

An update on Non-Transmission Services Charging



**national gas
transmission**

27th July 2023

We will begin at 13.02 to allow everyone to join

Welcome and Opening

Thank you for joining us today

- 💧 The Market is still experiencing volatility and this is reflected in costs, revenues and ultimately charges to Customers
- 💧 Reviewing challenges for charging, having your feedback helps to present opportunities for reform
- 💧 We are putting forward a package that covers October 2023 and future years for Non-Transmission Services Charging

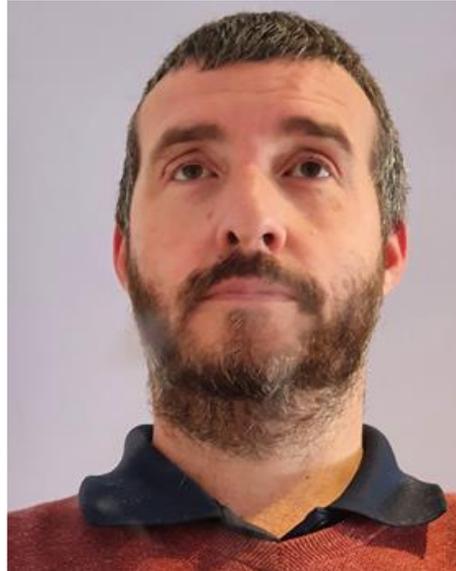


Chris Logue
Head of Markets

Who will be speaking?



Colin Williams
Charging & Revenue
Manager



Dave Bayliss
Revenue Lead



Nera Lenden
Customer & Stakeholder
BP

Logistics

Slido.com
#charging



Should last around 60 minutes



Questions and Polls via slido.com using #charging



All attendees on mute and cameras off



Slides and recording will be circulated

Agenda

1. Background/History of issues for Non-Transmission Charges

2. Proposals for Non-Transmission charges / Structural reforms

3. Indicative October 2023 rates and assumptions

4. Next steps / Questions

Background

Recent issues with Non-Transmission Charges

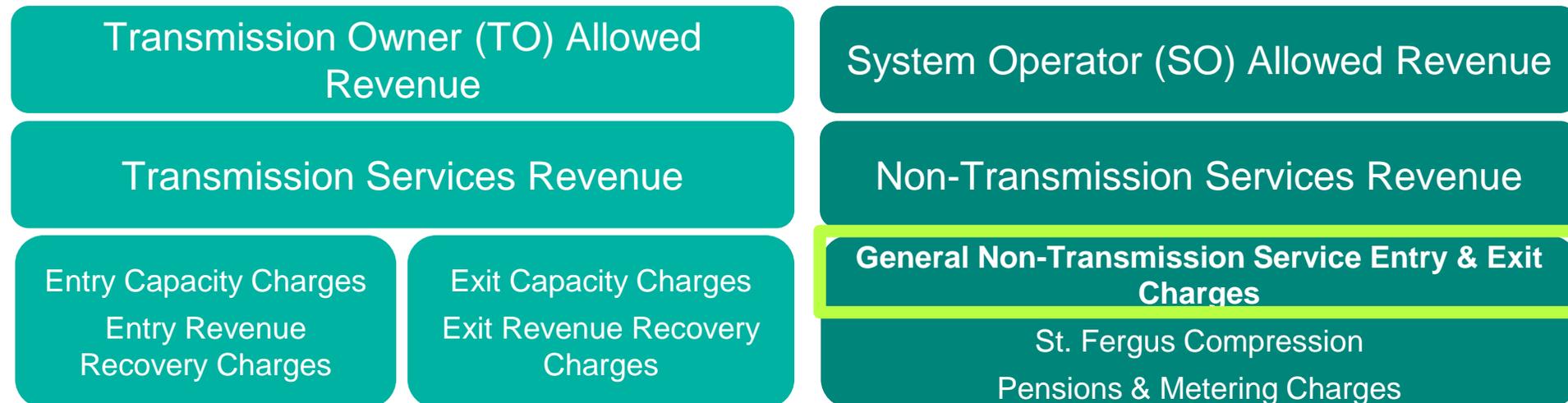


Gas Charging – Which charges are we talking about?

