NTSCMF Action update: Action 1001

March 2023

Overview

- As part of Action 1001 under NTSCMF an opportunity to discuss Non-Obligated Capacity and Overruns under the topic on the NTSCMF Issues Tracker – this specifically brought up due to the different treatment for Entry and Exit

- Non-Obligated Exit Capacity revenues contribute towards the SO Revenue Recovery.
  - Exit has no neutrality process, the revenues remain contributing to revenue collection
  - Entry is part of Capacity Neutrality – returned in the same month.

- Non-Obligated Entry and Exit Capacity also forms one element of the Constraint Management Incentive that adjusts the allowed revenues. Forecast for this included into PCFM and therefore charges. Any reconciliation against actuals, adjusts the next year.

- Any recovery different to forecast for Non-Obligated Exit Capacity adjusts the SO Revenues accordingly in next year. Therefore the position (diff to actual for t-1) adjusts the Non-Transmission Charges, notably the General Non-Transmission Charges for the next year.

- It is helpful to refer to this alongside the Revenue Mapping document (https://www.gasgovernance.co.uk/sites/default/files/ggf/2021-12/Determination%20of%20Target%20Revenues%20and%20Recovery%20v0.2.pdf)

Revenue treatment and charge setting – Non-Obligated Capacity

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Requirements for treatment / charge setting – Non-Obligated Capacity & Overruns

- Non-Obligated Capacity is defined in National Gas Licence as a System Operator Activity
  - This is the reason for its inclusion towards the SO Revenue Recovery

- All capacity is priced together as part of charge setting and setting auction Reserve Prices. Non-Obligated is a capacity product, thereby attracting a capacity charge. As it offered as a product with other capacity products this is included as part of Transmission Services.

- No forecasts are made for overruns when charge setting, an inherent assumption is that flows are optimised to capacity bookings and there is no purposed overruns.

Materiality – Non-Obligated Capacity

- Non-Obligated Capacity is forecasted as part of Entry and Exit Capacity Reserve Price calculations

Non-Obligated Capacity	Forecast in Oct 22 Charge Setting	Actuals (Oct 22 to Dec 22)	Average (Oct 22 to Dec 22)	Average (May 22 to Sept 22)
Exit	£16,991,733	£15,000,506	£5,000,169	£1,101,506
Entry	£2,127,206	£451,395	£150,465	£487,333
Total	£19,118,939	£15,451,902	£5,150,634	£1,588,839

- The level of Non-Obligated is included within the Forecasted Contracted Capacity determinations. A forecast of the Non-Obligated capacity revenues is also made to help determine Transmission Services and Non-Transmission Services target revenues.

Materiality – Overruns

- Overruns summary (summarised from data provided at Transmission Workgroup in February 2023)

Non-Obligated Capacity	Forecast in Oct 22 Charge Setting	Actuals (April 22 to November 22)
Exit	£0	£22,151,302
Entry	£0	£4,345,563
Total	£0	£26,496,865

- Typically this has not been this high, a few instances have made this disproportionately high for this year to date.

Revenue collection, Licence, charging & Reconciling

For each of the four elements:

- Non-Obligated Entry
- Non-Obligated Exit
- Entry Overruns
- Exit Overruns

To facilitate the discussion under Action 1001, this is a summary of the treatment under charge setting, how revenue recovery is treated and how, where applicable reconciliations of recovery to target (forecasted) adjust charges and when.

Charge Setting & Reconciliations across years

	Charge Setting	Recovery (UNC)	Recovery (Licence)	Reconciliation versus target
Non-Obligated Entry Capacity	Capacity volume forecasted as part of FCC. No revenue assumed as there is a net zero contribution as monies returned via Capacity Neutrality process.	Any Revenue is returned to Shippers via Capacity Neutrality.	Recovery and Return part of the SO Revenue collection (i.e. net zero impact)	Any impact would be dependent on the use of Obligated Capacity. (e.g. if all obligated capacity forecasts were accurate and only Non-Obligated varied, there would be nothing to reconcile).

Charge Setting & Reconciliations across years

	Charge Setting	Recovery (UNC)	Recovery (Licence)	Reconciliation versus target
Non-Obligated Exit Capacity	Capacity volume and Revenue forecasted as part of charge setting. Value of revenue is Transmission Services under the UNC	Transmission Services Revenue	System Operator Revenue	If the recovered value is greater than forecasted (i.e. part of charge setting), all else being equal it would reduce the Non-Transmission Services charge in the next year. For an under recover to forecast, it would increase the Non-Transmission Charge in the next year.

Charge Setting & Reconciliations across years

	Charge Setting	Recovery (UNC)	Recovery (Licence)	Reconciliation versus target
Entry Overruns	None assumed as charging assumes flows will be matched with capacity.	Not a Transportation charge – returned to Shippers via a process in Section B similar to capacity neutrality.	Recovery and Return part of the SO Revenue collection (i.e. net zero impact)	No impact to charges

Charge Setting & Reconciliations across years

	Charge Setting	Recovery (UNC)	Recovery (Licence)	Reconciliation versus target
Exit Overruns	None forecasted as charging assumes flows will be matched with capacity.	Not a Transportation charge so not in Section Y. Different to Entry (not returned via a neutrality type mechanism). If there are any Exit overruns, the revenue contributes towards System Operation Revenue collection.	If there are any Exit overruns, the revenue will contribute towards SO Revenue collection.	If there are overruns, as there are none forecasted as part of charge setting, all else being equal it would result in an over recovery on the SO. Subsequent year would see an adjustment to reduce Non-Transmission charges.

Reflections for discussion

- Given this material, what are Stakeholder views under Action 1003?
- Non-Obligated Capacity – main difference is that Entry is not part of revenue collection whereas Exit is.
- Overruns – main difference is that Entry is neutral for revenue impact and Exit contributes towards revenue collection, if there are any Exit overruns.
- Historically for both Non-Obligated Capacity and Overruns, levels of revenues referred to have been very low. Under the new methodology values are higher by virtue of reserve prices being higher.
- General Non-Transmission Services charging – single rate for Entry and Exit. Reconciliations impact across Entry and Exit irrespective of how driven.
- The current structure has been in place for some time for Non-Obligated Capacity and overruns. One question on the action has been to question degrees of ‘cross-subsidy’. It is worth noting that there has always been a degree of one charge impacting another.

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Thank you

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