

Centrica plc

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

UNC Modification Panel

15th February 2018



3 Key Changes Compared to NGG's Proposal

NTS Optional Charges (or Avoiding Inefficient Bypass of the NTS or "Short-Haul")

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

Legacy/ Historical Entry Capacity Contracts

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

Storage Facilities

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

NTS Optional Charges – Current Method

A shipper can elect to pay an Optional Commodity Charge based on a deemed straight-line transportation between a selected entry point and exit point. The charge is payable on the minimum of the entry point and exit point gas flows on any given gas day.

By paying the Optional Commodity Charge the shipper avoids having to pay the standard entry and exit commodity charges on the relevant quantity of gas.

However, the new charging methodology that NGG currently has in mind will progressively move towards a more capacity-based charging solution so it is natural that the Optional Commodity Charge approach should be replaced with one based on Optional Capacity Charges.

NTS Optional Charges – Advantages of New Methodology

A new capacity-based approach for a new charging methodology, that is logically aligned with the principles underpinning CWD, i.e. 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 Optional Commodity Charge approach to the proposed 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 optional capacity charges

Dynamic – capacity charges will automatically change when reserve prices change

Provides an enduring solution and straightforward methodology

Calculating Optional Capacity Charges

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

For a relevant entry point, the optional 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 relevant exit point the optional 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.

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, optional capacity charges will only apply when gas is flowed and capacity is booked.

NTS Optional Transportation – Other Charges

The following charges will not be applied to the Applicable Quantity:

- Non-Transmission Services (SO) commodity charges

- Transmission Revenue Recovery Charges (whether commodity or capacity)

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 at the exit point.

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.

Recommendation and Request

It is recommended and requested that the Panel:

- agrees to accept this proposal as an alternative to UNC modification proposal 0621
- agrees that Authority Direction is required and
- refers the proposal to the UNC Mod 0621 Workgroup for further development along with the original proposal.