

NTS Optional Commodity Charge (“Shorthaul”) Review - NTS GCD11



NTS Charging Methodology Forum (NTSCMF)
29 September 2015

Overview

- Recap of previous meetings
- Overview of NTS GCD11
- Questions posed in NTS GCD11
- Summary of non-confidential responses
- Main themes / topics from responses
- Proposed plan and Next Steps

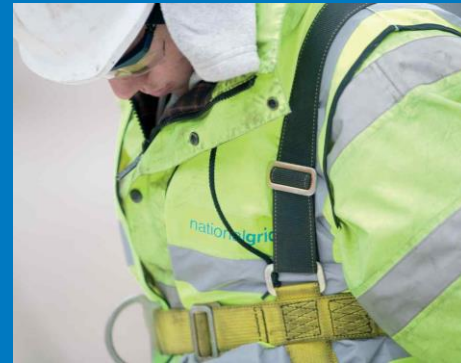
Recap of previous meetings



Brief history

- Initiated talks about reviewing the NTS Optional Commodity charge in September 2014
- Since September 2014 we highlighted and discussed issues regarding the NTS Optional Commodity charge:
 - The increased interaction with TO and SO Commodity charges
 - How the NTS Optional Commodity charge is used
 - The unit costs being out of date
- We have provided analysis as a basis for discussions with industry at NTSCMF meetings

NTS GCD11 – Overview



NTS GCD11 – Overview

Within the NTS Charging Discussion Document (NTS GCD11) we included:

- The Governance process for updating the NTS Optional Commodity charge
- Two proposed options for updating the inputs to the existing formula in the Transportation Statement
- Impacts of the proposed solutions on NTS Optional Commodity charges, TO and SO Commodity charges and on revenue collection
- A proposed implementation timeline
- Invitation for views and comments from industry through specific questions on the proposals within the discussion document

Option One

- **Using pipe sizes and unit costs that were provided under the RIIO-GT1 Price Control**
 - The costs that underpin the calculation for the NTS Optional Commodity charge 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 2009/10 costs to 2015/16 prices using RPI*

Option Two

- **Updating the current portfolio of unit costs using publicly available indices, including the pipe sizes and unit costs that were provided for under the RIIO-GT1 Price Control.**
 - Uses the current portfolio of pipe sizes utilised by the NTS Optional Commodity charge with the addition of the unit costs for the three pipe sizes agreed under the RIIO-GT1 price control
 - Uses a combination of steel index[#] and RPI* to update the unit costs for the current portfolio of pipe sizes.

[#]Available as part of the “MM22 Producer Price Index Dataset” published under the “Produce Price Index” <http://www.ons.gov.uk/ons/rel/ppi2/producer-price-index/index.html>

*RPI and Indices taken from the ONS website

NTS GCD11: Questions asked and summary of non confidential responses



NTS GCD11 - Responses

- 14 non – confidential responses
- Whilst most supported the rationale to review cost inputs there were mixed responses regarding how and when to implement such a change.

Questions asked in NTS GCD11

Q1. 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?

Summary of responses

View	None	Option One	Option Two	Total
Number of respondents	9	1	4	14

- Most supported a review of the NTS Optional Commodity charge with mixed views on the options regarding how to update cost inputs

Questions asked in NTS GCD11

Q2. 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

Summary of responses

View	Agree	Disagree	No view expressed	Total
Number of respondents	13	0	1	14

- All respondents expressed a preference for such a review to be delayed until there is greater certainty regarding GTCR/EU developments
- Some also asked for any cost input change to be delayed along similar timescales

Questions asked in NTS GCD11

Q3. 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?

Summary of responses

View	Agree	Disagree	Not directly addressed	Total
Number of respondents	6	3	5	14

- Where not directly addressed some respondents expressed a preference for October over April

Questions asked in NTS GCD11

Q4. Do respondents believe 1 April 2016 is an appropriate implementation date? If not what do you believe the implementation date should be and why?

