

# Centrica plc

Alternative Proposal to UNC Modification 0621 –  
Amendments to the Gas Transmission Charging Regime

Pre-Modification Discussion

23<sup>rd</sup> January 2018



# 3 Key Changes Compared to NGG's Proposal

## NTS Short-haul (or Avoiding Inefficient Bypass of the NTS)

A new methodology that uses the ratio of the short-haul distance to a system point's capacity weighted distance to derive capacity charges

## Legacy/ Historical Entry Capacity Contracts

No capacity revenue recovery (top-up) charges for these contracts

## Storage Facilities

An 86% discount to capacity charges and no revenue recovery (top-up) charges

# Short-Haul – Advantages of Approach

A new capacity-based approach for a new charging methodology, that is logically aligned with the principles underpinning CWD , how system costs are allocated and how charges are derived

It works for all system entry and exit points, overcomes problems being encountered in trying to adapt the current OCC approach to the new methodology, and ensures compliance with the EU Tariff network code

Simple to derive entry and exit capacity charges for short-haul routes

Longer short-haul distances result in higher short-haul capacity charges

Dynamic – capacity charges will automatically change when reserve prices change

Provides an enduring solution and simple-to-understand methodology

# Short-Haul – Capacity Charges

We propose a method for determining short-haul capacity charges and how they are applied to the “Applicable Quantity” for a gas day.

For a nominated entry point, the entry capacity charge will be calculated as the entry point’s reserve price multiplied by the ratio of the short-haul distance to the entry point’s capacity weighted distance.

Similarly, for the nominated exit point the exit capacity charge will be calculated as the exit point’s reserve price multiplied by the ratio of the short-haul distance to the entry point’s capacity weighted distance.

The approach reflects the relative contribution a short-haul route would make to the cost recovery (based on capacity weighted distances) at the entry and exit points. This is consistent with the CWD methodology for cost allocation.

# Short-Haul – Applicable Quantity

The Applicable Short-Haul Quantity (Q) on any gas day will be calculated as:

$\text{MIN} \{ \text{CAPen}, \text{CAPex}, \text{FLOWen}, \text{FLOWex} \}$  where

CAPen = the shipper's entry capacity entitlement

CAPex = the shipper's exit capacity entitlement

FLOWen = the shipper's allocated entry quantity (gas flow)

FLOWex = the shipper's allocated exit quantity (gas flow)

Therefore, short-haul capacity charges will only apply when gas is  
flowed.

# Short-Haul – Other Charges

In addition to short-haul capacity charges, the following charges will not be applied to the Applicable Quantity:

- Non-Transmission Services (SO) commodity charges

- Revenue Recovery Charges (whether commodity-based or capacity-based)

For capacities and flows that exceed the Applicable Quantity (Q), the standard set of transportation charges will apply.

e.g. if CAPen > Q then the standard entry capacity charges will apply to (CAPen – Q) units of capacity.

e.g. if FLOWex > Q then the standard exit commodity charges will apply to (FLOWex – Q) units of gas throughput.

# Short-Haul – Other Considerations

## Zero Short-Haul Distance

At least one current short-haul route has a distance of 0km. Any use of the NTS, however short, should make some contribution to National Grid's revenue recovery. Therefore a nominal minimum short-haul distance of [x km] should be considered.

## Short-Haul to DN-connected sites

The nearest NTS exit point to the offtake will be used to establish the short-haul distance and the applicable (exit) capacity weighted distance. SOQ and, if applicable, CSSOQ values will be used to establish the exit capacity entitlement for the day.

# Legacy/ Historical Entry Capacity Contracts

As a principle, the basis on which shippers contracted for historical entry capacity (existing contracts as identified in the EU TAR NC) must not be retrospectively changed and therefore the application of capacity revenue recovery charges must not apply to these historical contracts unless shippers are given the opportunity to hand back the capacity.

If shippers had had foresight of the application of capacity revenue recovery charges at the time of booking entry capacity then their booking strategies would have been very different, since the economic value of capacity purchases would have been significantly lower, particularly at sites where gas flows might be expected to be unpredictable (e.g. at LNG terminals). Commodity revenue recovery charges (as at present) place a much lower economic burden on such sites.

Shippers holding entry capacity have no option to hand it back to National Grid and therefore cannot react to any change in capacity prices. This is at odds with the situation for exit capacity where capacity can be returned to National Grid.



# Storage Facilities

The proposal is to replicate the treatment of storage facilities set out in Mod 0621A.

In addition to the higher discount of 86% (50% in NGG's proposal) we believe it is consistent with existing arrangements to not levy any revenue recovery charge at storage facilities, whether commodity-based or capacity-based.