

Gas
Transmission

Gas Transportation Charges Update

12 January 2021

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Logistics

Should last for approximately about 60mins (approx. 35-40mins material and time for questions)

Questions and polling via www.sli.do #32428

All callers will be placed on mute

We will circulate the slides and a recording of this webinar. When published will be available <https://www.nationalgrid.com/uk/gas-transmission/charging/transmission-system-charges> (under NTS Charging Supporting Information)

Welcome

- The new gas charging regime (UNC678A) came into effect from 01-Oct-20
- Monitoring and reflecting on the impacts of the new regime from October had been planned post implementation. Observing the data for October 2020 highlighted concerns with levels of Capacity Neutrality and the likely significant under recovery against forecast values.
- In early November we notified to industry that we were considering price changes to the revenue recovery charge and potential UNC changes to Capacity Neutrality. Updated prices were issued on 30 November 2020 to be effective from February 2021.
- Following implementation of UNC Modification 0748 these prices have been updated further, published on 30 December 2020 to be effective from February 2021, taking on board UNC0748, feedback on their application period and reflections on the UNC.

Who we are...



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Agenda

- This Webinar is split across four main areas areas:
 1. Reminder of the Regulatory changes implemented from October 2020
 2. Key aspects of the UNC to consider in updating permitted charges within this Gas Year
 3. Published updates to Transportation charges including implementation of UNC Modification 0748 (Prospective Removal of Entry Capacity Revenue from Capacity Neutrality Arrangements).
 4. Future charges / Next Steps
- We will close with a Q&A session – questions can be raised via www.sli.do #32428

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Regulatory Changes

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Regulatory Changes from October 2020

- Changes to Gas Transportation charging following Ofgem's decision on 28 May 2020 to implement UNC0678A with effect from October 2020 (https://www.ofgem.gov.uk/system/files/docs/2020/05/unc678_-_decision_0.pdf)
- New framework focuses on Capacity charges to recover Transmission Revenues with a new methodology to calculate capacity reserve prices

Changes:

- Uniform Network Code (UNC) Modification proposal 0678A: Postage Stamp pricing for Transmission capacity reserve prices (i.e. one Entry and one Exit price irrespective of geographic location) with the payable price changing each year
 - Except for long term Entry capacity booked before 6 April 2017
- All capacity reserve prices the same (annual, daily, etc) except:
 - 10% discount to reserve prices for interruptible / off peak capacity
 - 50% discount to reserve prices for Storage Capacity
- Managing Transmission Revenue Recovery within year via capacity-based charges.
- Non-Transmission Charges (broadly aligning to SO) recovered via a commodity charge.

UNC Modification 0748

- **UNC0748 Proposed Changes:**
- Removal of two revenue items from the Capacity Neutrality (Within Day and Daily Interruptible Entry Capacity).
- Allowed a time limited reduction to the notice period for charges normally subject to two months notice. National Grid considered this to cover Transmission Services Entry and Exit Revenue Recovery charges and the General Non Transmission Services charge
- Ofgem approved UNC Modification 0748 on 23 December 2020 to be implemented on 1 January 2021. This means the Capacity Neutrality amounts will not include Within Day and Daily Interruptible Entry Capacity Revenues from 1 January 2021 and revenues from these products will contribute towards Transmission Services Entry Revenue Recovery.
- **For awareness:** UNC Modification to amend Capacity Neutrality to cover period 01 October 2020 to 31 December 2020.
 - This modification is in development following industry feedback on a draft discussed at December 2020 NTSCMF.

Charges Published 30 December 2020 to be effective from 1 February 2021

- With the notification on 30 December 2020 and effective date of 1 February 2021, National Grid is providing just over one months notice for this change, in line with the implementation of UNC Modification 0748. These supersede the prices published on 30 November.
- **Three types of charges** were updated and published 30 December 2020 to be effective from 1 February 2021:
 - **Transmission Services Entry Revenue Recovery Charge**
 - **Transmission Services Exit Revenue Recovery Charge**
 - **General Non-Transmission Services Charges**

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UNC Treatment / Regulatory Overview

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Gas Charging – General overview

- Transportation Charges are set and levied to recover, overall, the required Revenues for National Grid, often referred to as the Licence Revenues, set under the Price Control arrangements. This is split between Transmission Owner (TO) and System Operator (SO).