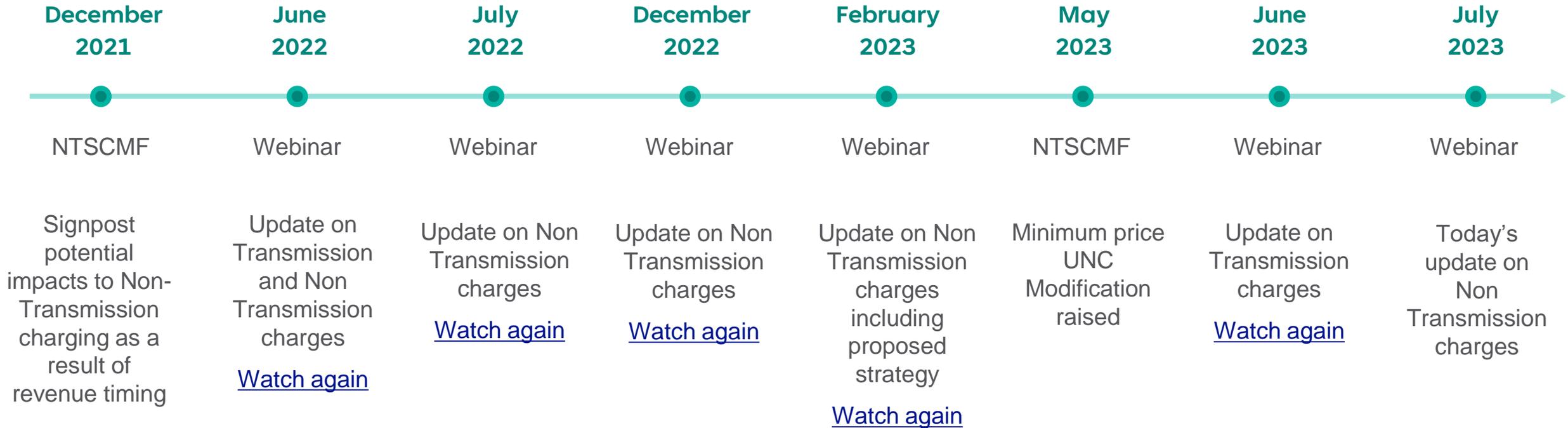
Two types of charges:

- Transmission Services Revenue, which broadly aligns to the Transmission Owner (TO) Revenue, will be recovered by **Transmission Services Charges**
- Non-Transmission Services Revenues, which broadly aligns to the System Operator (SO) Revenue, will be recovered by **Non-Transmission Services Charges**

This session focuses on the **General Non-Transmission Service Entry & Exit charges**



Timeline of charging engagement to date



Proposals for change

Proposals for Non-Transmission charges / Structural reforms



Non-Transmission Charges – why consider change

1. Volatility and unpredictability of Shrinkage

- Costs in recent years have been unpredictable and volatile. Substantial reconciliations can impact charges for future years with substantial costs in one year effectively being charged in another

2. Timing of revenue updates that impact charges

- Historically, Revenues for System Operator (read as Non-Transmission) did not change substantially year to year. Pre-RIIO2 (April 2021), revenues could be updated in-year.
- The timing of when updated views on costs (e.g. shrinkage) can be included to Allowed Revenues can have a sizeable impact.

3. Regulatory Year and Tariff Years not being same period

- The misalignment between the Regulatory Year (Apr – Mar) and Tariff Year (Oct – Sep) has until recently not been an issue for Non-Transmission charges.

4. Negative prices

- Alignment with other main charges to have a minimum price being dealt with by [UNC Modification 0847](#)

Non-Transmission Charges – Revenue Deferrals in setting October 2023 prices

- Charges are set to recover Allowed Revenues output from the latest PCFM*. The PCFM that used to underpin the Oct 23 prices was issued in May 2023.
- In considering the issues affecting Oct 23 charges, notably the sizeable reconciliation from last year, we have been reviewing the use of a revenue deferral, discussed in previous webinars, which effectively is a purposed under recovery against Allowed Revenues.
- Revenue deferrals move the collection of a portion of revenue to a later Regulatory Year and therefore future years charges. They are not a long term solution nor a replacement for more structural reforms.
- In setting Oct 2023 prices National Gas Transmission has been reviewing the use and level of a potential deferral from Allowed Revenues. National Gas is proposing:
 - A revenue deferral from Allowed Revenues to allow a more up to date view of shrinkage to be accommodated (where lower than PCFM)
 - To support an additional deferral of revenues to help reduce further the price for October 2023

Proposals for change

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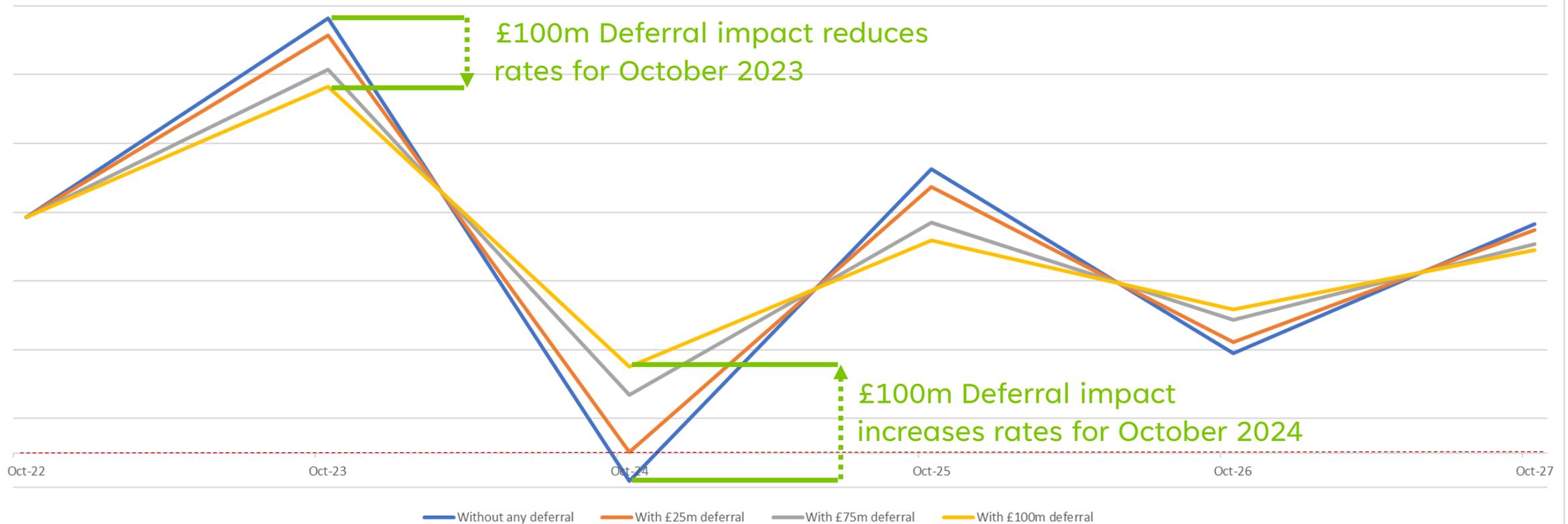
1. Decision to defer Allowed Revenue from FY24* to FY25

