Transmission Services Charging:

NTSCMF Discussions – NGT Proposal

November 2024

Introduction (1)

From early 2024 in NTSCMF as a group, there's been lots of discussion on Entry / Exit charging with a focus around the Entry / Exit split for Transmission charging and what the impacts might be if there were some changes to this.

Over the course of the discussions views on potential issues and challenges and opportunities have been shared related to possible reforms. A number of options have been discussed and modelled, including adjusting the split and the use of a single capacity price (effectively delivering a variable split as an output)

In recent NTSCMFs, noting that optioneering has its place, eventually its more helpful to focus around a single option for the Workgroup to critique that will help to focus the next level of discussion.

In response to this feedback on a single option, in Octobers NTSCMF National Gas agreed to reflect on all the discussions to date and provide a high-level proposal to support the work and discussions to date to help the further development of any potential UNC Modification.

Introduction (2)

Today we will be discussing a single option that reflects on all the component parts we have covered as a workgroup to date. We hope that this meets stakeholder expectations by enabling a detailed discussion on all aspects and an providing an opportunity to shape a potential change proposal.

We have shaped the following slides to follow the layout of a UNC modification proposal. We welcome stakeholder views on any part of this draft proposal.

We have looked to bring together feedback received and views shared over the past nine months to produce a proposal that we believe has the strongest rationale and is also one that NGT, in its role as transporter, can support.

This draft proposal may still be changed on the basis of any feedback or new information that comes to light between today and the time at which a formal Modification Proposal is raised.

We would like to thank all stakeholders that have provided, and continue to provide, feedback and direction to support the development of this work in this area.

Transmission Services Review: Agenda

- Proposal Summary
- Why Change
- Solution
- Consumer Benefits
- Relevant Objectives
- Next Steps

national gas transmission

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NTSCMF Discussions: Proposal Summary

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Proposal Summary – What?

NTS Entry tariffs are both high and more sensitive to volatility when compared to both historical averages and Exit tariffs.

There are several drivers applying upward pressure on Entry Tariffs including a steady decline in Capacity demand, changes to Allowed Revenues (typically higher levels and sensitivity to changes) and Existing contracts.

The drivers on increased Entry tariffs have less impact on Exit tariffs due to the larger, and generally more stable Capacity base (driven largely by GDNs) that serve as an input to the tariff calculations.

Following the publication of October 2024 capacity charges and future years indicatives, produced by NGT in May 2024, it was shown that Entry tariffs are expected to remain high for the foreseeable future (despite Existing Contracts expiring) and this may not be sustainable or desirable in considering the overall impacts of Gas Transportation charges over time.

Changes to the methodology for Entry and Exit capacity charges could help deliver some benefits in this area.

Proposal Summary – Why?

Tariff volatility is something that stakeholders have continually told us should be minimised wherever possible and stability is a vital element. The sensitivity of Entry tariffs to revenue changes as a consequence of the current arrangements and capacity booking behaviours leave Entry tariffs particularly susceptible to volatility, leaving stability impacted too over time.

Reducing tariff volatility is expected to provide Users with a greater level of confidence in their forecasts of prospective use of network costs and be able to set their own service costs more accurately (potentially with a lower risk margin), thereby enhancing effective competition.

A reduction in the Entry tariff (and an increase in the Exit tariff) would reduce the overall combined tariff for gas Entering, utilising and Exiting the NTS.

Some stakeholders have indicated that they believe high Entry tariffs are detrimental to the competitiveness of GB, particularly in competitive markets such as LNG. A consequence of the proposed changes would have the added benefit of making GB Entry tariffs more comparable to those in other European markets.

Proposal Summary – How?

A change to the Entry/Exit split, with more of the revenue share moving towards Exit, would reduce the impact changes in revenues would have on Entry tariffs, reducing the volatility in these tariffs.

The decrease in the Entry tariff would be greater than the increase in the Exit tariff resulting in an reduction in the overall Capacity tariff for Entering and Exiting the NTS.

Although the benefits of moving more of the revenue share towards Exit can be clearly articulated deciding on a particular number and providing sound rationale on why a particular split is preferential to another is very difficult.

A dynamic split which will change each year to achieve a particular tariff objective can be supported with stronger reasoning that a set spilt. A dynamic split is also more future proof against potential future changes to booking obligations and behaviours.