- These are set on a Regulatory Year basis which runs April to March. The Licence prescribes how to calculate these 'Allowed' revenues and how to record the actual revenues (income) as it comes in.
- At the end of any Regulatory Year there is an under/over recovery for each of the TO and the SO which is recovered through subsequent years' allowed revenue and therefore provides a net position per the Licence.
- Transportation Charges are set to recover these revenues. Transportation Charges are currently set under two types, **Transmission Services** and **Non-Transmission Services** charges.
- These charges are set to recover monies across a Tariff Year, for the UK, is the Gas year, October to September.

Gas Charging – General overview

- Transportation Charges are set to recover these revenues. Transportation Charges are currently set under two types, **Transmission Services** and **Non-Transmission Services** charges.
- These charges are set to recover monies across a Tariff Year, for the UK, is the Gas Year, October to September. Transmission Services is split between Entry and Exit. Non Transmission is not split further. These charges are set with the following overall structure:



- At the end of any Gas Year there is an under/over recovery for each of the Transmission Services and the Non-Transmission Services and therefore provides a net position per the UNC.
- The Licence and UNC do not need to ‘match’ terminology. The monies do need to be accounted for and the net result of the UNC and Licence would match, and this circumstance the breakdown for TO/SO and TS/N-TS would not.

Gas Charging – How the UNC determines revenues

Target

Transmission Services Revenue determination for charges across a Gas Year focusing on the Regulatory Year which ends in the Gas Year being considered.

Calculation

TO Allowed Revenue *minus* DN Pensions *minus* Metering *plus* TS-Related NTS System Operation Revenue

Detail on key Input

TS-Related NTS System Operation Revenue means the net amount of NTS System Operation Revenue which is attributable (as determined by National Grid NTS) to charges in respect of NTS Capacity (but not including Overrun Charges) or the surrender of NTS Capacity.

Output

Transmission Services Entry Revenue

Transmission Services Exit Revenue

Application

Once set, the Transmission Services Entry and Exit Revenues cannot be updated. This is effectively the target for the charges across the Gas Year that cannot be amended within year.

Output

Transmission Services Entry Capacity Reserve Prices

Transmission Services Exit Capacity Reserve Prices

Gas Charging – Updating Transmission Services charges

Target	Transmission Services Revenue determination for charges across a Gas Year	
Calculation	Compare the actual and forecast revenue from Capacity charges for the Gas Year to the Transmission Services Revenue 'target'	
Detail on key Input	All Capacity Revenue – actual and forecast (including any TSRRCs* that may be in place). This varied from the forecast at the time of setting October 2020 charges.	
Output**	Expected Transmission Services Entry Revenue from Capacity charges (i.e. Annual, Quarterly, etc)	Remainder can be recovered through TSRRCs* (Entry)
Output**	Expected Transmission Services Exit Revenue from Capacity charges (i.e. Annual, Daily, etc)	Remainder can be recovered through TSRRCs* (Exit)
Application	Capacity charges cannot be updated within the Gas Year. TSRRCs can be updated across the Gas Year	

*TSRRCs – Transmission Services Entry Revenue Recovery Charges and Transmission Services Exit Revenue Recovery Charges

**This scenario assumes an anticipated under collection. Anticipated over collection is also a possibility, in which case the TSRRC (if in place) would be reduced or even be a credit.

Gas Charging – How the UNC determines revenues

Target

Non-Transmission Services Revenue determination for charges across a Gas Year focusing on the Regulatory Year which ends in the Gas Year being considered.

Calculation

SO Allowed Revenue *plus* DN Pensions *plus* Metering *minus* TS-Related NTS System Operation Revenue

Detail on key Input

TS-Related NTS System Operation Revenue means the net amount of NTS System Operation Revenue which is attributable (as determined by National Grid NTS) to charges in respect of NTS Capacity (but not including Overrun Charges) or the surrender of NTS Capacity.

Output

Non-Transmission Services Revenue

Application

Once set, the Non-Transmission Services Revenue cannot be updated. This is effectively the target for the charges across the Gas Year that cannot be amended within year.

