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

Distortions to competition	▪ A potential for a competitive advantage for flows at certain Entry Points over others. ▪ Possible increase the overall cost of serving gas demand. ▪ Possible distortion to future investments	Potential efficiency concerns
Costs from charge volatility	▪ ECs have significantly complicated forecasting of new capacity, ▪ Significant potential for volatile capacity prices from year to year ▪ This creates risks for different parties (e.g. Shippers, NGG) if they cannot pass through the costs to customers immediately	
Distributional concerns	▪ The relatively narrow charging base to recover costs means high PS prices for new capacity bookings ▪ Created significant value for the holders of ECs, and higher costs for customers	

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