

Gas Transportation Charges October 2022

28 July 2022

Update on Non-Transmission Charges for October 2022



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We will start at 15.02 to
allow participants to join
the call



Welcome and Opening

Thank you for joining us today

Slido.com will be used for feedback and for Q&A

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Ian Radley
System Operations
Director

Who will be speaking?

Colin Williams
Charging & Revenue
Manager



Michelle Hocknull
Stakeholder
Engagement Manager – Net Zero



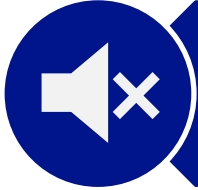
Logistics



This session scheduled for 30 min



Questions via [slido.com](https://www.slido.com) #charging



All callers will be placed on mute. Please switch off videos / microphones.



We will circulate the slides and a recording of this webinar

Agenda

Update on non-transmission charges

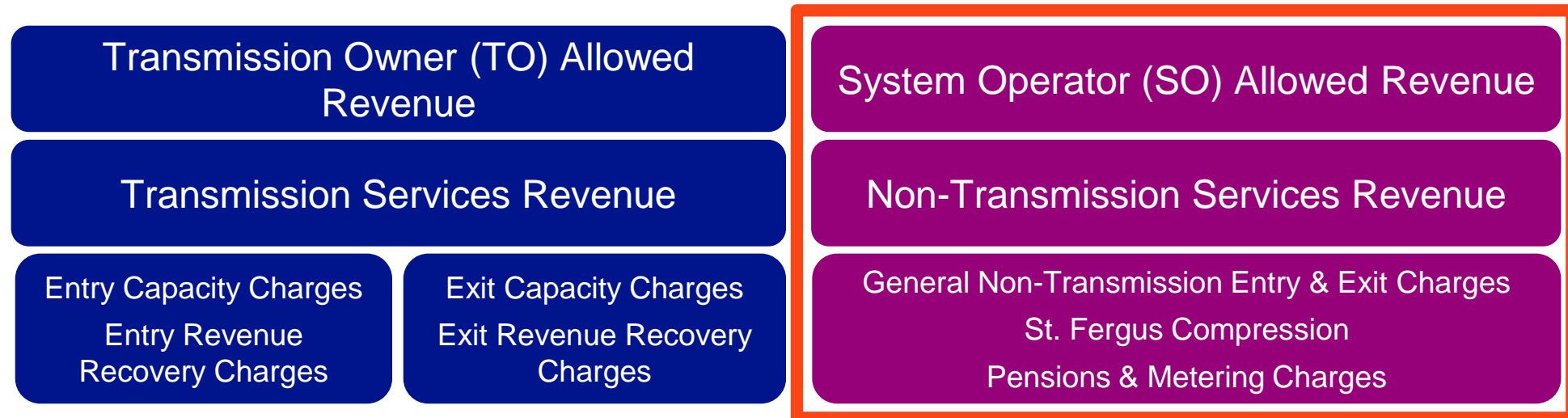
Key drivers for the changes

Challenges and next steps

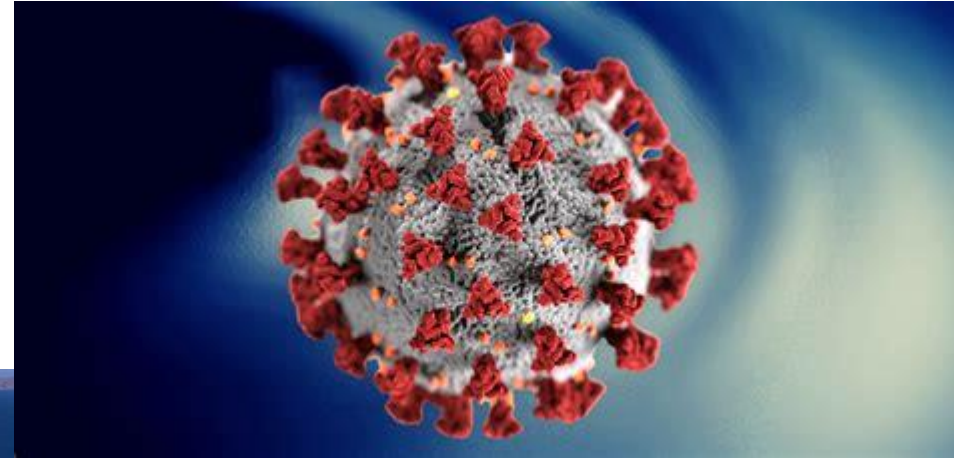
Question and answer session

Gas Charging – Which charges are we talking about?