Output

General Non-Transmission Services Charges

Gas Charging – Updating General Non-Transmission# Charges

Target	Non-Transmission Services Revenue determination for charges across a Gas Year	
Calculation	Compare the actual and forecast revenue from GNTS* charges for the Gas Year to the Non-Transmission Services Revenue 'target'	
Detail on key Input	All Non-Transmission Revenue – actual and forecast (including any GNTS* that may be in place). Based on demand levels this is broadly consistent with forecasts for current Gas Year.	
Output**	Expected Non-Transmission Services Revenue from eligible flows (i.e. Non Storage)	Remainder can be recovered through updated GNTS Charge (applies to Entry and Exit flows)
Application	General Non-Transmission Services Charge can be updated across the Gas Year.	

#There are other Non Transmission Charges (e.g. St Fergus Compression). In this illustration they are assumed to match forecasts to focus on GNTS.

*GNTS – General Non-Transmission Services Charge – applied to all Non-Storage Entry and Exit flows

**This scenario assumes an anticipated under collection. Anticipated over collection is also a possibility, in which case the GNTS in place would be reduced.

Gas Charging – Accommodating RIIO2

- **RIIO2 will be effective from April 2021 whether or not there is an appeal to the CMA.** This provides the Licence framework including the TO and SO Allowed Revenue Framework for the next five years.
- In terms of how and when the RIIO2 period will be reflected into Transportation charges, with the UNC as written, it would be through charges effective from October 2021. Therefore in the remainder of the Gas Year (October 2020 to September 2021), the outcome of RIIO2 Final Determinations will not impact charges.
- Timeliness of managing under / over recovery
 - Within the Statutory consultation the under / over recovery position or “K” as it is often referred to is proposed to be different to the method under RIIO-T1.
 - Rather than a two year true-up, RIIO2 provides the ability to use a forecast with a one-year lag with reconciliations of this the following year. E.g. a potential under/over recovery in 2021/22 could be forecasted into 2022/23. The reconciliation against this forecast for the actuals for 2021 would be included into 2023/24.

Gas Charging – Accommodating RII02

- RII02 works on Regulatory Years, which run April to March. Tariff years run from October to September (for the UK, this tariff year is the Gas Year)
- Impacts of this is are often seen in updates to charges that seek to manage this
- Whilst RII02 continues to run April to March, the Tariff Year continues to run October to September.

UNC development

- The mechanisms in the UNC to manage step changes in revenues between Regulatory Years, whilst also considering price stability and predictability is likely worthy of merit in reviewing; and
- The misalignment of Regulatory Year and the Tariff (Gas) Year, via mechanism in the UNC is also worthy of further review.

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**Published prices
30 December 2020 to
apply from 1 February
2021**

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Charges Published 30 December 2020 which are effective from 1 February 2021

