

**Gas
Transmission**

Transmission Charging Review – Reviewing Post- 0790 decision

6th December 2022

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Agenda

Revisiting Transmission Entry charges & impact of Existing Contracts

UNC0790 decision not to implement - reflections

GCD Paper - Options for discussion / development / modelling

Next Steps

Introduction and Stakeholder involvement

- The aim of this presentation is to highlight the **continued impact of Existing Contracts** within the charging framework; and
- Reflecting on this influence, taking on board the decision not to implement UNC0790, **discuss options that could address the pricing disparity** notably on Entry charges between prevailing reserve prices and Existing Contracts.
- In considering **how best to capture views and inputs** on the assessment and development we are looking to use NTSCMF and National Grid led consultations before any potential modification.
- **Stakeholder input is essential.** We welcome inputs, comments and questions to capture up-to date views on the charging methodology and Existing Contracts and feedback on potential options to consider & assess to consider how to take any changes forward.

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Transmission Entry charging: Impact of Existing Contracts

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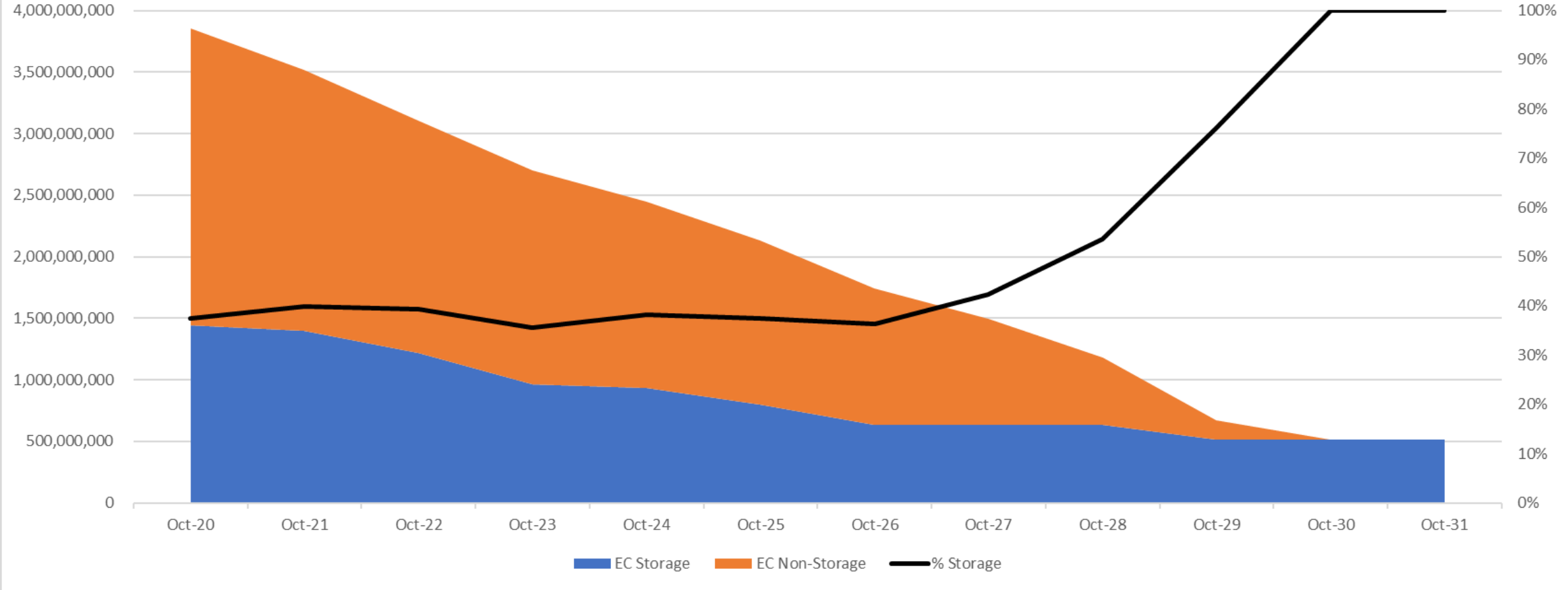


Impact of Existing Contracts

- Existing Contracts are Long Term Entry Capacity allocated before the introduction of the EU Tariff Network Code (TAR NC) on 6 April 2017.
- These Existing Contracts, embedded into the UNC as part of 0678A, are effectively made up of two components in:
 - Existing Registered Holdings; and
 - Existing Available Holdings.
- At the simplest level they offer price protection from prevailing capacity rates, which they influence, and an exemption from any Transmission Services Entry (Capacity based) Revenue Recovery charges.
- Existing Contracts still retain a significant impact to Transmission Services Entry Capacity reserve prices leaving large price disparity between some Existing Contract prices and the prevailing rates for 'new' capacity.
- Existing Contracts in the manner they are accommodated into the Charging Methodology, even though they reduce over time, will continue to have a significant influence for some years

