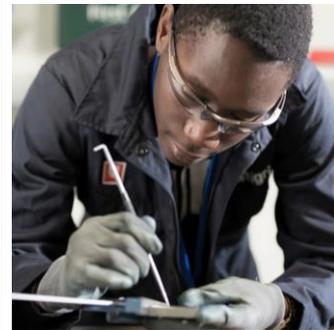


# UNC0653



## UNC0653 Workgroup

Action 0701

# Overview

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- UNC0653 Analysis development:
  - This builds on the background information shared at the workgroup on 3<sup>rd</sup> July 2018 <https://www.gasgovernance.co.uk/0653/030718> and the discussions that took place
  - This update is being provided for the workgroup on the 1<sup>st</sup> August and provides additional information to that published on 12<sup>th</sup> July. This replaces the interim analysis published on 12<sup>th</sup> July.

# UNC0653 Analysis development: Key Assumptions / questions (1)

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- The assessment of this modification at this time is based upon
  - Current charging methodology (i.e. makes no assumptions around other modifications or dependencies)
  - This is based on the historical flows using the NTS Optional Commodity Charge (NTS OCC) seen in formula year April 17 to March 18. These are assumed to be the “eligible quantities”
  - Charges are recalculated from the April 2017 Commodity charges
  - The capacity charging discounts are on the assumption that sufficient firm capacity has been procured by all those availing of the NTS Optional Charge
  - This is only discount from firm capacity prices
  - Any amount of discount would be collected via TO Commodity charges (which would be applied to all those paying TO Commodity which includes those on NTS Optional charge)

# UNC0653 Analysis development: Key Assumptions / questions (2)

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- No behavioural changes are assumed, all those using the NTS OCC for the year in question use the replacement charge
- CWD distance is the Weighted Average Distance (WAD) for the entry or exit point. CWD distance (WAD) is using obligated levels of capacity
  - Same as per those modelled under UNC0621 development
- As this is a discount to capacity charges (assumed firm capacity) then this would discount from TO Capacity revenue. No NTS Optional income would contribute to SO Revenue recovery. Therefore SO Commodity charges would increase to compensate.

# UNC0653 Analysis development: The calculations required

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- Capacity adjustment, Entry Capacity:
  - $(\text{SLD/CWD}) \times \text{prevailing Entry Reserve Price}$
  - Where prevailing entry reserve = MSEC price
- Capacity adjustment, Exit Capacity
  - $(\text{SLD/CWD}) \times \text{prevailing Exit Reserve Price}$
  - Where prevailing exit reserve = exit annual payable price
- All eligible flows pick up TO Entry and TO Exit Commodity charges
  - On an ex-ante basis, TO Commodity charges would be calculated to take into account the increased denominator (flows) and for the revenue to be redistributed.
- All eligible flows do not pay SO Commodity.
  - If flows exceed the eligible quantity, the excess will pay the SO Commodity. On an ex-ante basis this would increase the denominator (flows) in the calculation.

# General Observations on access to the Optional Charge as per UNC0653

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- Access to the NTS Optional Commodity charge as per the current arrangements is shipper choice
  - One can assume that access is determined based on whether the NTS Optional rate per the nomination would be lower than the standard commodity rates
  - This would result in a discount
- Access under UNC0653 will be by shipper choice
  - One can assume that access is potentially determined on whether the Straight Line Distance would be lower than the Capacity Weighted Distance
  - This would result in a discount

## UNC0653 – access to NTS Optional Charge

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- The NTS Optional charge would be available for direct connects (excluding storage)
- If the Straight Line Distance (SLD) is lower than the Capacity Weighted Distance then it would result in a discount to capacity.
- Of the potential combinations the number of points where a discount would be attainable are:
  - Entry 87%
  - Exit 88%
- Therefore approximately 13% Entry and 12% of Exit would result in a SLD that is higher than the CWD.