We propose to address the issue by introducing a single Entry and Exit tariff – This can also be described as introducing a dynamic split with the objective of equalising Entry and Exit tariffs

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NTSCMF Discussions: Why Change

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Why Change – Drivers of Issues

NTS Entry tariffs are both high and more sensitive to volatility in comparison to historical averages and Exit tariffs due to a number of drivers applying upward pressure. Indicative tariffs show that this will remain the case, for the foreseeable future, even after the expiration of Existing Contracts, and we do not believe that this is sustainable.

Drivers:

- **Lower Entry Capacity denominator** – Entry Capacity bookings align much more closely to flows than that observed on Exit due to GDN Capacity booking licence obligations.
- **Expected continued declining demand for Entry Capacity –** Gas demand is expected to continue to steadily decline, this will likely translate into a continued steady decline in Entry Capacity bookings.
- **Allowed Revenues –**Allowed Revenues are not expected to decrease significantly as we continue to invest to enable the eventual transition to a Hydrogen network whilst also continuing to provide a secure and reliable network for natural gas customers.
- **Existing Contracts for NTS Entry Capacity –**Existing Contracts result in those that do not hold existing contracts being liable for a larger proportion of the overall total Entry revenue recovery. Although a contributing factor to high Entry tariffs, they are not the sole or key driver.

Why Change

The drivers of increased magnitude and sensitivity Entry tariffs are a product of the evolving GB gas market and cannot be addressed directly. However, changes to the charging methodologies can mitigate the impacts that these drivers have on the tariffs.

Tariff volatility is something that stakeholders have told us should be minimised wherever possible and this aligns with the UNC relative Objective of enhancing effective competition.

Due to the much smaller Capacity base that Entry revenues are collected from, in comparison to Exit, changes to the Entry revenues can have a disproportionate impact on Entry tariffs when compared to similar changes at Exit.

Some stakeholders have indicated that they believe high Entry tariffs are detrimental to the competitiveness of GB, particularly in competitive markets such as LNG. A consequence of the proposed changes would have the added benefit of making GB Entry tariffs more comparable to those in other European markets

Why Change – Current and Indicative Entry Tariffs

	Final	Indicative			
Allowed Revenue (£)	FY25	FY26	FY27*	FY28*	FY29*
TO FY Allowed Revenue	893.6	1166.4	1201.4	1237.4	1274.6

*Assumed 3% p.a. from 25/26 increase until RIIO3 known.

	Current	Indicative			
Transmission Services Tariffs (p/kWh/d)	Oct 24-Sep 25	Oct 25- Sep 26	Oct 26- Sep 27	Oct 27 - Sep 28	Oct 28 - Sep 29
Entry Capacity	0.1308	0.1224	0.0991	0.1141	0.0987
Exit Capacity	0.0265	0.0311	0.0314	0.0329	0.0344

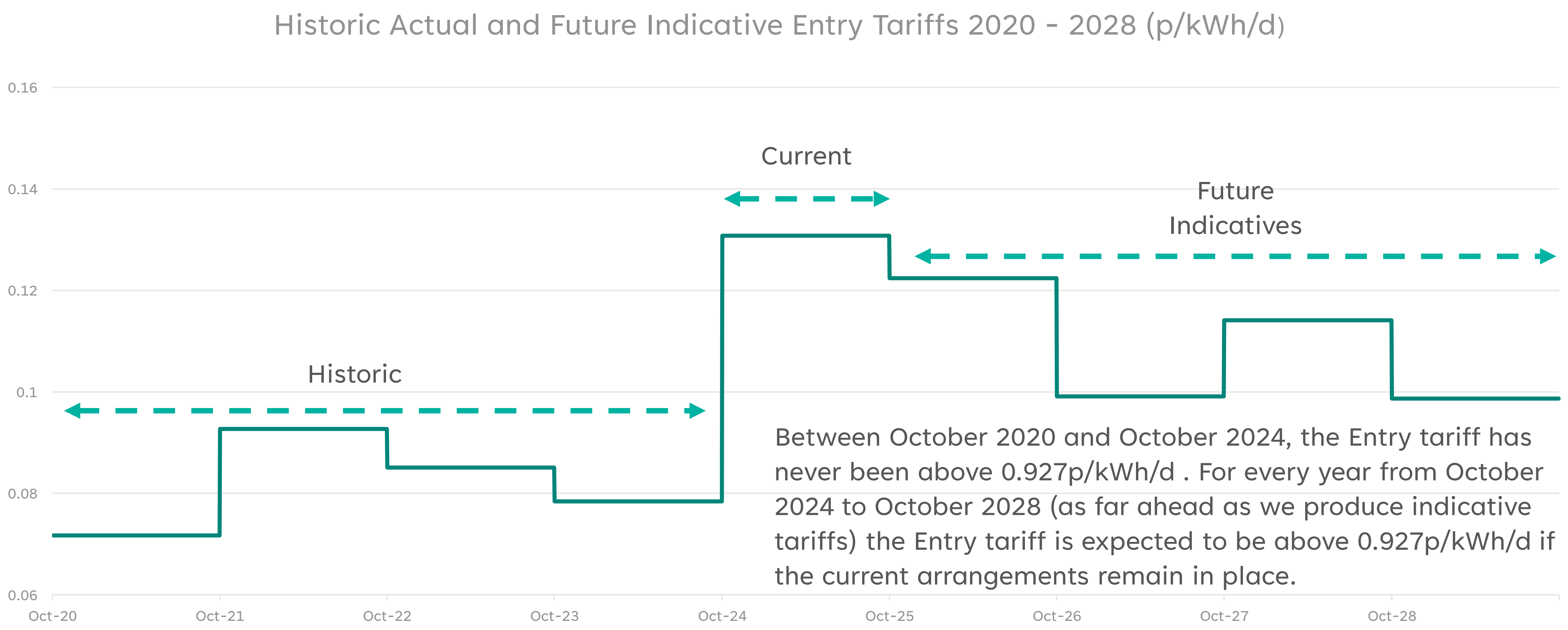
Entry tariffs are much higher than Exit and will continue to be so if the current arrangements continue.

