

Gas
Transmission

FCC & Charging Workshop

27 May 2021

nationalgrid



Agenda

1. **Indicative Transmission Services Revenue update for setting Reference/Reserve Prices for October 2021**

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Revenues:

Indicative Transmission
Services Revenues for
setting Reserve Prices

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Indicative Transmission Services Revenues for setting Reserve Prices

Determining Revenues for Transmission Services

- Previously we have walked through how Transmission Services Revenues for a Gas Year are determined following the process outlined in UNC TPD Section Y. This pack does not repeat this.
- This outlines the resulting revenues from our workings to determine the final revenues to apply for Gas Year starting October 2021 and indicatives for the next four years.
- It presents a challenge faced on Transmission Services Entry and what has been done in response.
- Whilst unlikely to change prior to tariff publication for October 2021, these values should be considered indicative until the prices are officially published.
- Terminology:
 - Formula year or Regulatory Year is the period April to March
 - Gas or Tariff Year is the period October to September

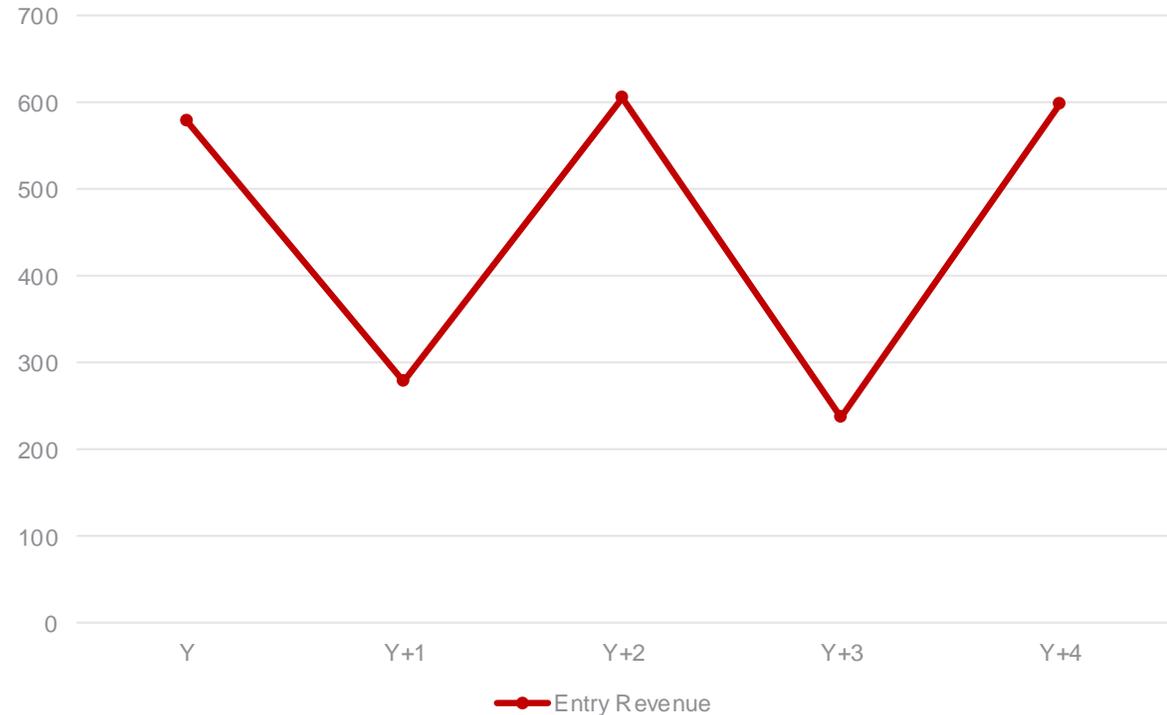
Indicative Transmission Services Entry Revenues for setting Reserve Prices

Resulting revenues for Entry Transmission Services

- The table below shows the values for Transmission Services Entry
- If we profile these revenues it shows a sizeable “saw-tooth” impact across Gas Years.
- This would naturally present a similar pattern into prices, especially with the low denominator that attracts the calculated Reserve prices. This would be unwelcome volatility into charges.
- National Grid has sought ways to address this in the immediate term to mitigate the volatility for Customers.