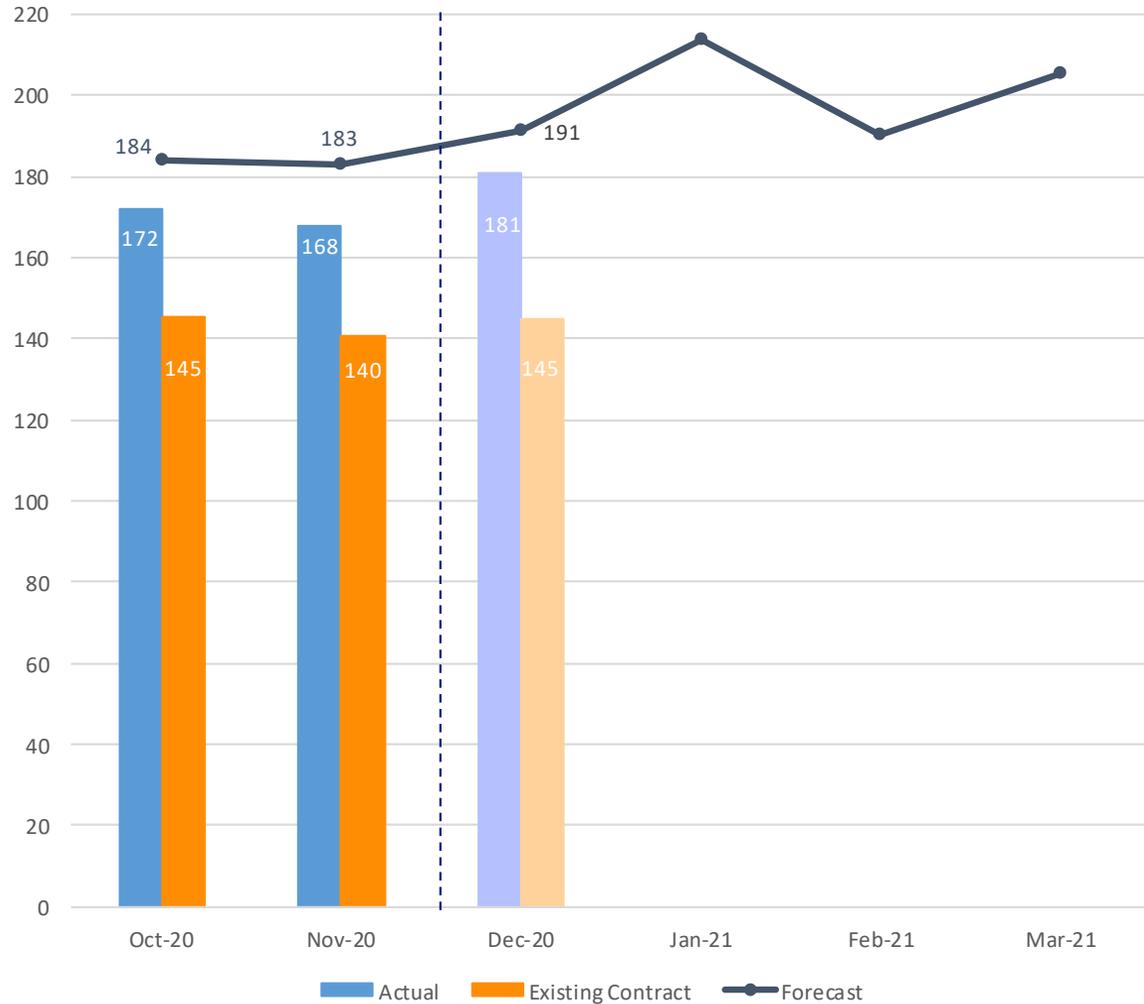
- With the notification on 30 December 2020 and effective date of 1 February 2021, National Grid is providing just over one month's notice for this change, in line with the implementation of UNC Modification 0748. These supersede the prices published on 30 November.
- **Three types of charges** were updated and published 30 December 2020 which are effective from 1 February 2021:
 - **Transmission Services Entry Revenue Recovery Charge** is 0.0294 p/kWh/d. This will be applied from 01 February 2021 to September 2021 inclusive, the remainder of the Gas Year.
 - **Transmission Services Exit Revenue Recovery Charge** is 0.0046 p/kWh/d. This will be applied from 01 February 2021 to September 2021 inclusive, the remainder of the Gas Year.
 - **General Non-Transmission Services Charges** which aligns to the System Operator (SO) Revenue is 0.0128 p/kWh. This will be applied from 01 February 2021 to September 2021 inclusive, the remainder of the Gas Year.
 - N.B. The aspiration is to have these charges in place for the remainder of the Gas Year. All the above charges may be subject to further updates and will be kept under review.

