



# **UNC Modification Proposal 0621E - Overview**

6 February 2018

# Two Key Differences to NGG's 0621 Mod

1. **Implements full capacity-based charges from 2022**
  - Instead of 2021
  
2. **Historical Contracts are not subject to capacity-based revenue recovery charges**
  - Such contracts will continue to be subject to a commodity charge

# Our concerns about 2021 implementation

- In the Electricity market, bidding in the T-4 Capacity Market Auctions (Oct 2021-Sept 2022 delivery) is underway
- Parties are bidding in now, based on their best understanding of future gas (and electricity) charging arrangements – **these are still far from clear!**
- If Shipper forecasts turn out to be incorrect, potential for significant exposures for transmission-connected gas-fired Generators
  - Exit charges likely to be much more unpredictable and volatile than Entry...
- **The impact can be mitigated if we agree to retain capacity AND commodity charges until 2022**
  - Allows parties participating in the CM Auctions greater certainty over the overall structure and nature of gas transmission charges in 2021 – **this is not known at present**
  - When bidding in next year's CM Auction (Jan 2019?), parties will still face this risk but the final structure of charges and model inputs will be known - **better able to manage risk**

# Full Capacity-Based Charging from 01 October 2022

## Key Benefits of this Proposal

- Gives parties bidding now, **more certainty over future charging arrangements**
  - With so many alternatives and NGG's original still under development, almost impossible to make an accurate assessment of future gas transmission charges
  - This proposal does not unduly delay transition to full capacity-based charges
- Provides NGG with an additional year to refine their forecast of shipper behaviours
  - Would expect this to lead to more **predictable, stable charges** in 2022
  - If required, gives more time to develop a robust, enduring solution for shorthaul

# Historical Contracts & Revenue Recovery

- It is proposed that “Historical Contracts” (i.e. existing Entry Capacity bookings) are **not** subject to capacity-based Transmission Services Revenue Recovery charges
- Instead, these bookings will continue to be subject to a commodity-based revenue recovery charge **on an enduring basis**
  - Except HCs for storage – consistent with current arrangements
- The CWD model gives full visibility of the p/kWh “Transmission Services Revenue Recovery” charge, so it is proposed to apply this on a “pay as you flow” basis, rather than on a capacity booked basis.
- We believe this is a pragmatic solution, avoiding the need for a potential capacity hand-back proposal or disputes between Shippers and National Grid

# Historical Contracts & Revenue Recovery

- Such contracts have already made a substantial contribution to “historical costs” of the system, via significant User Commitments
- Preserves the structure of existing contracts – guarantees the capacity price will not change, but retains Shipper exposure to a variable commodity charge
- Effective from the date of implementation of the proposal (01 October 2019) and applies until the relevant existing Entry capacity bookings expire
- With the exception of Storage, this proposal currently treats all Historical Contracts the same, whether IP or Non-IP (subject to further discussion and development)