Summary of responses

View	Agree	Disagree	Not directly addressed	Total
Number of respondents	2	8	4	14

- Almost all respondents expressed a preference for any change, were it to be made, to be effective from October 2016 with a preference for as much notice as possible to be provided
- Some respondents mentioned that the NTS Optional Commodity charge should be fixed from the time of election

Questions asked in NTS GCD11

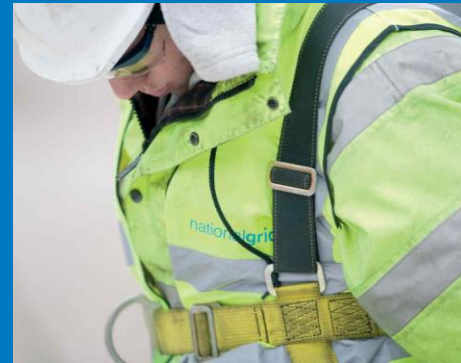
Q5. Are there any elements that you feel we should take into consideration, or that you believe we have missed and should take into account, in the two options being considered for reviewing the NTS Optional Commodity Charge?

Summary of responses

Brief Summary of Comments

Any review should wait until GTCR / EU is either more certain or concluded	RPI is most appropriate measure
Further explanation requested on elements of the calculation	Preferable to take forward via UNC governance
Issue is more on high commodity charges not the NTS Optional Commodity charge	Consideration of the wider market implications should taken into account
Changes should only apply to new points rather than existing	

NTS GCD11: Main themes from responses



Discussion issues

- Governance for making updates, including potentially NTS Optional Commodity charge information to be included in the UNC
- Transparency of calculation
- Timing of the review (why now?)
- Impact of EU Tariff Code (EU TAR NC) / Ofgem Gas Transmission Charging Review (GTCR)
- Wider industry impacts
- All these areas will receive more detail in the NTS GCD11 report – here we present a short commentary on these topics

Governance / UNC

Responses	NG Comments
<p>Concern that change could be made without Ofgem approval</p>	<ul style="list-style-type: none"> • All charges are updated without Ofgem approval but in line with relevant UNC / Licence obligations. • Updates minimised to preserve current methodology as much as possible
<p>Requesting more on the NTS Optional Commodity charge to be in the UNC</p> <p>The charging function should be in the UNC</p>	<ul style="list-style-type: none"> • Agree more detail regarding the NTS Optional Commodity charge should be included in UNC • Not a “lift and shift”, some updates would be necessary • Does not need to be done before making a change to cost inputs • Believe the NTS Optional Commodity charge principles should also be reviewed

Transparency

Responses	NG Comments
Requesting more transparency on the calculation of the constants in the equation	<ul style="list-style-type: none">• More detail will be provided on the process followed in the discussion report• We will look to publish documentation / spreadsheet outlining the process followed in the calculation of the constants in the formula (taking into consideration the commercial sensitivity of some values)
Requesting more detail on the indexation chosen and the way it is applied	<ul style="list-style-type: none">• More detail will be given on the process followed in the discussion report

Timing of this change

Responses	NG Comments
Support notice periods although preference for October implementation over April	<ul style="list-style-type: none"> • Notice periods kept in line with notice periods of other charges • The GB Charging Framework has charges that change from different dates (e.g. April and October) • Recognise the need for the notice period and preference of October over April
No change to existing and only apply to “new” NTS Optional Commodity charge requests	<ul style="list-style-type: none"> • Current framework is one method for all – not proposing to change this at this stage • May not accommodate the flexibility of existing product • Could include into future scoping of methodology review
Why make the change?	<ul style="list-style-type: none"> • Any charging product should be reviewed to be in keeping with the relevant objectives • Is the product being used as an alternative to investment? • The NTS Optional Commodity charge is still based on cost values set in 1998 which are out of date and not in keeping with how indexation is used across other charges