Existing Contacts largely end in 27/28 & 28/29. However, there is no sign this would significantly reduce charges.

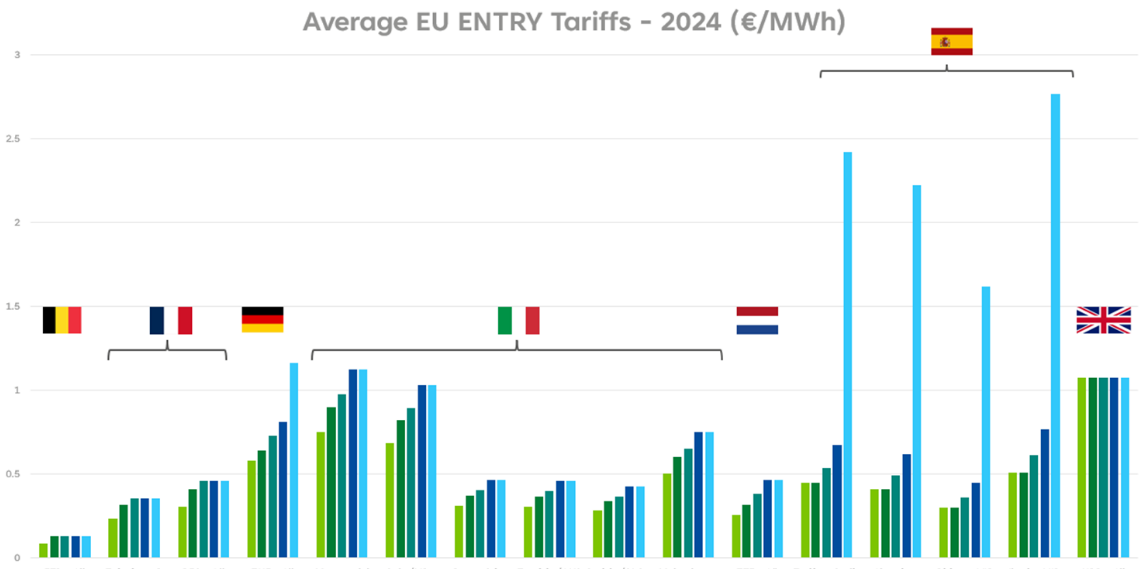
Entry prices are increasing and likely to remain high due to revenue and demand drivers

