

# Gas transmission charging reform

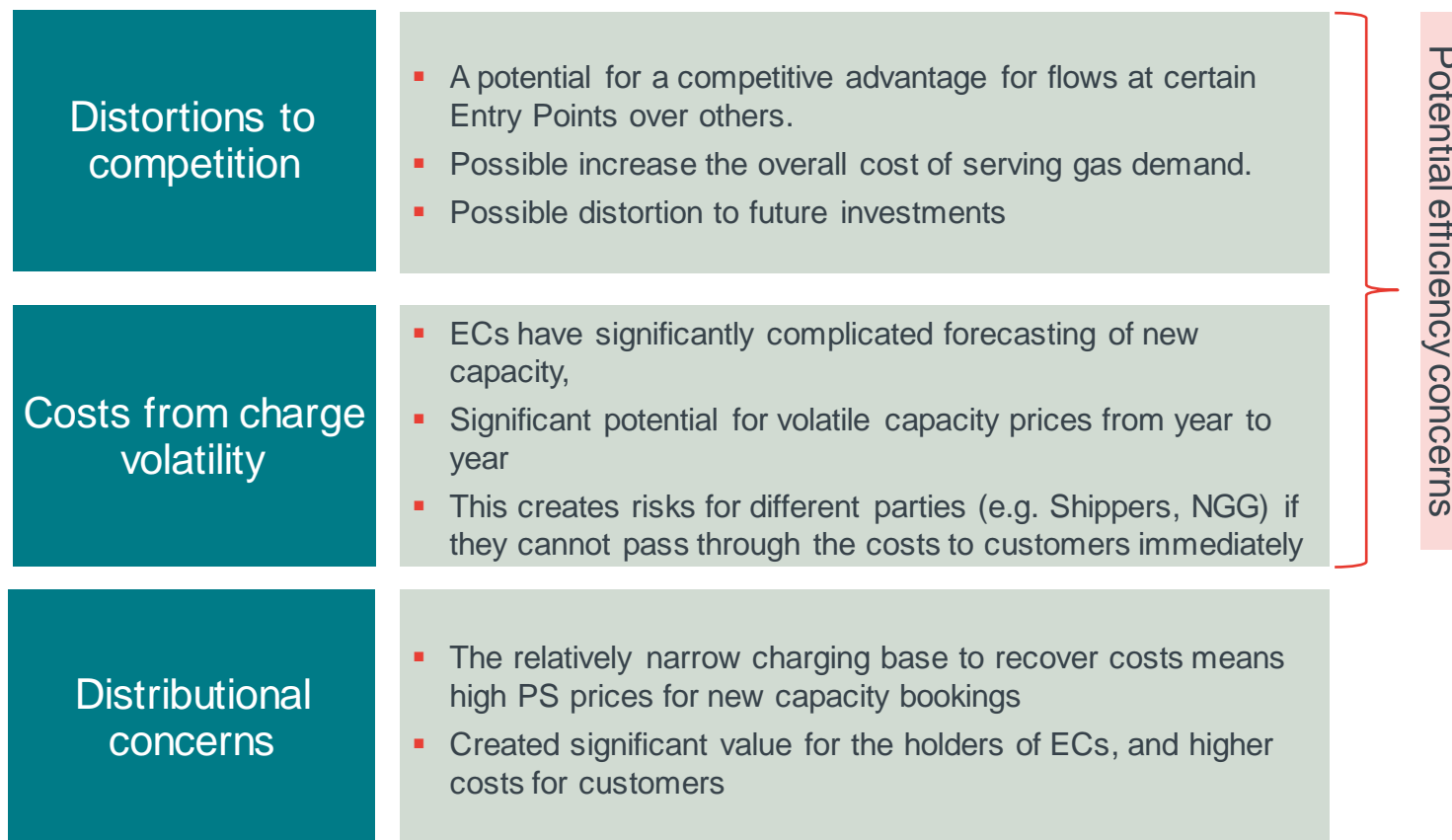
Overview of assessment of National Grid Gas UNC modification proposal relating to the introduction of an entry revenue recuperation charge

November 2021



# The combination of the Postage Stamp and the presence of Existing Contracts (ECs) raises a number of potential concerns

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# We consider the impact of NGG's option in each of these three areas

### "Counterfactual": Current regime

- Allowed Revenue at Entry recovered principally from 'new' Entry Capacity bookings
- New Capacity exposed to full effect of under-recovery driven by forecast errors in capacity bookings

### "Factual": Supplementary flow-based charge

- Percentage of Allowed Revenue at Entry recovered via a new flow-based charge across flows at all Entry Points (except for Interconnection Points)
- ECs are liable to pay a flow-based revenue recovery charge and as a consequence likely forecast error is reduced.