- National Gas Transmission will be deferring £100m revenue from the SO Allowed Revenues from FY24 to FY25 . This will have the effect of reducing rates for October 2023.

Indicative view of Non-Transmission Charges:

- The chart below shows the direction of impacts when deferring revenues from FY24 to FY25
 - £75m reduction for updated view of Shrinkage cots
 - £25m reduction to help support reducing October 2023 rates

Indicative view of General Non-Transmission Charges



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2. Changes for 2024

- We aim to deliver a UNC Modification that will smooth revenues across years that input to setting General Non-Transmission Charges in time to set October 2024 prices. Similar to [UNC0796](#) that was implemented in May 2022 to manage revenue volatility for Transmission Services Entry and Exit Capacity prices.

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3. Further structural reforms beyond 2024

- Review and consider a structural change to how and when Shrinkage costs are recovered such that these are recovered keeping closer links to market prices, bringing the period between incurring costs to recovery as short as possible.

Indicatives for October 2023

Indicative October 2023 rates and assumptions



Key assumptions informing the indicative charges

Input	Proposals in setting October 2023 charges
Revenues for FY24 (Regulatory Year ending March 2024)	As per PCFM for FY24 with a £100m reduction, under-collecting against allowed revenues
Revenues for FY25, FY26 (Regulatory Years ending March 2025 and March 26 respectively)	As per PCFM with adjusted shrinkage costs (See below). Reconciles the £100m reduction in FY25.
Shrinkage Forecast Costs assumed over time	<p>All shrinkage costs are based on updating the costs assuming a WAP at a certain point in time.</p> <ul style="list-style-type: none"> • For FY24, this uses a WAP¹ from the end of June. • For FY25, FY26 to inform the charges, these use an average of forecasts over the last 6 months
Demand (flow assumptions)	Using an update from FES ² 2023, actuals to date and across future summer months, Bacton export forecasts revised to reflect recent activity.

¹Weighted Average Price
² Future Energy Scenarios

Indicative view of Non-Transmission Charges:

In the table below we show for the years up to the end of RII02 period (2026):

- Rates as were published in 2022
- Indicative, rounded rates for October 2023 with/without £100m revenue deferral from allowed revenues
- Indicative, rounded rates for October 2023 for the St Fergus Compression charge

These rates for indicatives currently rounded to 3d.p's and will change as the values are finalised for publication on 31st July.

Indicative Non-Transmission Charges (p/kWh)	Oct 22	Oct 23	Oct 24	Oct 25
Prices as published for October 2022	0.0343 [^]	0.0638	-0.0123	0.0368
Indicative General Non Transmission Services Charge Unit rate without any revenue adjustments*	0.0343 [^]	0.063	-0.004	0.041
Indicative General Non Transmission Services Charge Unit rate with revenue adjustments*	0.0343 [^]	0.053	0.013	0.031
Indicative St Fergus Compression Charge*	0.0514 [^]	0.015		

*These indicative rounded values from October 2023 are to be finalised ahead of final publication

[^]These are Actual rates for October 2022, applicable up to end of September 2023

Next Steps / Q&A

Next Steps for Non-Transmission Charges



Next Steps for Non-Transmission Charging

- Final Non-Transmission charges applicable from October 2023 will be published by 31 July
- Revenue smoothing via UNC Modification to be raised with a target for implementation in 2024, in time to set October 2024 charges
- Further structural methodology / Licence based changes to be raised and discussed through NTSCMF in the coming months

Feedback



Feedback is important to us, therefore if you have not already taken part, we would like to put you forward for a survey based on your experience with the National Gas Charging and Revenue Team. Please look out for the survey in your inbox, any feedback provided will be greatly appreciated.

Q&A

Slido.com
#charging

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General Questions

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General Charging Queries

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Thank you