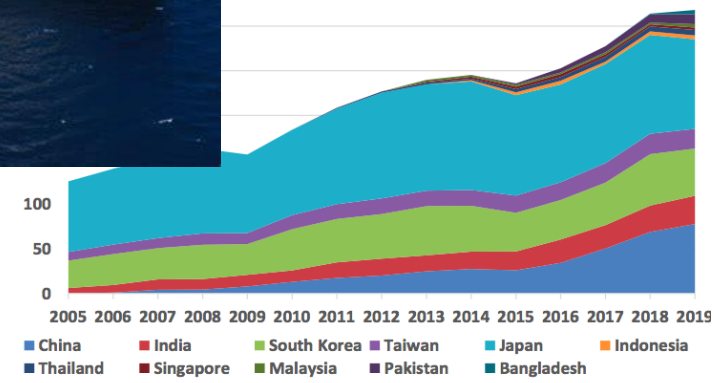
- **Two types of charges** will be effective from 1 October, that will therefore be visible in all invoices issued from November with the ex-post invoicing that takes place.
 - Transmission Services Revenue, which broadly aligns to the Transmission Owner (TO) Revenue, will be recovered by **Transmission 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 Entry & Exit charges**



An unpredictable and unprecedented energy landscape



Nord Stream pipeline



Source: IEA, Platts LNG Service

Revenues and charges for October 2022 and subsequent years

- NTS Shrinkage is energy used in operating the system and other energy which can't be charged to consumers or accounted for in the measurement and allocation process.
- These costs are dominating changes to the System Operator Revenues and have continued to increase this year, predominantly driven by increased Gas price rise. Increased throughput also has an effect.
- The increases have been material and we are keen to provide further clarity and transparency of the overall impact to revenues & how this translates to Customer charges ahead of publication and some proposals to help manage Customer charge volatility.

For the immediate year (i.e. from next October), we must set prices to recover revenues output from the PCFM*, a process each year as part of AIP*.

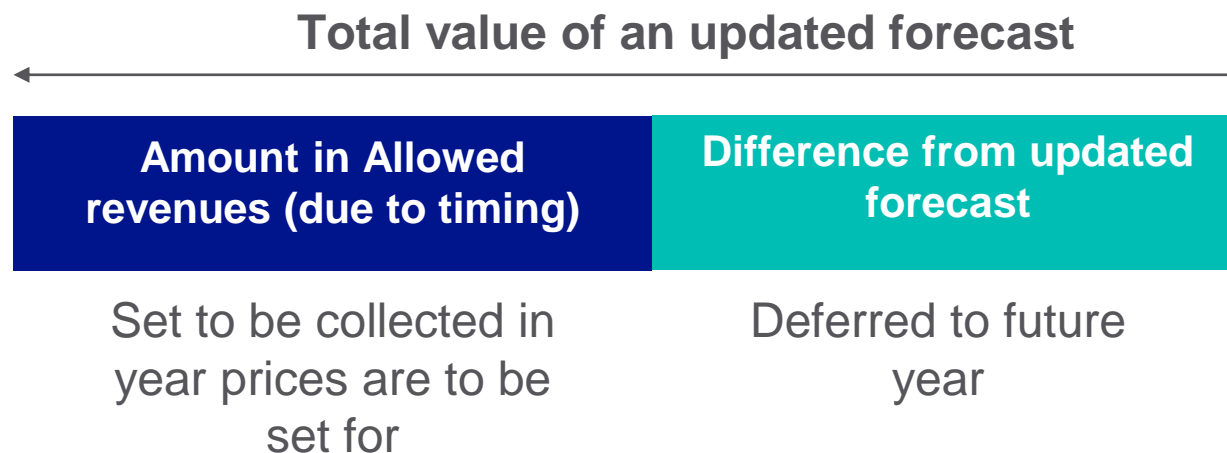
For years beyond this year (i.e. for indicatives) we are updating using our best view of costs/revenues) to provide useful information to Stakeholders.

*PCFM – Price Control Financial Model

*AIP – Annual Iteration Process – the process whereby revenues are produced following the PCFM and PCFM Handbook processes per the Licence

General Non-Transmission Services Charges – indicative view on October 2022

- **Implications of shrinkage costs / revenues**
- We pay all the shrinkage costs and only recover in line with our obligations - this protects consumers
- Where shrinkage costs are higher than the value allowed to be recovered, collection is deferred to a future year
- Shrinkage costs and impacts to revenues have risen significantly and **based on the current market future prices are forecast** to remain at **such** levels for some time



General Non-Transmission Services Charges – indicative view of October 2022

Copy of slide shared at June 2022 Webinar – for reference

- Indicative view of October 2022 using the updated information outputs

Regulatory Year Revenues	Apr 21 – Mar 22	Apr 22 – Mar 23	Apr 23 – Mar 24	Apr 24 – Mar 25	Apr 25 – Mar 26
Allowed Revenues – used as when publishing October 2021 prices	£204.1m	£170.2m	£206.3m	£199.5m	£190.8m
Allowed Revenues – Updated view (PCFM* Feb 2022) – updated for recovered revenues from previous year for (Apr 22 – Mar 23)	£198m	£514m	£249m	£236m	£224m
Allowed Revenues – Updated view	-	£514m	£574m	£392m	£341m