Changes from 30 November 2020 to 30 December 2020 Publications

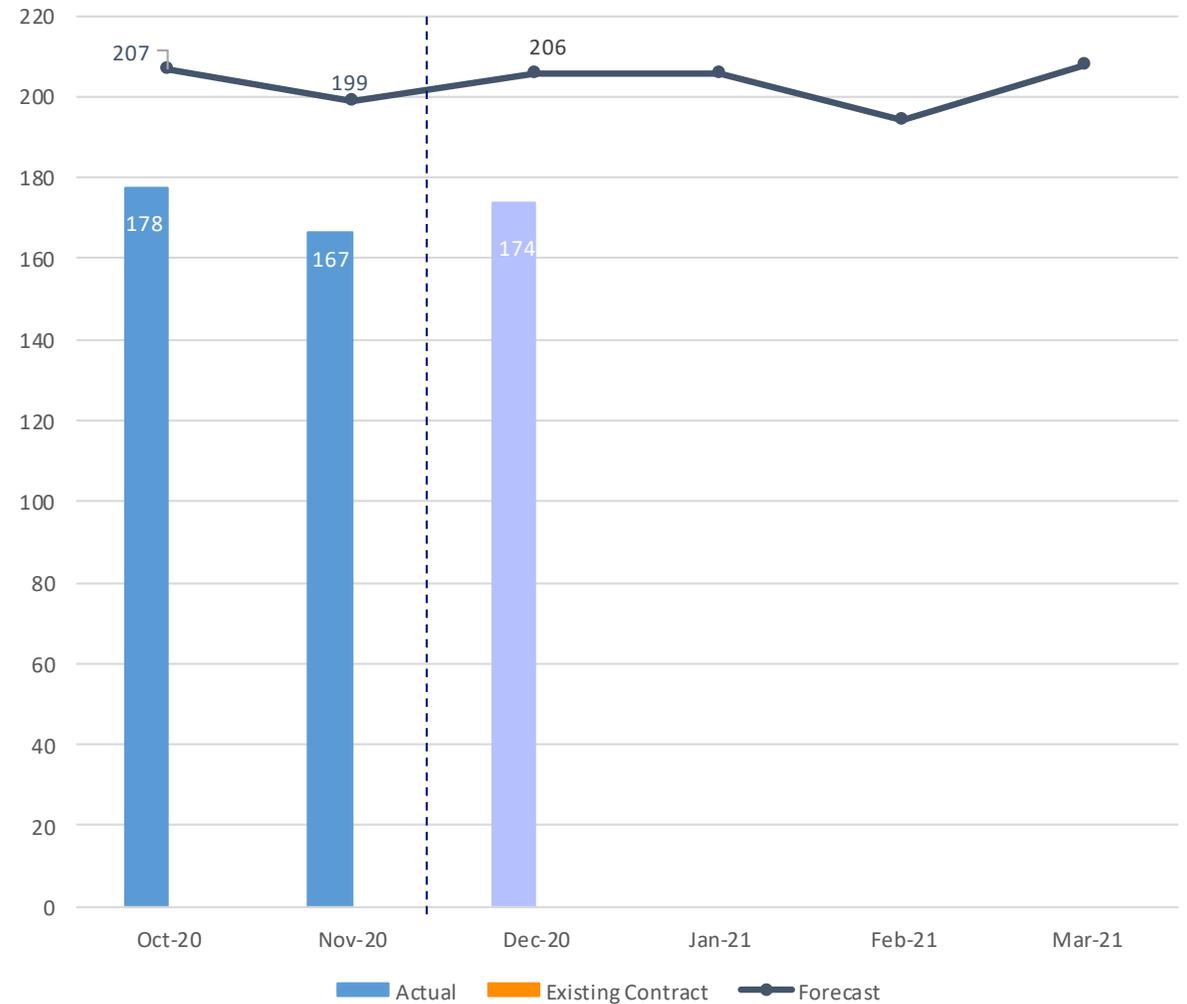
Area	Summary	The Impact
UNC Modification 0748 implementation	<p>With the implementation of UNC0748 this changes the amount of revenue being collected from Within Day and Daily Interruptible Capacity from January 2021.</p> <p>This modification permits, for a time limited basis a shorter notice period for some charges.</p>	<p>Forecast Entry Capacity Revenue from With Day and Interruptible Entry Capacity from 1 January onwards contributes towards the Transmission Services Entry Revenue collection. The impact reduces the rate from previous publication.</p> <p>Notice period of just over one month was applied to make charges effective from 1 February 2020. Result is to apply changes to specific charges (Transmission Services Entry and Exit revenue Recovery charges, General Non-Transmission Services Charge).</p>
Duration of application / revenue recovery timeframe	<p>Duration of application which includes the period over which any under recovery is being targeted over. Previously Transmission Services Entry Revenue Recovery Charges and Transmission Services Entry Revenue Recovery Charges and General Non-Transmission Services Charge were not all being calculated over the Gas Year. In this update they are all consistent in revenue collection across the remainder of the Gas Year, updated from 1 February 2021.</p>	<p>All three charges being updated (Transmission Services Entry and Exit revenue Recovery charges, General Non-Transmission Services Charge) are set for a period that covers the remainder of the Gas Year (i.e. from 1 February 2021 to 30 September 2021).</p>
UNC / Licence Treatment	<p>Focusing on the UNC treatment for Transmission Services and Non-Transmission Services with respect to how capacity revenue is treated for charging purposes. This includes reflecting on how charges were initially set for this Gas Year and the available use of charges to recover this revenue position.</p>	<p>Change reduced Transmission Services Exit Revenue Recovery charge and increased the General Non Transmission Services Revenue Recovery Charge.</p>

