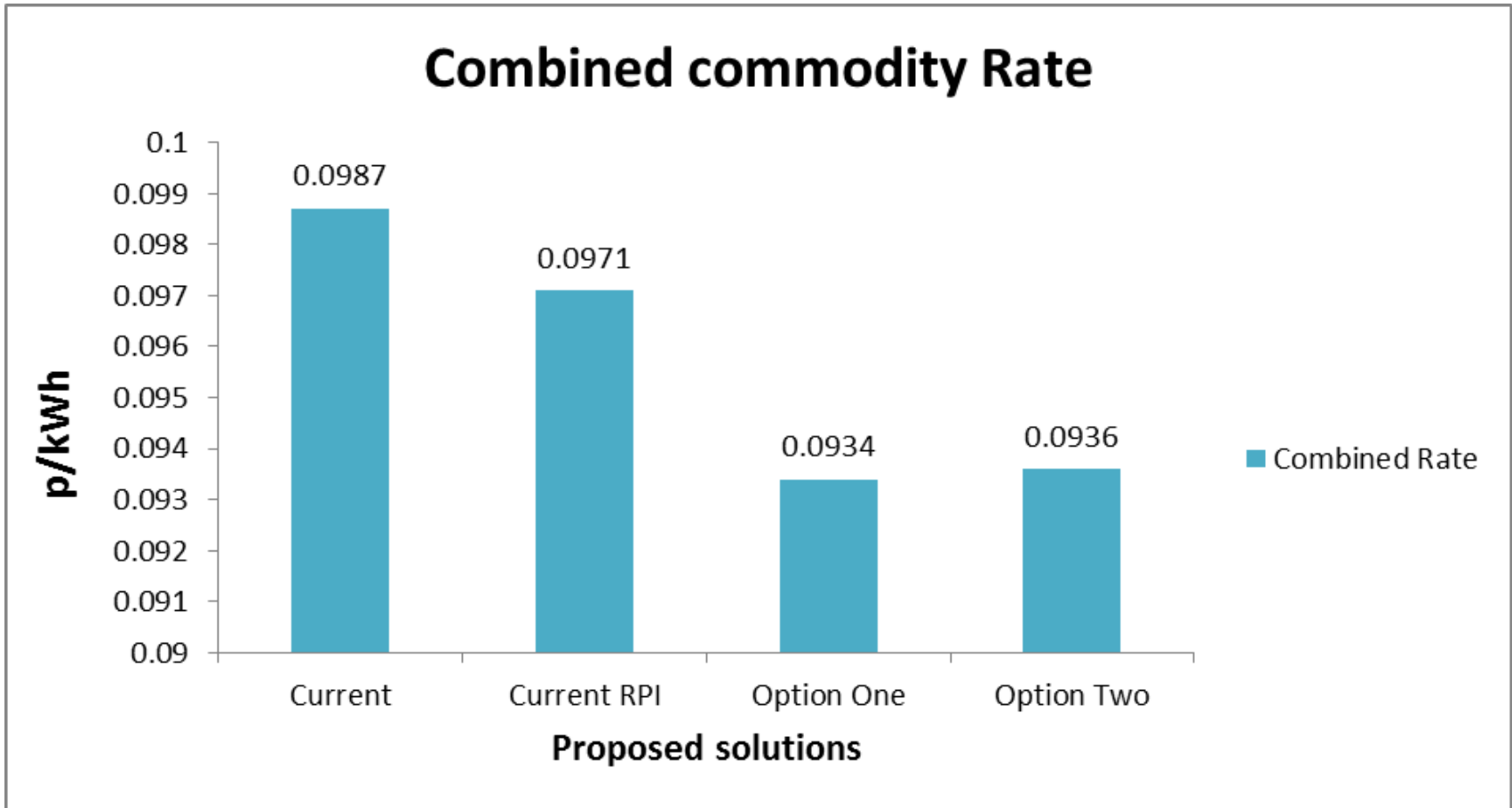
- Where the calculated NTS Optional Commodity Rate is above that of the current (April 2015) Combined TO and TO (Entry and Exit) Commodity charge we are assuming the associated volume will opt to move away from the NTS Optional Commodity charge
- Total volumes assumed to flow remain as forecast (in setting April 2015 charges) and choice of charge is to pay the lesser of:
 - NTS Optional Commodity charge
 - Combined NTS Commodity charge