# UNC0653 Analysis development: Potential impacts on Commodity charges

	April 2017 Rates	Adjusted for 0653 – volume only	Adjusted for 0653 – volume and revenue
TO Entry Commodity	0.0530	0.0381	0.0424
TO Exit Commodity	0.0234	0.0168	0.0194
SO Entry Commodity	0.0105	0.0130	0.0130*
SO Exit Commodity	0.0105	0.0130	0.0130*

- The TO Commodity charges have been adjusted only to account for the additional volumes picking up the TO Entry and TO Exit Commodity charges and for the additional amounts to be collected as a result of the capacity discounts reducing TO capacity income
- The SO Commodity has been adjusted only to account for the revenue the current NTS OCC is no longer contributing to SO revenue. Therefore more monies are required to be recovered from the same denominator volumes.
- The eligible flows for NTS Optional Charge would pay the TO Commodity but not the SO Commodity as per 0653.
- \*If flows were greater than the eligible quantity then the SO Commodity would be payable on the excess. No assumptions for this excess are assumed here.

# UNC0653 – summary of potential impacts (incl. redistribution of revenue)

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- National Grid is required to set charges to recover the allowed TO and SO Revenues
- Any discount arrangements would result in an amount to be collected from other parties or from other charges
- UNC0653 would result in a discount from firm capacity charges for eligible quantities
- Amount redistributed would be the net of:
  - Reduction in capacity charges (£61m)
  - Amount not paid on SO Commodity (£49.9m)
  - Additional proportion of TO Commodity as a result of spreading the capacity discount to all TO Commodity payers (including those availing of NTS Optional Commodity) (£18.5m)
- Therefore approximate amount redistributed in this example and assumptions outlined in this presentation would be: £61m + £49.9m - £18.5m = approx. £92.4m

# Potential impacts of UNC0653 Optional Charge arrangements – overall summary

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- The following slide shows the potential impacts using:
  - The current portfolio of NTS Optional Charges as a base;
  - Recalculating the commodity rates
  - Applying them to actual eligible quantities for the eligible flows (all those from 17/18 actuals are assumed to be eligible)
  - Applying them to April 2017 charge setting values for Non Optional Charge users and recalculated commodity rates
  - MSEC and Exit Capacity charges for 2017 to approximate the capacity discount for the eligible quantities
  - A comparison against current is not straight forward as the charge moves to be a mix of capacity and commodity
  - The summary presented is a approximate measure and by using a mix of actuals and forecasts totals may not add up exactly
  - This represents a summary of the potential impacts for consideration

# Potential impacts of UNC0653 Optional Charge arrangements – overall summary

Non NTS Optional Charge Users	Amount on current Commodity	Adjusted Commodity charges (volumes)	Adjusted Commodity charges (volumes and revenues - if applicable)
TO Entry	£ 337,490,220	£ 242,610,894	£ 269,992,176
TO Exit	£ 149,512,662	£ 107,342,424	£ 123,954,942
SO Commodity	£ 133,950,285	£ 165,843,210	£ 165,843,210
<b>Total</b>	£ 620,953,167	£ 515,796,528	£ 559,790,328
NTS Optional Charge Users	Amount on current Commodity	Adjusted Commodity charges (volumes)	Adjusted Commodity charges (volumes and revenues - if applicable)
TO Entry	£ -	£ 102,181,697.48	£ 113,714,015.04
TO Exit	£ -	£ 45,056,496.53	£ 52,029,525.75
SO Commodity (Shorthaul)	£ 32,700,000.00	£ -	£ -
<b>Total Commodity impact</b>	£ 32,700,000.00	£ 147,238,194.00	£ 165,743,540.79
NTS Optional Charge Users	Capacity Charges	Adjusted Capacity charge	Amount that is redistributed
	If all on Firm		
TO Entry	£ 51,647,203.76	£ 13,146,544.63	£ 38,500,659.13
TO Exit	£ 29,590,405.27	£ 7,023,523.65	£ 22,566,881.62
<b>Total Capacity</b>	£ 81,237,609.04	£ 20,170,068.28	£ 61,067,540.76

*The values shown here are approximate. The nature of mixing actual volumes and charge setting values will result in the total values not necessarily totalling up, however they are illustrative of the potential impacts.*