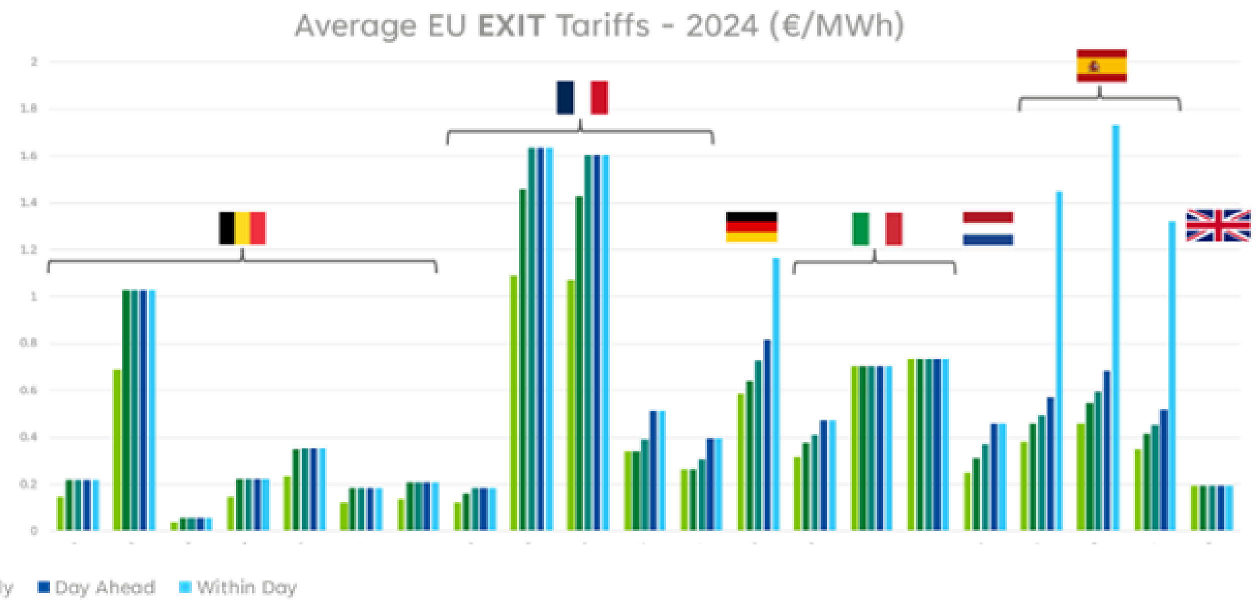
Exit prices, whilst they can fluctuate, remain inherently more stable over time largely due to the nature of GDN capacity bookings

Why Change – Current & Indicative Entry Tariffs - As Is



Why Change – Entry and Exit Capacity Reserve Prices across NW European Markets





- When looking solely at reserve prices, GB Entry tariffs are higher on average than most other European markets and GB Exit tariffs are lower on average than most other European markets.
- The combined GB Entry and Exit tariff is comparable with most other European markets.
- The absence of any incentives to book longer term Capacity in the GB market provides more flexibility and, in theory, should result in Capacity bookings which are more closely aligned with flows.

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NTSCMF Discussions: Solution

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Solution

Introduction of a single Capacity tariff across all Entry Points and all Exit Points (with the exception of those points where existing discounts apply)

The effect of this change would be the same as introducing a dynamic split which would change from year to year to whatever ratio would be required to equalise Entry and Exit tariffs, approx. 23:77 for Gas Year 24/25.

A single tariff would reduce the Entry tariff significantly and increase the Exit tariff by a smaller amount.

Indicative tariffs as published:

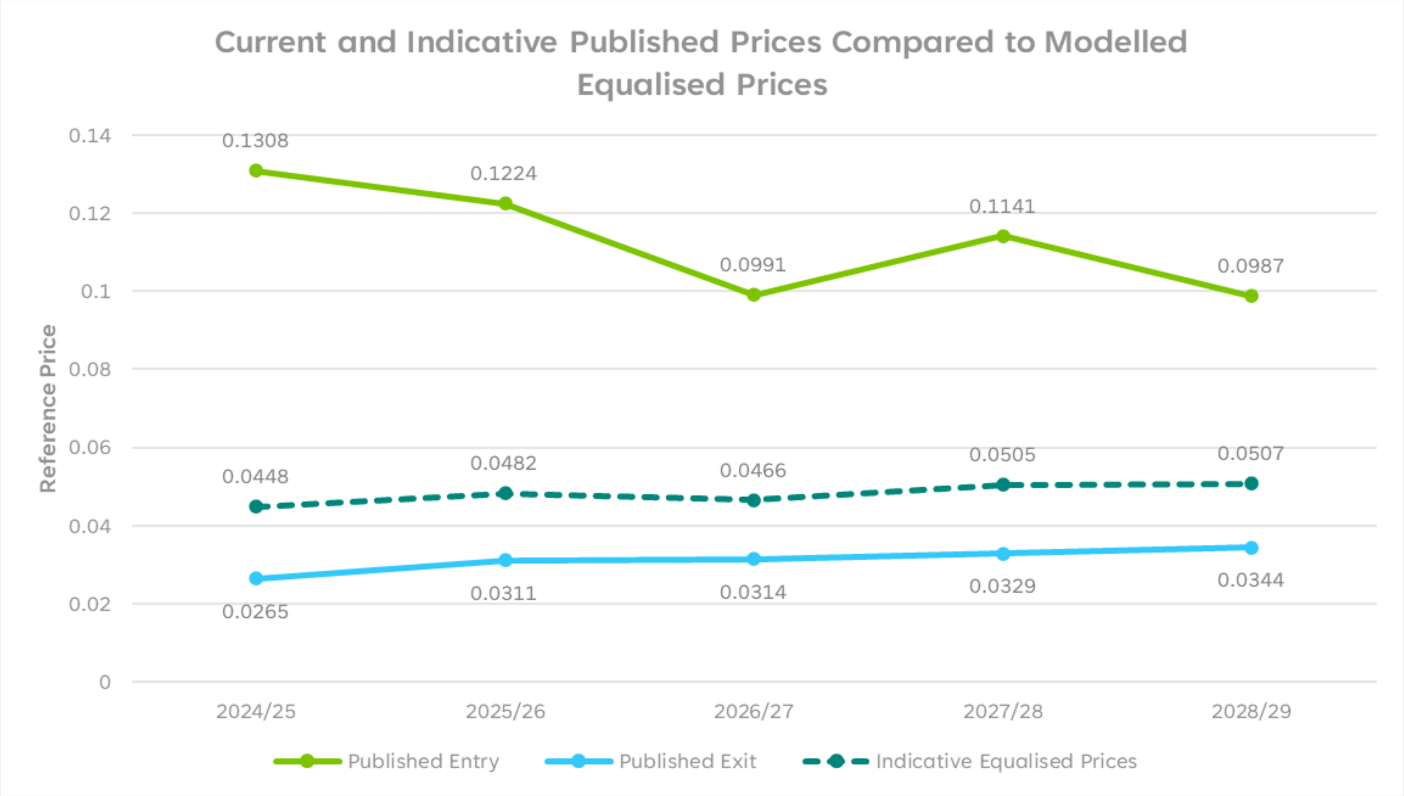
Published	2024/25	2025/26	2026/27	2027/28	2028/29
Entry	0.1308	0.1224	0.0991	0.1141	0.0987
Exit	0.0265	0.0311	0.0314	0.0329	0.0344

Indicative tariffs as proposed:

Equalised Pricing	2024/25	2025/26	2026/27	2027/28	2028/29
Price	0.0448	0.0482	0.0466	0.0505	0.0507
Entry %	23.1%	20.6%	25.2%	22.8%	26.0%

Solution

Introduction of a single Capacity tariff across all Entry Points and all Exit Points (with the exception of those points where existing discounts apply)



The chart shows current and indicative published prices for Entry and Exit, and a modelled single capacity tariff.

Solution

In addition to the core mechanics of the change proposal, during previous discussions a number of other key areas were identified that should be considered, including the treatment any under or over recovery of revenues for both the revenue recovery for the year prior to implementation of a proposal (rpt) and the ongoing treatment of the ‘k’ under/over recovery post implementation.

A single Entry and Exit tariff could not be achieved by treating Entry and Exit over or under recovery separately. We therefore propose to pool the ‘k’ values across Entry and Exit for both the transitional year and for all future years.

All other “key topics” that have been discussed previously will not be changed as part of this proposal:

- There will be no changes to existing discount arrangements (e.g. Storage and Shorthaul discounts)
- There will be no additional discounts introduced as part of this Proposal
- The will no changes to the treatment of Existing Contracts

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NTSCMF Discussions: Consumer Benefits

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Consumer Impacts

Understanding consumer impacts of the proposed changes is an area that still requires further consideration. These slides outline views shared in previous discussions and proposed plans to further assess consumer impacts

Area	Comments	Further Work Required
Improved safety and reliability	Although no direct impacts to safety or reliability, changes to capacity booking behaviours as a consequence of these changes could have positive or negative impacts to security of supply for both gas and electricity.	Better understand the impacts should the Proposal result in changes to Capacity booking behaviours.
Lower bills than would otherwise be the case	The aggregate tariff (Entry + Exit) will reduce under this proposal. Throughput may increase which would have an impact on the aggregate charge. A different way to review and comment on ultimate impacts to Consumers will be useful	Impacts for Customer groups need to be further assessed alongside any potential changes to Capacity booking strategies that this proposal may cause. Impact to domestic consumer bills to be better understood, the Ofgem price cap model could be used to help this.
Reduced environmental damage	Any impacts likely to be marginal (e.g. potential small changes in compressor usage due to changes in quantity and/or locations of flows)	