- Using the updated revenues above the resulting indicative General Non-Transmission Charges below
- Rates are set to recover revenues within a Regulatory Year

	October 2021	October 2022	October 2023	October 2024	October 2025
Prices as published for October 2021	0.0092	0.0080	0.0121	0.0089	0.0105
Non Transmission Unit Cost (p/kWh) – using an updated Shrinkage forecast and calculated over 2021 FES volume assumptions	0.0092	<u>0.0399</u>	0.0253	0.0180	0.0190

- These values **will** change as we update the inputs.
- Charges due to be published at the end of July 2022

Updated view - General Non-Transmission Services Charges – Shrinkage Costs and SO Allowed Revenues impacts

- Example of how and when Shrinkage Costs for this year impact SO Allowed Revenues**

- For October 2022 charges, the revenues for the Regulatory Year April 2022 – March 2023 were published in February 2022.
- This mean changes from the inputs to those revenues will not be included until a subsequent year.
- The table below shows our latest Shrinkage forecast that underpin the revenues and illustrates how the impacts to this year (April 22 – March 23) will impact revenues and ultimately Customer charges.

	Apr 21 – Mar 22	Apr 22 – Mar 23	Apr 23 – Mar 24	Apr 24 – Mar 25	Apr 25 – Mar 26
Shrinkage actuals and forecast (July 2022)	£206m	£660m	£499m	£343m	£231m
Values in PCFM Feb 2022 (locked in)	£190m	£286m			
Actuals for Apr 2021 – Mar 22 less previous forecast	£16m				
Forecast in July 2022 compared to PCFM Feb 2022		£374m			
Amounts effectively reconciling into Apr 23 - Mar 24		£390m			

- Therefore due to the costs changing in combination of timing of when revenues can be updated for a given year the Shrinkage costs included into April 23 – Mar 24 is £390m + £499m = £889m
- The limitations on updating revenues is storing up sizeable impacts to future years.

General Non-Transmission Services Charges – indicative view of October 2022

- Indicative view of October 2022 using the updated information outputs

Regulatory Year Revenues	Apr 21 – Mar 22	Apr 22 – Mar 23	Apr 23 – Mar 24	Apr 24 – Mar 25	Apr 25 – Mar 26
Allowed Revenues – Updated view (PCFM* Feb 2022) – updated for recovered revenues from April 21 – Mar 22	£198m	£514m	£249m	£236m	£224m
Allowed Revenues – Updated view (June webinar)	-	£514m	£574m	£392m	£341m
Allowed Revenues – Updated view (July webinar)		£514m	£1,058m	£481m	£359m
Estimated Consumer bill contribution from SO Revenues / Total TO & SO Revenues		£2.96 / £8.15	£6.20 / £12.28	£2.57 / £8.64	£1.80 / £7.87

- Due to increases and timings of updates the biggest revenue impact is in April 23 – March 24 dominated by Shrinkage
- Rates are set to recover revenues within a Regulatory Year. Using the revenues above, this triggers new volatility and potential for ranges in prices we believe **should not be allowed to materialise** due to impacts on Customer charges.

Indicative Non-Transmission Charges	October 2021	October 2022	October 2023	October 2024	October 2025
Prices as published for October 2021	0.0092	0.0080	0.0121	0.0089	0.0105
General Non Transmission Services Charge Unit rate (p/kWh)	0.0092	<u>0.0343</u>	0.0638	-0.0123	0.0368
St Fergus Compression Charge (p/kWh)	0.0169	<u>0.0514</u>			

- These values **may still** change as we finalise the inputs ahead of publication on 29th July.

National Grid

*PCFM – Price Control Financial Model, <https://www.ofgem.gov.uk/publications/gt2-price-control-financial-model>

Challenges and Next Steps

Challenges

- Unforeseen events have had impacts on gas prices being felt across the board
- Unprecedented shrinkage costs which are unpredictable and can change significantly
- The Allowed Revenues can't be updated after a specific date, preventing up to date costs being included, causing volatility in charges
- Non-Transmission Charges will remain volatile without changes to the Licence and UNC provisions.

Next steps

- Changes to the Licence are necessary to manage Customer charge volatility, we propose to review UNC provisions on Non-Transmission Charging
- Engagement with Customers and Stakeholders so that the indicative range in volatility shown today **will not** materialise to charges
- National Grid will provide more updates to customers and stakeholders on revenue forecasts and potential impacts to future prices

Questions

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General Questions

General Regulatory Change Queries

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