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	2021/22	2022/23	2023/24	2024/25	2025/26
Entry Revenues	578.60	278.80	606.20	237.90	597.40



Indicative Transmission Services Entry Revenues for setting Reserve Prices

Managing revenues for Entry Transmission Services

- National Grid has considered on this occasion a revenue deferral out of the Formula Year 2021/22 into Formula Year 2022/23 to manage the “saw-tooth”
- UNC based options should be considered as a more permanent approach

Why would a revenue deferral on Transmission Services Entry have any impact?

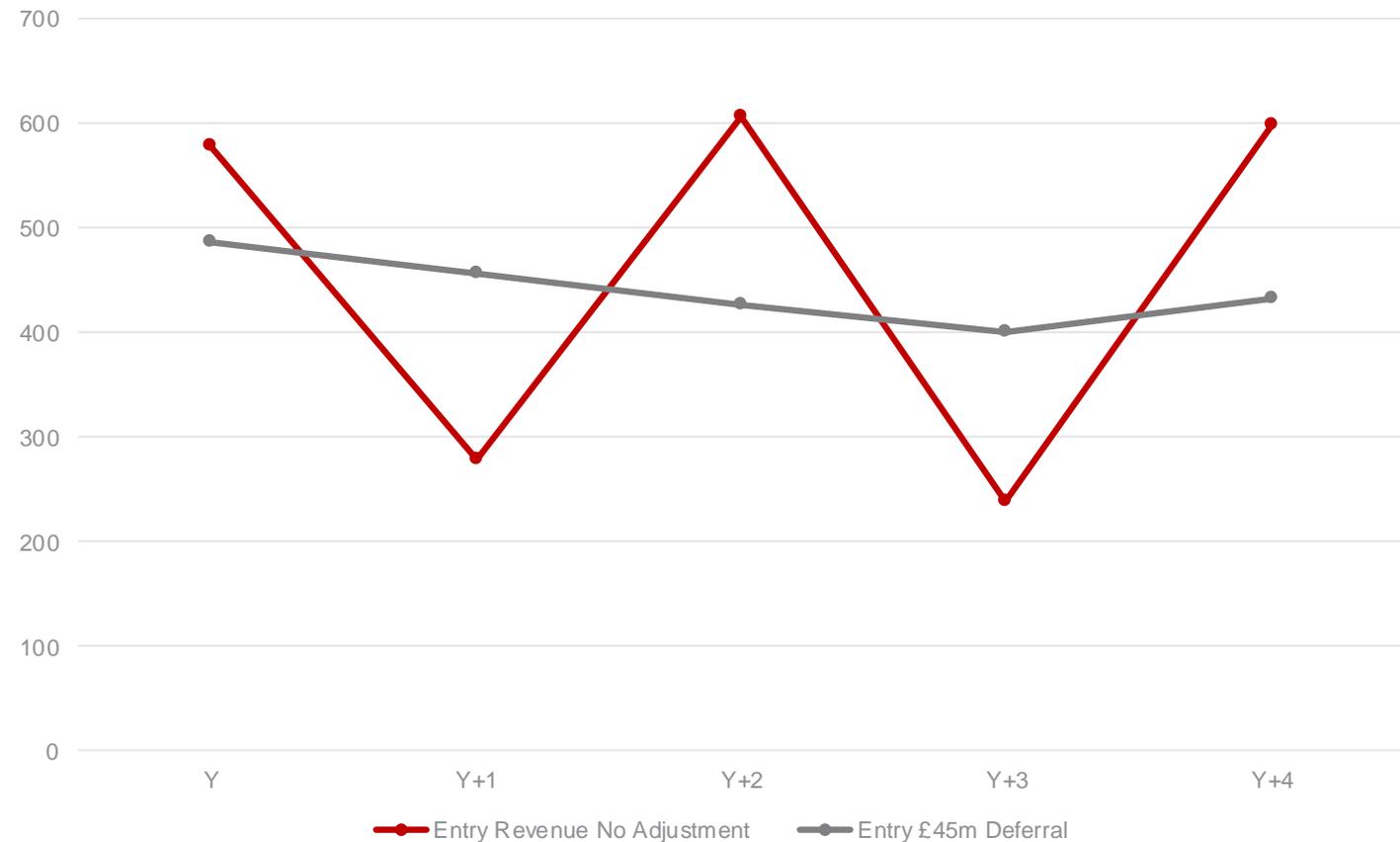
- An adjustment to the target revenue in one Formula Year, will have a knock-on effect across the years. All else being equal then this can temper the volatility in the target revenues.
- It would act like a “reset” to manage step changes to revenues where there is a large change from one year to another.
- It is essential to know this can only be a temporary step to take. It would not remove volatility or the risk of a revenue change driving changes into subsequent years. A future “saw tooth” in revenues and / or prices can be caused by several factors. Only focusing on revenues is not a permanent solution.
- Any deferral also risks causing further volatility if set too high or not reducing enough if set too low.