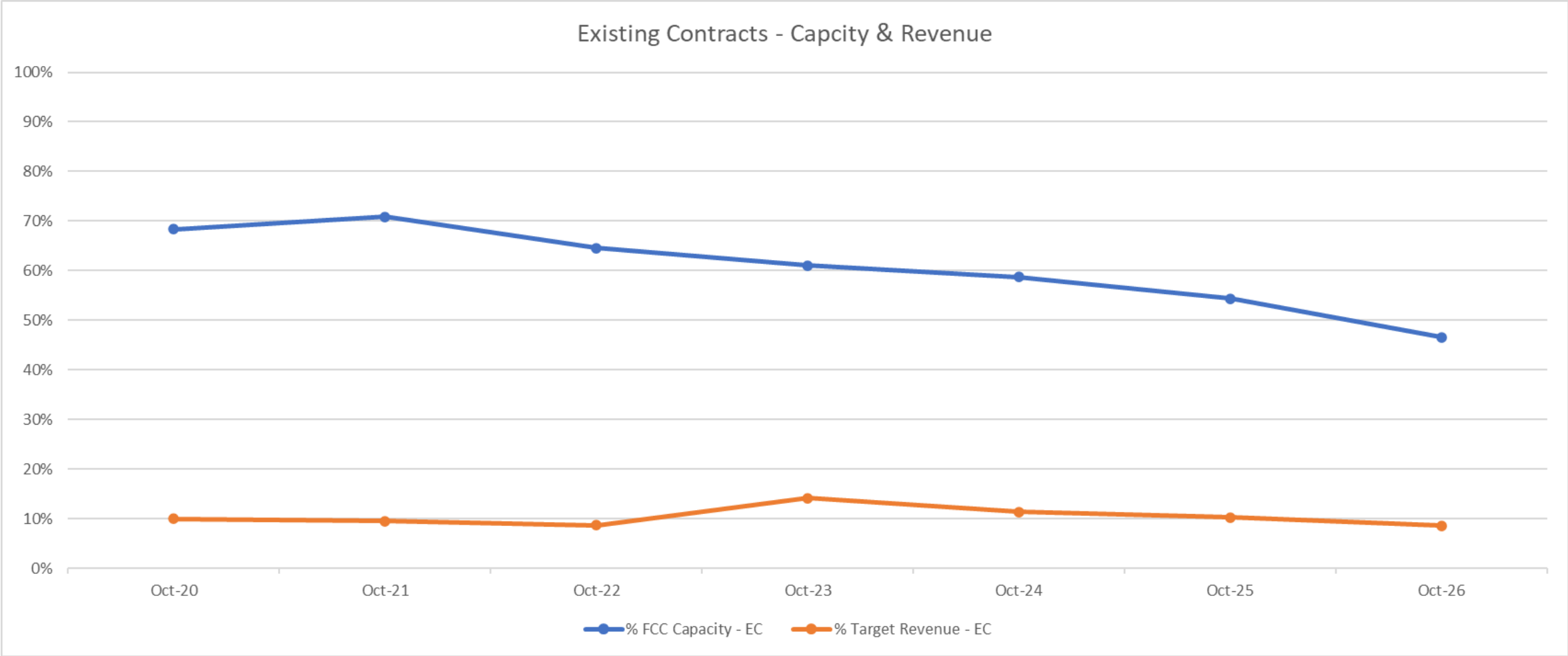
Impact of Existing Contracts

Existing Contract Capacity - Storage and Non-Storage



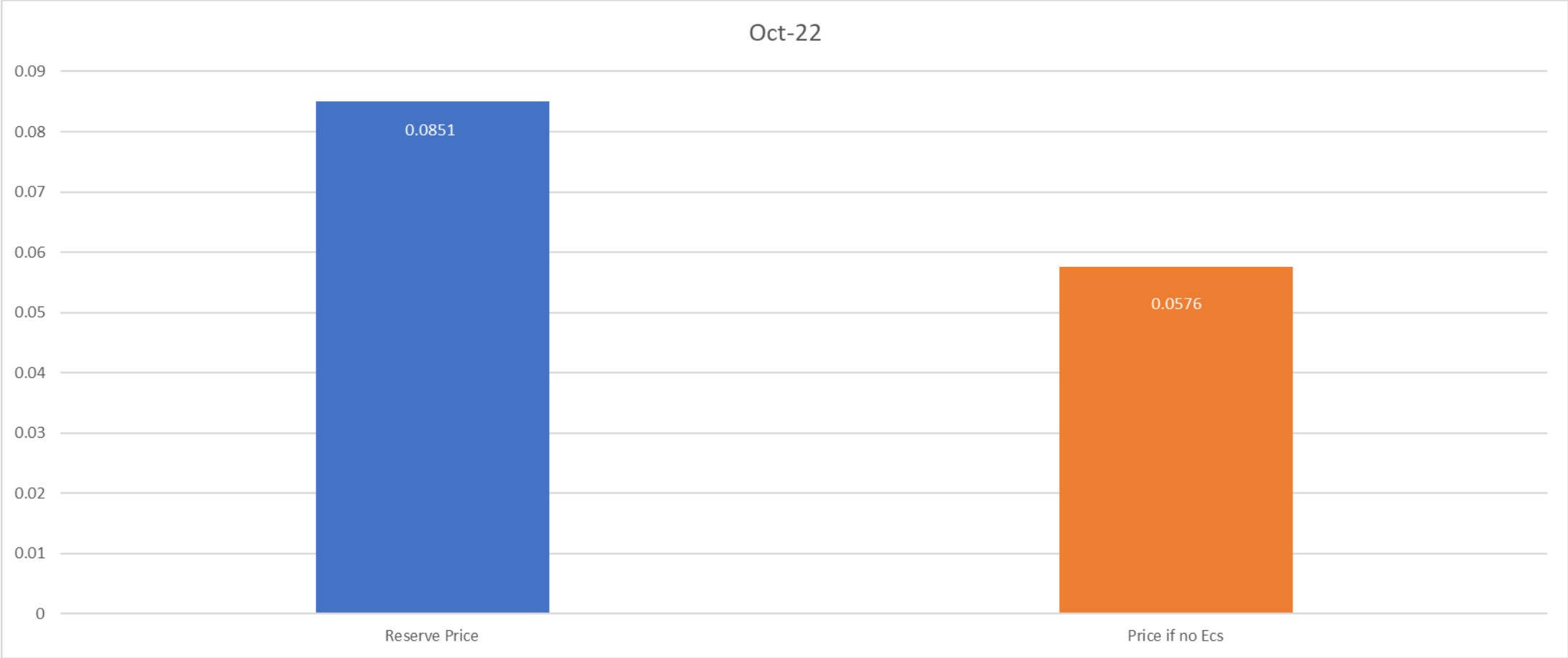
Existing contracts are in place until GY 2030/31, they show a steady drop off in volumes over that time. For that final Gas Year, 100% of Existing Contracts are held at Storage Points.

Impact of Existing Contracts



Over the next five years, Existing Contracts reduce from 65% to 45% of Forecasted Capacity bookings, but on average only contribute 10% of the expected Revenue.

Impact of Existing Contracts



Without the influence of Existing Contracts, the Entry Transmission Service rates would be reduced from 0.0851p/kWh for GY 2022/23 down to 0.0576p/kWh. The presence of Existing Contracts in this period drives up the Entry TS rates by 0.0275p/kWh, 47.7% higher than the expected rate.

Impact of Existing Contracts: Summary

- In summary:
 - Existing Contracts currently make up a significantly higher proportion of Forecasted Entry Capacity bookings than the 10% of expected Entry Transmission Services Revenue that they contribute.
 - i.e. new Entry Capacity Bookings, generate 90% of Entry Transmission Services Revenue.
 - Existing Contracts currently drive up the Entry TS rates by 47.7% from the rate calculated without the influence of Existing Contracts, 0.0275p/kWh in monetary terms.
 - From GY2028/29 onwards more than half are held at Storage Sites and so impact will begin to decrease at this time as Storage Points are already entitled to an 80% reduction in Transmission Services rates and so there differential in prices is lower.
 - The final Existing Contracts expire in GY 2030/31.
- UNC0790 was proposed as a means to try to address these price impacts.
- Next we reflect on what 0790 aimed to do, what it proposed and the decision not to implement 0790 and consider takeaways for discussion.

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UNC0790 & Decision not to implement

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0790 - Proposal and Decision

- UNC0790 proposed a new commodity charge levied on all Entry flows (except storage) that was based on the influence of Existing Contracts in determining capacity charges.
- Its objective was to reduce price disparity while working within the boundaries of the Entry Transmission Services charges.
- Ofgem decided not to implement UNC0790 and noted a few specific elements in this decision
 - [Ofgem Decision Letter UNC0790](#)
 - Ofgem said they considered 0790 furthered some Relevant Objectives and negatively impacted others. It was furthered for competition based ROs and viewed negatively on ROs on grounds of compliance.
 - Of note, Ofgem said of the 0790 methodology and the price ‘gap’:
 - *“...we note that a modification proposal that would levy the additional charge only on existing contracts would be more effective than UNC790 in closing the price gap between existing contracts and new contracts.”*
 - In making the decision Ofgem also said “We expect industry to bring forward a new modification proposal to address existing contracts as soon as possible, in line with the legal analysis set out in this decision.”

