Non-Transmission Charging Reforms

NTSCMF

11.01.2024

Overview

- NTSCMF development of Non-Transmission reforms for October 24 implementation has now been concluded.

- Although the revenue deferral, UNC 0847 and UNC 0857 will deliver significant improvements to the Non-Transmission charging arrangements, there remain issues which require further discussion and potentially further reforms for October 25.

- The timing of when updated views on costs (e.g. shrinkage) can be included to Allowed Revenues can cause substantial reconciliations, which can add to volatility and result in costs from one year impacting charges in another.

- These reforms aim to bring closer alignment between the tariffs and market related costs at the time, facilitating a more accurate recovery of costs and reducing the impact of reconciliations than can span multiple years.

Proposed Workgroup Discussion Plan

High level plan for workgroup discussions as presented in December:

December:

- Set out timeline and plan for discussions
- Discuss the issues and what any changes should aim to achieve?
- Stakeholder opportunity to provide initial views on issues, key considerations and potential options

January:

- NGT to present high level options for consideration and discussion by industry

February onwards:

- More detailed discussions and option development based on feedback received

Potential Changes

- There are a number of changes we could potentially make to the regime that would address the issues raised in different ways.
- The following slides present some high level thoughts on what changes could be made and what impact they may have.
- NGT does not have a “preferred” option at this stage, and some options presented may turn out not to be feasible.
- The options are presented to invite discussion on what may or may not be feasible and what solutions would be preferred ahead of more detailed development.

Review the ability to update Non-Transmission Revenues and tariffs within year

- Update all of the elements that make up Non-Transmission Revenues and the GNTS charge on a more regular basis.
- Updates within year would allow for changes to revenues and tariffs to account for any mid-year changes to costs.
- Could include review of notice period and fixed tariff period with a number of different options available for notice/fixed tariff periods.
- More frequent updates should reduce both the size and timescales of reconciliations but the extent would depend on the notice and fixed period introduced.
- What would be the impacts to industry of more regular revenue and tariff updates?

Remove volatile elements from the GNTS charge and charge these separately

- Remove the volatile elements (Shrinkage) from the GNTS change and create a separate charge to recover these costs.
- New charge could then be updated on a more regular basis with an appropriate fixed period decided.
- Appropriate fixed period would need to be decided but could be as frequently as monthly or as infrequently as bi-annual.
- Appropriate notice period would also need to be developed.
- May require a licence change as well as UNC change.
- The closer the time between incurring and charging costs, the closer it aligns to market related costs on customers.
- Reconciliations could be ongoing and frequent (e.g like balancing charges) or year to year (e.g like k).
- What would be the impacts on industry of this option?

Introduce a provision for tariff updates under certain circumstances

- Introduce a mechanism for within year updates should a certain threshold be met.
- Could be a condition to changing either to Non-Transmission Revenues/tariffs or just the volatile elements on a more regular basis.
- If costs were forecast to increase or decrease past an agreed threshold, introduce the right to re-set tariffs.
- Forecasts could be reviewed on a periodic basis and reported back to industry if threshold for change is likely to be met.
- Should reduce reconciliations and volatility as tariffs would remain as they are if market is stable but introduce flexibility to change with the market should we experience another period of volatility.

Alternative method of managing volatility and reconciliations without more frequent tariff updates

- Volatility and reconciliations could be managed without more frequent tariff updates, instead using a cash reserve that could “pay” for the volatility when required until the next tariff period.
- A ring-fenced reserve could be built up over time and then used under certain circumstances when needed to help reduce the impact of market volatility and reconciliations into future years.
- This is similar to a mechanism that has been introduced for BSUoS in electricity.
- Could help manage volatility by lessening the impact of any mid-year cost spikes and reducing any reconciliation amount.
- Would require increased tariffs in the period where the fund is built up and would lower tariffs when used.
- Could worsen the effect of parties paying for costs reflective of the use of the system at the time due to additional charges during the period when the fund is built up and lower charges during period of use.
- Are there any other potential options that are worth considering?

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