Indicative Transmission Services Entry Revenues for setting Reserve Prices

Managing revenues for Entry Transmission Services

- The deferral National Grid is carrying out on Transmission Services Entry is £45m.
- The impact of the deferral would be to move £45m from Formula Year 2021/22 into Formula Year 2022/23.
- The tables and charts show the impact across the years of the deferral

	2021/22	2022/23	2023/24	2024/25	2025/26
No Adjustment	578.60	278.80	606.20	237.90	597.40
45m Deferral	486.10	456.70	426.80	401.00	431.60



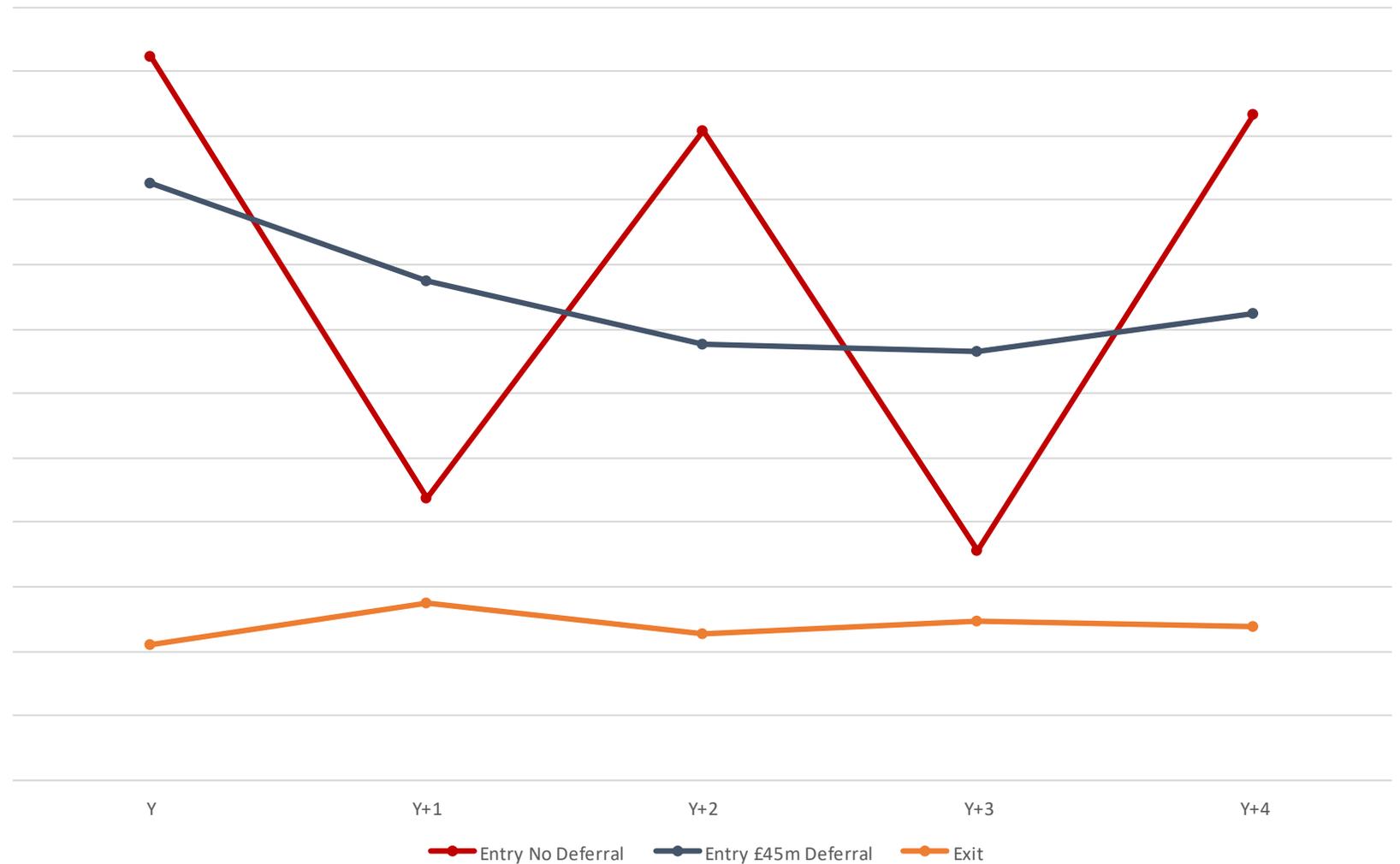
Indicative Transmission Services Revenues for setting Reserve Prices