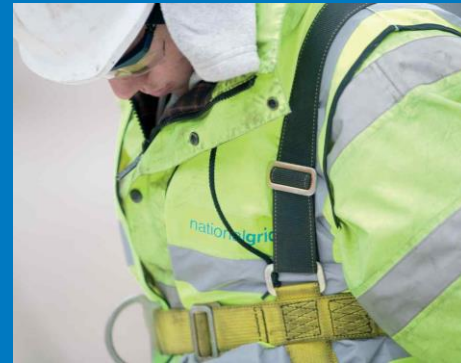
EU TAR NC / GTCR

Responses	NG Comments
<p>Should delay any potential change to be part of EU TAR NC / GTCR or to be considered when the impact of EU TAR NC / GTCR is more certain or after they are implemented</p>	<ul style="list-style-type: none"> • EU TAR NC / GTCR not to be implemented until at least 2017 • No reason update can't be made in advance of this as to leave product unchanged prolongs issues • Recognise that charge changes are difficult to time, risk is that no changes get made due to uncertainty of other developments
<p>Would be better to wait until there is less regulatory uncertainty</p>	<ul style="list-style-type: none"> • EU TAR NC / GTCR can always be accommodated when greater certainty is known • No reason to delay NTS Optional Commodity charge review or any other relevant charging methodology review • We recognise any change would need to be reviewed as part of EU TAR NC / GTCR, etc.
<p>EU TAR NC / GTCR could result in changes that naturally reduce the impact of the NTS Optional Commodity charge</p>	<ul style="list-style-type: none"> • EU TAR NC / GTCR not to be implemented until at least 2017 • Any charging product should always be reviewed against relevant obligations • Cost input review and further product review can and should be done ahead of wider developments

Wider impacts

Responses	NG Comments
Should consider wider impacts beyond Transportation charges	<ul style="list-style-type: none">• Changes to charges are not new with Capacity and Commodity charges changing each year• Whilst NTS Optional Commodity charges may increase, commodity charges will reduce• Overall size of change similar to changes to other changes to charges on capacity and commodity
Providing sufficient notice to accommodate into charges and contracts	<ul style="list-style-type: none">• Recognise industry concerns on notice periods and implementation of changes for October over April• Updates should follow timescales of other charges

Plan and Next steps



Plan and Next Steps – Making a change

- Taking into consideration the responses to NTS GCD11 and considering our obligations regarding the charging framework we are minded to:
- Implement a change to the cost inputs that would update the constants in the NTS Optional Commodity charge formula
 - To implement this from 1 October 2016
 - For this to be based upon Option 2 which accommodates the smaller pipe sizes

Plan and Next Steps – Making a change

- During Q4 2015
 - Publish NTS GCD11 report including any extra detail and supporting documentation
 - Publish historical documentation regarding the NTS Optional Commodity charge
 - Provide formal notice of the change that will be effective from 1 October 2016

Plan and Next Steps – UNC changes

- To propose changes to the UNC (Section Y) to include detail regarding the NTS Optional Commodity charge in two phases, that could run in parallel
 - Firstly to include the principles / formula on the NTS Optional Commodity charge in the UNC with variables in place of fixed values for the constants
 - Secondly to have a broader review of the NTS Optional Commodity charge that could overlap with above bullet and include EU TAR NC / GTCR considerations. This should include reviewing the objectives of the product through such industry discussions.
- Start UNC process post notification of cost input change in Q4 2015

NTS GCD11: Contacts



NTS GCD11: Contact details

Thomas Dangarembizi (Commercial Analyst)

Email: Thomas.dangarembizi@nationalgrid.com

Tel: 01926 65 3956

Colin Williams (Charging Development Manager)

Email: Colin.williams@nationalgrid.com

Tel: 01926 65 5916

Queries can also be sent to:

box.transmissioncapacityandcharging@nationalgrid.com