Forecasts vs Actuals – Capacity

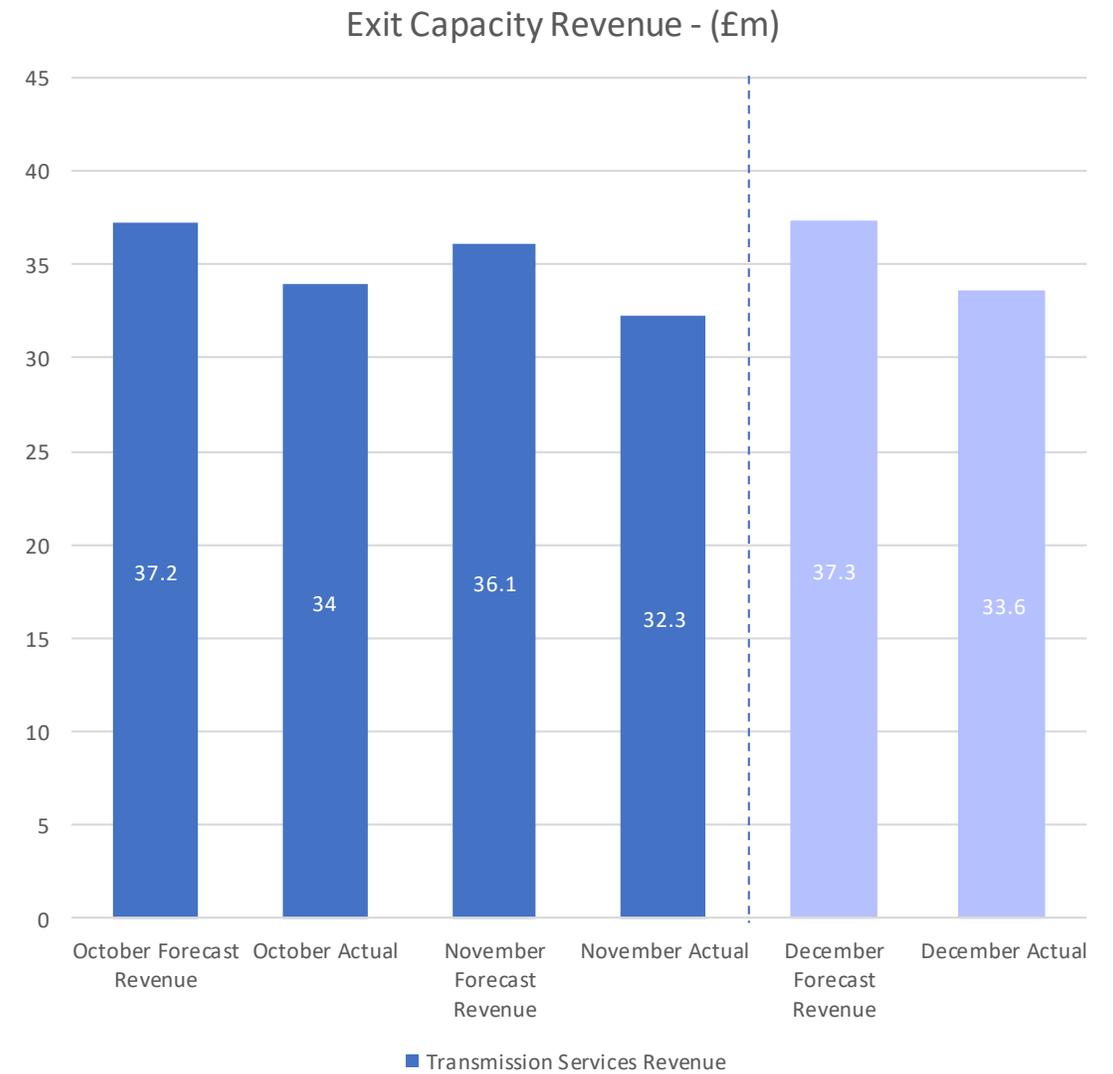