NTS GCD11: Impact on TO and SO Commodity Charges

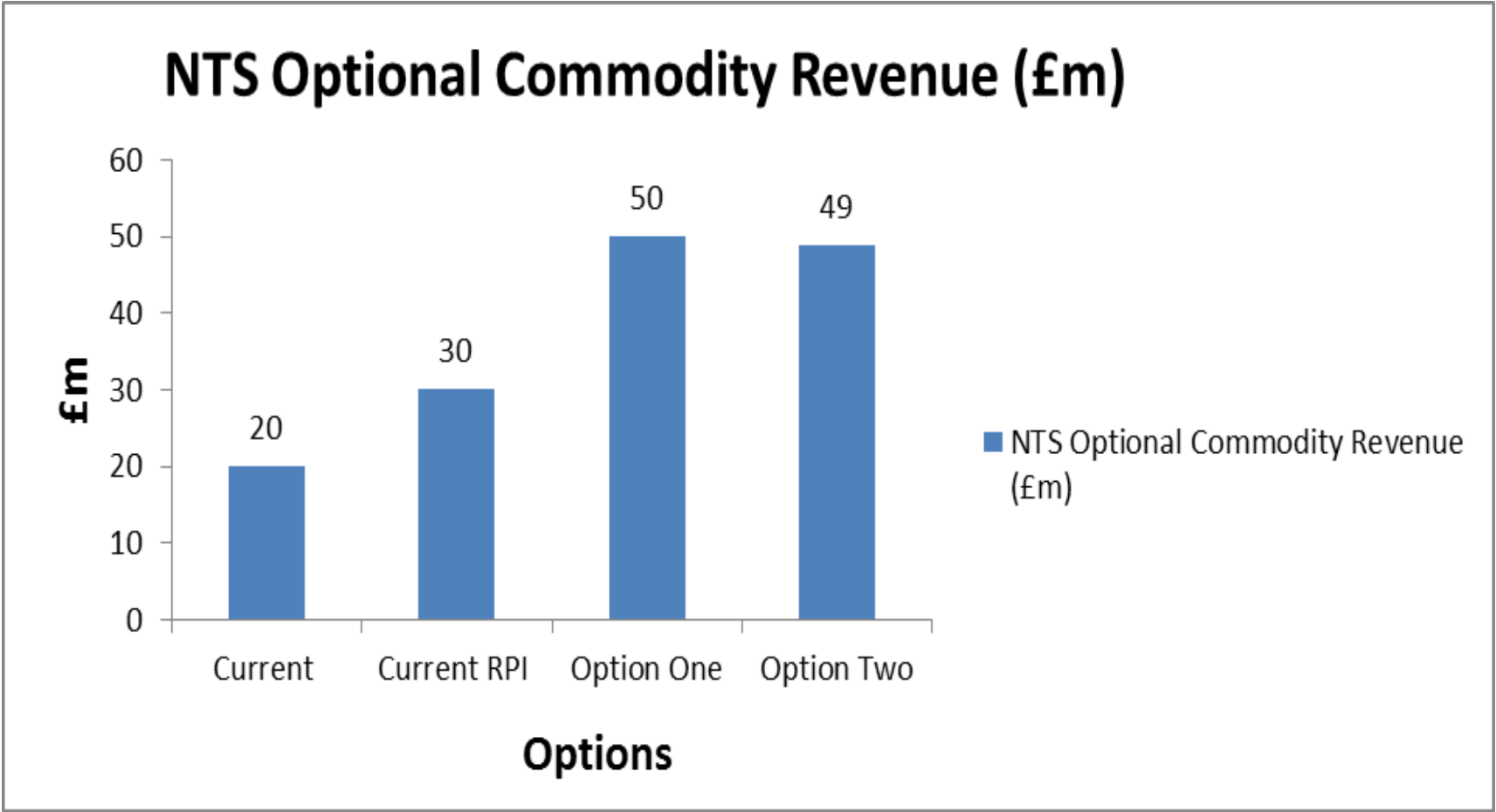
Commodity Charges	Current p/kWh	Current RPI p/kWh	Option One p/kWh	Option Two p/kWh	Current and Option One % variance	Current and Option Two % variance
TO Exit Commodity	0.0198	0.0198	0.0197	0.0197	-0.5%	-0.5%
TO Entry Commodity	0.0451	0.0451	0.0449	0.0449	-0.4%	-0.4%
SO Commodity	0.0169	0.0161	0.0144	0.0145	-14.8%	-14.2%
Combined Commodity*	0.0987	0.0971	0.0934	0.0936	-5.4%	-5.2%