*Potential impacts of the modification (factual, compared to counterfactual)*

### Impacts on competition

- Mixed effects (though unlikely to be material).
- Could reduce existing distortions to dispatch.
- But exempting interconnection from the flow-based charge could create a new distortion.

### Reduced charge volatility

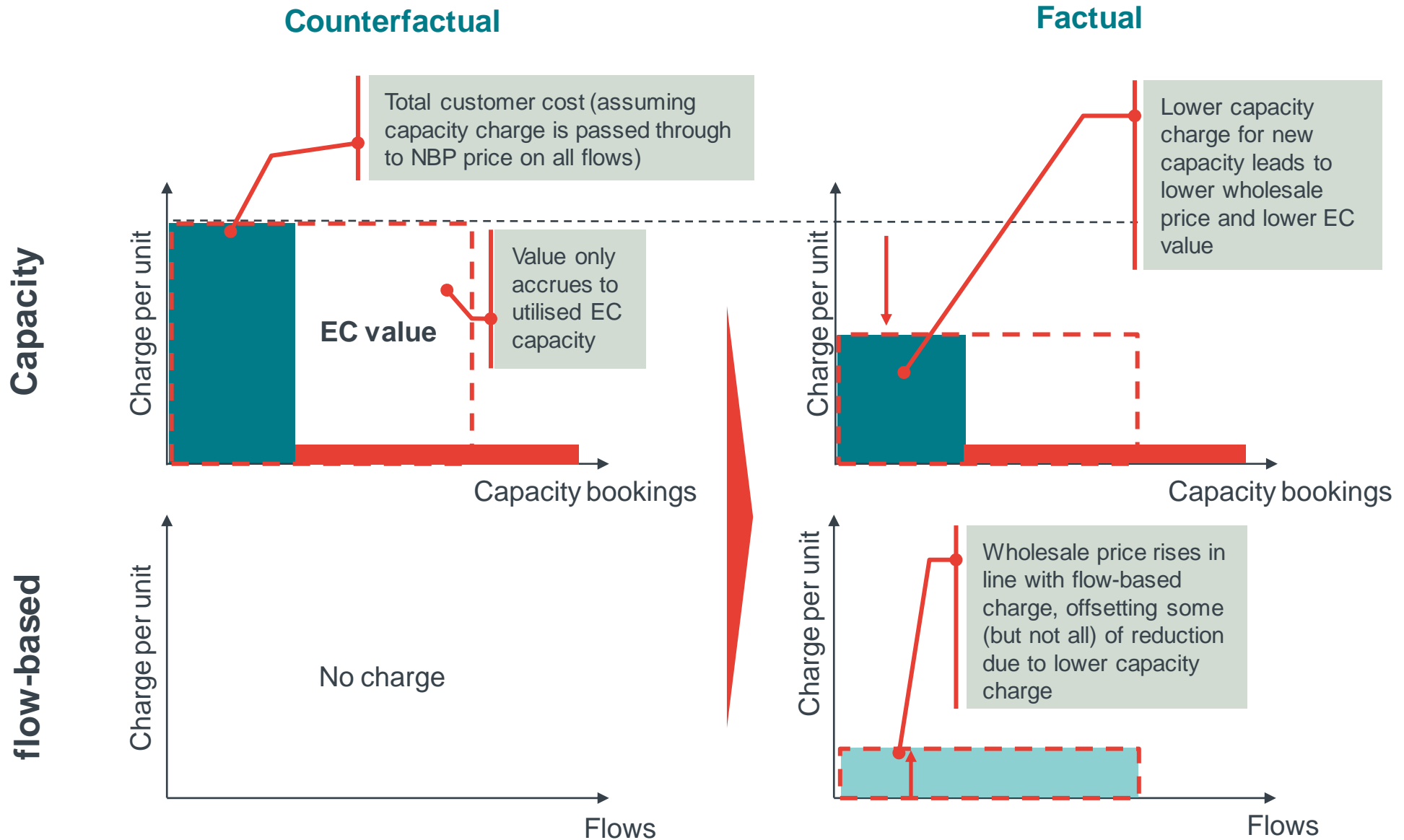
- Could reduce the costs of risk management to the industry.
- While precise savings are highly uncertain, we show that under various assumptions these costs, and hence the benefit of reducing them, are likely to be small.

### Pure distributional impacts

- Assuming total cost of capacity and commodity passed through to NBP, significant potential benefit for consumers (at the expense of EC holders)

*Quantitative assessment*

# Distributional impacts - widening the charging base leads to a reduction in the value of the ECs and the cost to consumers





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