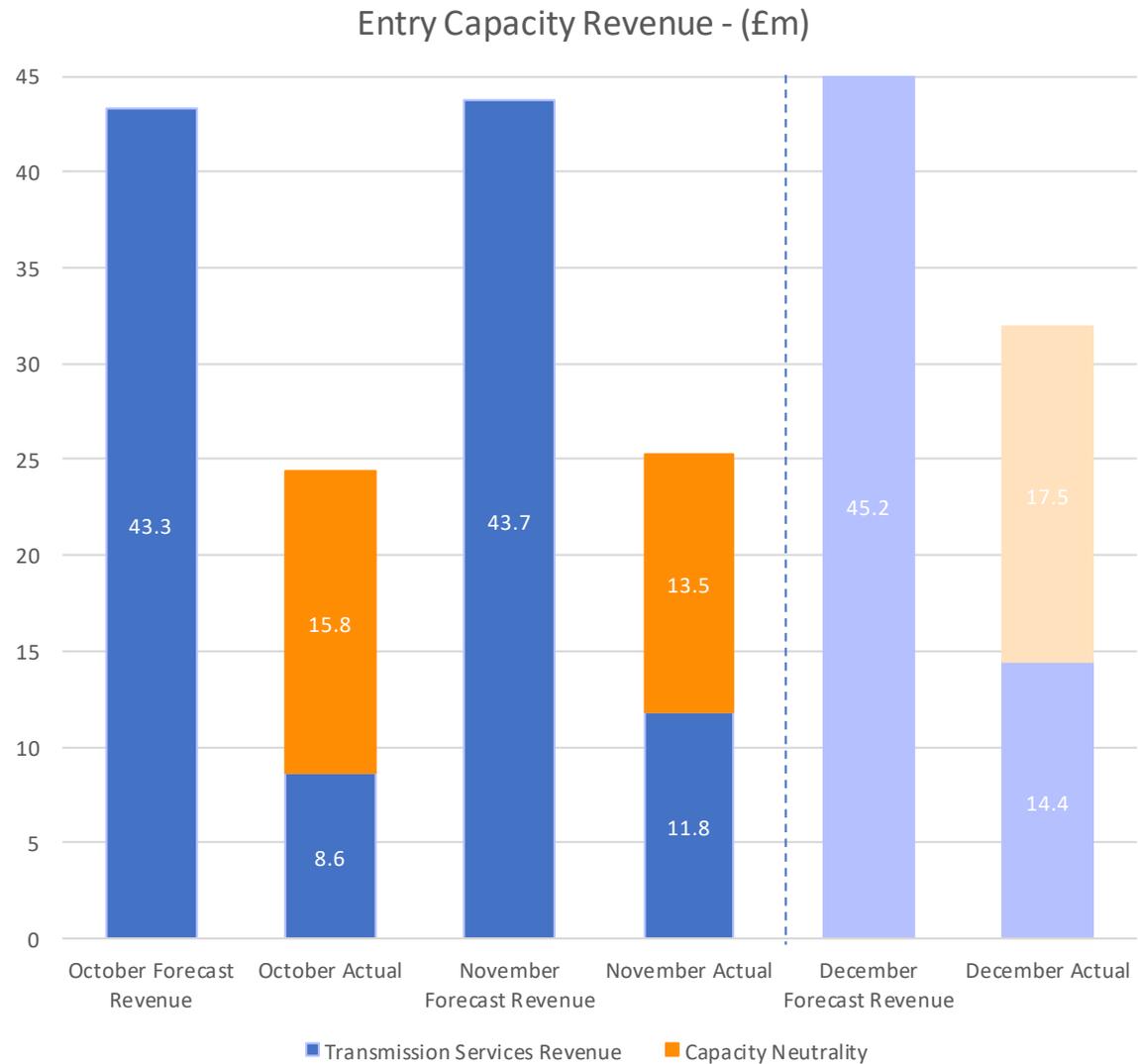
Entry Capacity - Forecast v Actuals (TWh/m)