*Combined Commodity is the sum of the TO and SO (Entry and Exit) Commodity charges. When including the SO Commodity this should be multiplied by two as the rate applies to SO Entry and SO Exit.

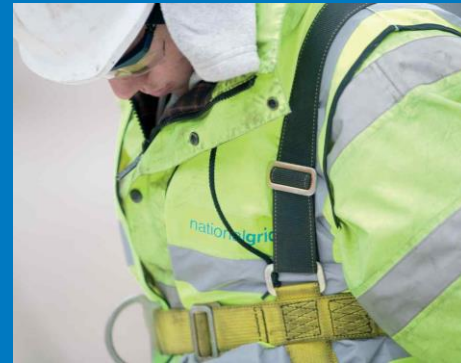
NTS GCD11: Impact on Combined Commodity charges



NTS GCD11: Impact with revenue from NTS Optional Commodity

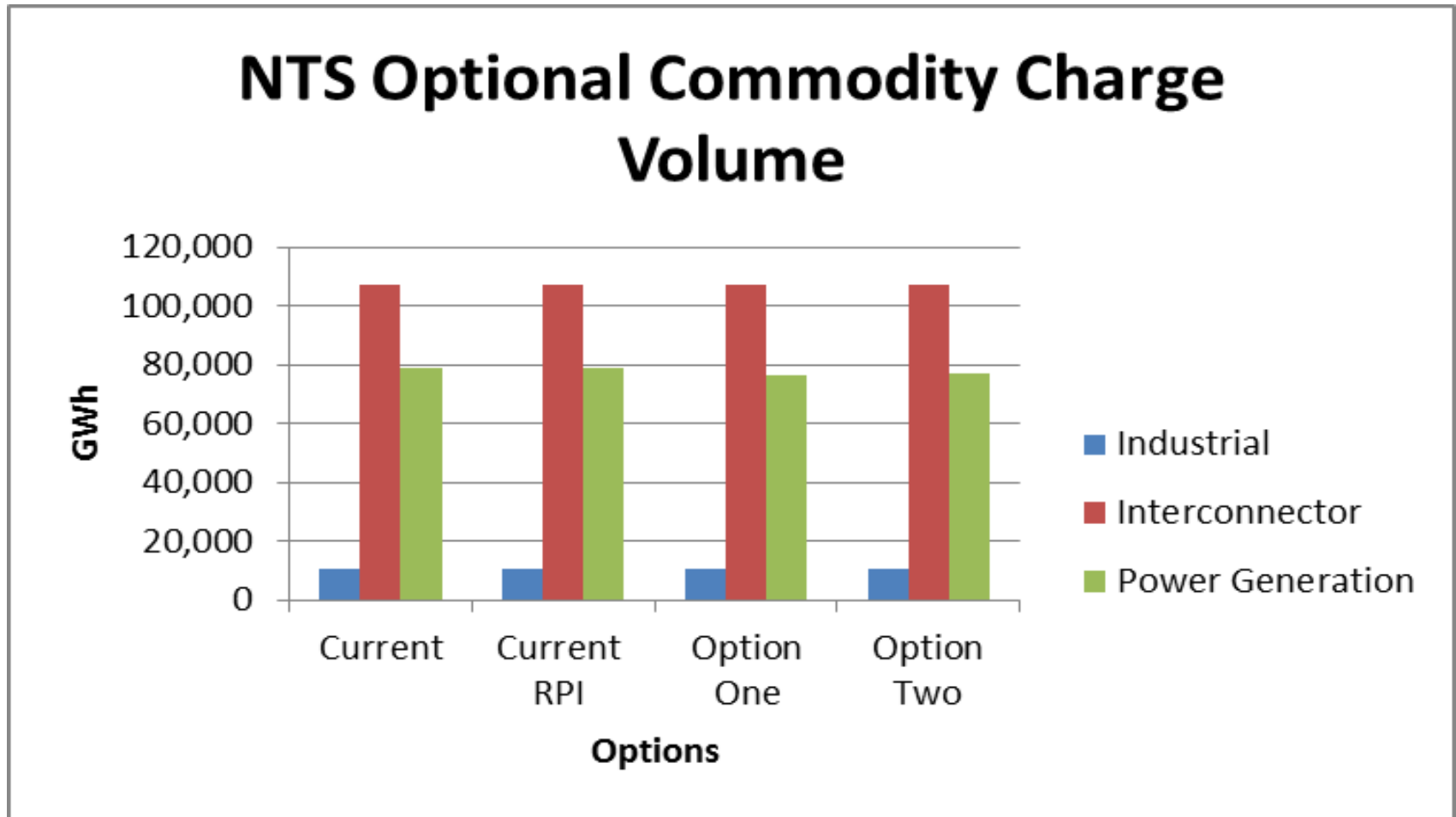


NTS GCD 11: Shipper Sector Groups Impact



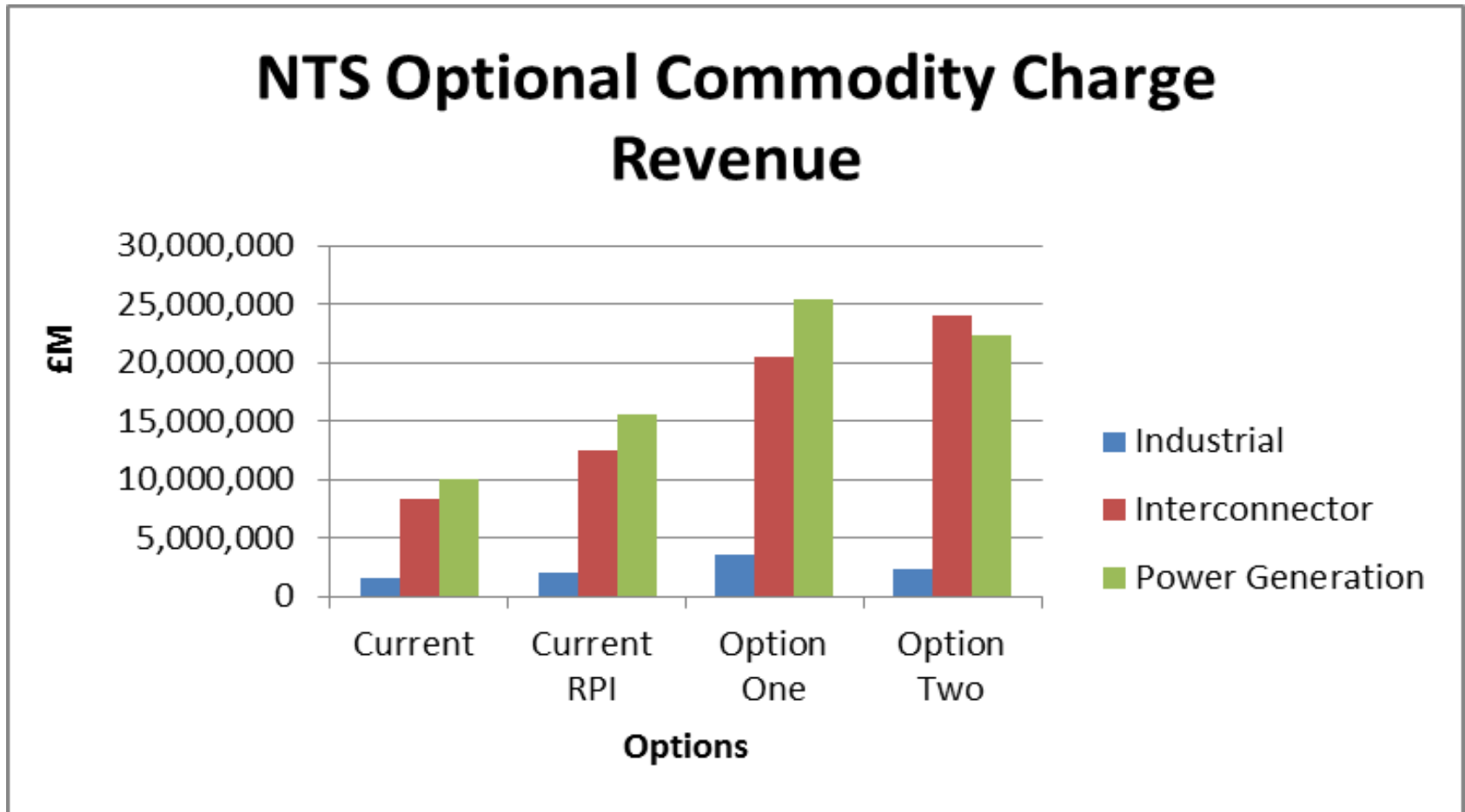
NTS GCD11: Shipper Sector Groups^{nationalgrid}