- The revenue values that underpin the Transmission Reserve Prices are shown below. This includes the deferral for one year of £45m on Entry only from Formula Year (FY) or Regulatory Year 2021/22 to Regulatory Year 2022/23.
- The table below shows the values for Transmission Services Entry and Exit

Tx Services Gas Year Allowed Revenues & Forecast Formula Year Revenue Collection	Final	Indicative			
	21/22	22/23	23/24	24/25	25/26
TO FY Target Revenue	£942.4	£894.8	£880.6	£825.0	£831.6
TS FY Target Revenue (inc. TS Related NTS System Operation Revenue)	£950.0	£902.5	£888.1	£832.5	£839.0
Entry TS GY Target Revenues	£486.1	£456.7	£426.8	£401.0	£431.6
Exit TS GY Target Revenues	£374.1	£488.6	£405.2	£432.8	£411.8
Entry TS FY Forecast Revenue	£515.1	£471.0	£441.3	£413.5	£416.8
Exit TS FY Forecast Revenue	£434.9	£431.5	£446.8	£419.0	£422.3

Indicative Reserve Prices

- What does all this mean for Reserve Prices?
- The profile of the Reserve Prices can be seen on the chart
 - Red shows Entry without any adjustment
 - Blue shows Entry with the deferral
 - Orange shows Exit as a comparator
- The rates will be made available on official publication



Summary

Managing revenues for Entry Transmission Services

- National Grid has considered on this occasion a revenue deferral out of the Formula Year 2021/22 into Formula Year 2022/23 to manage the “saw-tooth” and the volatile impact on Customers prices.
- It is essential to know this can only be a temporary step to take. It would not remove volatility or the risk of a revenue change driving changes into subsequent years. A future “saw tooth” in revenues and / or prices can be caused by several factors. Only focusing on revenues is not a permanent solution.

Addressing volatility permanently

- Reviewing how volatility manifests via the methodology is important to understand and why the sensitivities on prices can occur, especially on Entry
- Structural aspects of the methodology will need to be reviewed and should be our collective focus to address the causes and drivers of revenue/tariff volatility as a matter of priority

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