Exit Capacity - Forecast v Actuals (TWh/m)



Forecasts vs Actuals – Revenue



Forecast Transmission Services Under-Recovery Oct 20 – Sep 21

	Entry		Exit
Target Revenue (Oct – Sep)	£505m	Target Revenue (Oct – Sep)	£444m
Forecast TOTAL CAPACITY	£404m	Forecast TOTAL CAPACITY	£382m
Capacity Neutrality (Oct – Dec)	£46m		
Transmission Services Revenue	£358m	Transmission Services Revenue	£382m
Transmission Services Under-Recovery	(£147m)	Transmission Services Under-Recovery	(£62m)
Entry TSRRC	0.0294	Exit TSRRC	0.0046
	Feb 21 – Sep 21 (8 months)		Feb 21 – Sep 21 (8 months)
	General Non Transmission		0.0128
			From Feb 21

RIIO 2 Final Determination – No impact on RRC

No impact on Capacity / RRC prices for Gas Year Oct 20 – Sep 21

Capacity Prices set for the Gas Year, and cannot be changed.

RRC can be changed within the Gas Year, however;

- RRC is set against the Allowed Transmission Services revenue set for the Gas Year.
- Allowed Transmission Services Revenue defined in UNC Section Y 1.6
 - Allowed Revenue for a Gas Year shall be determined on the basis of the corresponding allowed revenue for the Formula Year which ends in such Gas Year.
 - Revenue for Gas Year Oct 20 – Sep 21 determined on Financial Year allowed revenue Apr 20 – Mar 21 (under RIIO T1).

TSRRC Calculation - Revisions from November Notice

Anticipated Under / Over
Recovery

/

Fully Adjusted Capacity

	Entry RRC	Exit RRC
Under-Recovery Value to be collected via RRC	Forecast TO Entry under-recovery Oct 20 – Sep 21 £147m	Forecast TO Exit under-recovery Oct 20 – Sep 21 £62m
FCC	The Entry FCC is that as calculated under the FCC methodology, and used in the setting of the Entry Capacity Reserve prices for Gas Year October 2020 – September 2021.	The Exit FCC is that as calculated under the FCC methodology, and used in the setting of the Entry Capacity Reserve prices for Gas Year October 2020 – September 2021.
FCC Correction Factor	Total Entry Capacity was 7% lower than forecast. This (7%) correction factor has been applied to the forecast total capacity sold for all future months.	Total Exit Capacity was 15% lower than forecast. This (15%) correction factor has been applied to the forecast total capacity sold for all future months.
Monthly Phasing / Profiling of Annual FCC	Monthly phasing calculated on a Monthly FCC profile and the amount of capacity allocated monthly across Y-1.	FCC value profiled across months based on the amount of capacity allocated monthly across Y-1 weighted for winter period.
Existing Contract Capacity	The total value of Existing Contracts (registered) capacity for Gas Year October 20 – September 21 as per the values used in the setting of the Entry Capacity Reserve prices for Gas Year October 2020 – September 2021.	There is no Existing Contract Capacity at Exit Points.
Trade / Transfer of Existing Contract Capacity	Forecast trade volume based on future actuals to date and % EC volumes above demand traded across Oct & Nov 20 .	N/A
Applicable months for RRC	February 21 – September 21 (8 months)	February 21 – September 21 (8 months)

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Future Charges /
Next Steps

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Future Charges / Next Steps

What	Detail	When
Published prices	Updated prices published to account for anticipated revenue under recovery to March 2021.	Issued 30 December 2020 to be effective from February 2021.
UNC Proposal(s) on Capacity Neutrality	Prospective Modification	Implemented from 1 January 2021.
	Retrospective Modification – full timetable to be considered post NTSCMF discussion on 7 th December	Timetable and steps to be considered for the proposal
Industry Engagement and opportunities to discuss with National Grid	Use of Webinars / Ad-hoc Publications to Industry Engagement to share the outputs and discuss impacts	Use of activities such as Webinars to continue if useful as a means to share information / updates in addition to NTSCMF and Transmission workgroups.
	Charging Forum (NTSMCF https://www.gasgovernance.co.uk/ntscmf) is an additional forum to discuss charging matters including charging centred modifications to the UNC	Monthly, next one is 2 February 2021.
	Discussions with National Grid on a bilateral basis or with groups. Opportunity to discuss with National Grid bilaterally if desired.	Ongoing. Please get in touch if this would be useful.
RIO2	Details of the new Price Control arrangements from April 2021 – March 2026	December 2020. Impacts from an allowed revenue perspective and impacts on charging to be assessed post publication.
UNC Modification(s) that may be needed	UNC Changes for RIO2 to ensure consistency or updates to work with Licence.	From now until May 2021. Engagement via NTSCMF.
	UNC Modifications that may be needed ahead of calculating and publishing October 2021 Capacity Reserve Prices	From now until May 2021. Engagement via NTSCMF.
Future Years Charging	Charge Setting for October 21. Focus on the production of the Capacity reserve Prices and the required inputs	From now until May 2021. Engagement via NTSCMF.

Q & A



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