Consumer Impacts

Area	Comments	Further Work Required
Improved quality of service	No impact	
Benefits for society as a whole	Lower charges for GB manufacturers could make them more competitive.	Proposed changes may be beneficial to certain groups and detrimental to others, further work will look at specific impacts to different groups. There are potential impacts to electricity prices if Exit tariffs go up, this could be offset by a reduction in NBP Further understanding of if/how lower NBP prices may compensate for higher Exit tariffs is required. Changes in pricing could lead to changes in booking behaviours, these need to be considered together.

Transmission Services Charging:

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NTSCMF Discussions: Charging Relevant Objectives

November 2024

Relevant Charging Objectives and Relevant Objectives

We have previously captured the main discussion points and key take-aways in relation to impacts on each of the Relevant Charging Objectives and Relevant Objectives. As there is duplication in the objectives across charging and standard, there is merit in focusing on the charging ones and considering others and where duplication occurs as part of the process.

It was noted that some Charging Relevant Objectives and some Relevant Objectives may potentially be impacted, and others almost certainly would be impacted.

During discussions, it was highlighted that focus should primarily be on the specific Charging Relevant Objectives that we know to be impacted most, with others then considered secondary at this stage.

Therefore, we propose to focus on the Charging Relevant Objectives that we believe are most pertinent to discussions. This will avoid any duplication between the Charging Relevant and Relevant Objectives to help focus the key drivers, rationale and views on impacts in terms of furthering the relevant objectives.

To help focus the discussion, we have reviewed two charging objectives. We note this are not exhaustive and impacts could be to other objectives both standard and charging.

Charging Relevant Objectives

c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers;

The proposed changes in this Modification are expected to provide more stable and predictable Transmission Services Charges compared to the status quo, hence Users will have a greater level of confidence in their forecasts of prospective use of network costs and therefore set their own service costs more accurately (potentially with a lower risk margin), thereby enhancing effective competition.

It was discussed in workgroup that charges should be fair, equitable, transparent & predictable. We believe the proposed changes support this statement.

There is anecdotal evidence that traders have referenced entry costs as being a barrier. By introducing equalised pricing, entry prices will reduce.

- This could enhance competition by enabling access by reducing the entry pricing barrier and making GB a more attractive place to land gas
- This could lead to increased throughput and transit gas; therefore reducing overall charges in future.

Charging Relevant Objectives

b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;

Since the 50/50 split has been in place, there has been a shift in how GB operates. The historic beach to meter and patterns of supply have changed significantly.

There are several drivers applying upward pressure on Entry Tariffs including a steady decline in Capacity demand, expected increased Allowed Revenues RIIO-3, and Existing contracts.

We believe that this modification proposal will take account of developments in the transportation business by removing some of the charging impacts associated with the decline in capacity demand:

- The introduction of a single Capacity tariff across all Entry Points and all Exit Points will lead to lowering of the capacity entry tariff
- A dynamic split is also more future proof against potential future changes to booking obligations and behaviours

Transmission Services Charging:
Future Developments

NTSCMF Discussions: Next Steps

November 2024

Next Steps

Following on from today, National Gas Transmission will look to raise a formal modification in December. This will allow time to take into consideration any feedback and discussions from today's session - we welcome Stakeholder views as at all times including views on potential for alternatives that may be considered.

Given the range of topics, it is conceivable that some elements could change in any modification during its development. In this event, it is realistic that any such components could be revised and developed through the Workgroup once any Modification is raised.

Indicative Timeline

January 2024

Set out structure of discussions via NTSCMF

February 24 onwards

Options will be discussed and developed through a standing NTSCMF agenda item

Autumn 2024

Raise potential UNC Modification

Autumn 24 - May 25

UNC Modification Workgroup development

June 2025

UNC Modification for consultation

July 25 - January 26

Ofgem to complete impact assessment if required and make decision on Proposal

January 2026

Approval required by May 2026 for October 2026 implementation

October 2026

Aim to implement changes to come into effect for the prices applicable from 01 October 2026

The above dates are indicative only. The outcome of discussions will inform the plan going forwards.

Thank you

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