NTS Optional Commodity Volume Impact



NTS GCD11: Shipper Sector Groups^{nationalgrid}

NTS Optional Commodity Revenue Impact



NTS GCD11: Impacts Summary

- Impact based on no changes to volumes (i.e. flows unaffected and only paying lesser of NTS Optional Commodity or Combined NTS Commodity)
- Under the proposed Options the majority of NTS Optional Commodity charge users will remain below the Combined Commodity rate.
- Decreases on Commodity charges are likely to be greater for SO commodity than TO Commodity charges
 - As volume impact is low (volumes that may move to pay normal Commodity) this has a minimal impact on TO and SO (Entry and Exit) Commodity charges.
 - As the NTS Optional Commodity rates increase under both options this increases the revenue collected from the NTS Optional Commodity charge resulting in a greater downward pressure on SO (Entry and Exit) Commodity charges.

NTS GCD 11: Questions asked in the Discussion Document



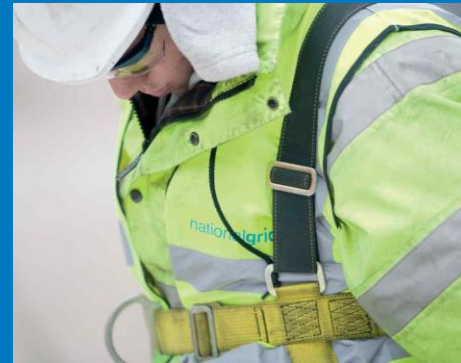
Questions asked in NTS GCD11

1. Do respondents prefer Option One or Option Two as the most reasonable approach, and most consistent with facilitating the relevant objectives, to update the underlying costs of the formula in an effort to bring the NTS Optional Commodity charge formula more up to date?
2. Do you agree with the proposal to delay reviewing the methodology / access and flexibility of the NTS Optional Commodity charge until EU TAR / GTCR is more certain

Questions asked in Discussion Document

3. Do respondents agree with our proposed approach on timescales for notifying a change to NTS Optional Commodity charges, following the same notice periods as for other NTS charges? If not what do you believe these should be?
4. Do respondents believe 1 April 2016 is an appropriate implementation date? If not what do you believe the implementation date should be and why?
5. Are there any elements that you feel we should take into consideration, or that you believe we have missed and should take into account, in the two options being considered for reviewing the NTS Optional Commodity Charge?

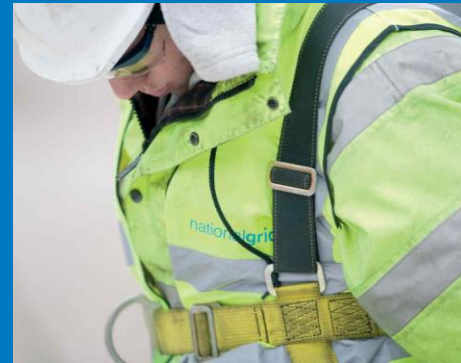
NTS GCD 11: Timescales



NTS GCD11 - Timescales

- Responses asked for by 21st August 2015
- All non confidential responses will be published after this date
- Report to be produced following responses
- Decision on next steps

NTS GCD 11: Contact Details



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