0790 Decision – discussion points

- In the decision to not implement UNC0790, a number of points were highlighted in Ofgem's letter:
 - Ex-ante price setting if considering Article 4(3)(b) would not be permitted for any new charge
 - The method to determine the commodity charge as a consequence of capacity charges was not considered compliant
 - The price disparity between Existing Contracts and 'new' capacity subject to prevailing rates is considered negative for competition
 - 0790 would have somewhat mitigated that the price paid for the same service would be reduced. They note a more focused charge only on Existing Contract would be more effective in reducing this price gap.
- Whilst not exhaustive of all that would need to be taken into account, all these points would need to be considered in any option that may ultimately form a UNC change proposal

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Options / Input for development

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Development of Options following 0790 Decision

- We see merits in discussing options that would impact Entry but also those which would have impacts to Exit, to assess any benefits of such options.

- Entry only:

- A new commodity charge focused only on (utilisation of) Existing Contracts
- A new commodity charge focused on Entry flows (taking on board views on 0790)
- A review of Existing Contracts and their flexibility / use into the future

- Entry and Exit:

- Discuss / review the Entry / Exit split, that is currently 50/50 to Entry / Exit for Transmission Services.
- A new commodity charge focused on all flows

- These are purely options we feel have merit in discussing and seeking Stakeholder views on, and are not an expression of preference from National Grid

Approach to Development of Options

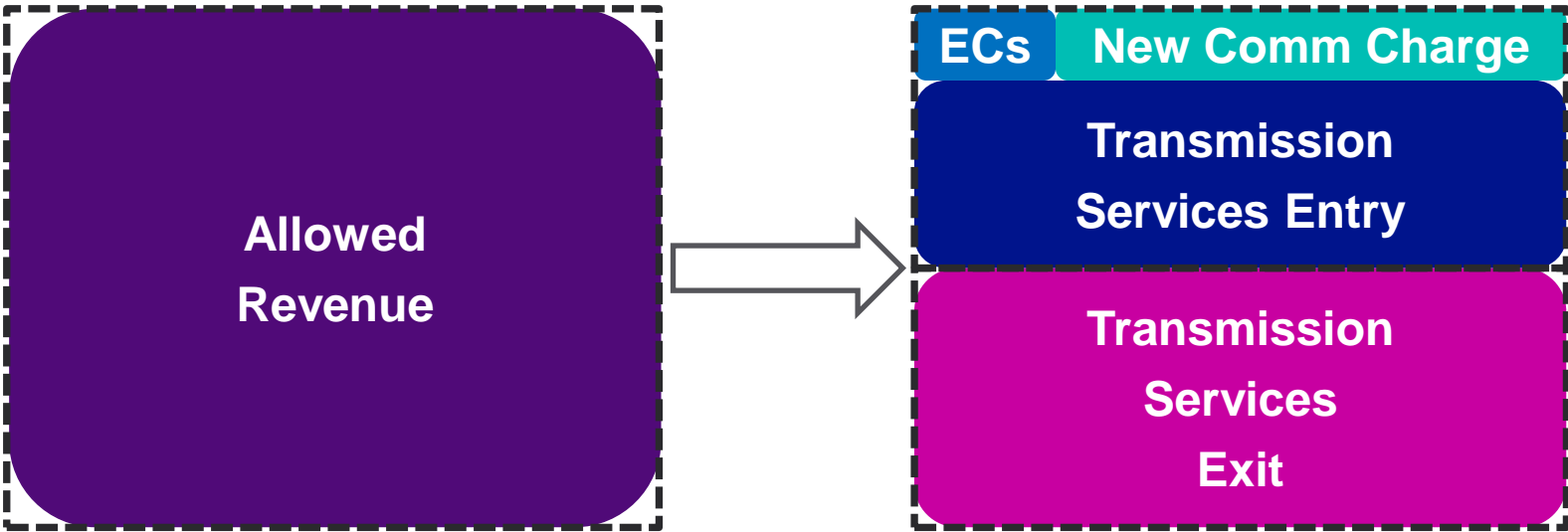
- The aim is to build some options that can be developed, assessed and commented on to form a basis to consider next steps for any potential future change.
- Our purpose in this session is to enable each option to be discussed and critiqued so that they can be included into a Gas Charging Discussion Document for further review.
- This is not an exhaustive list, we welcome thoughts on these plus any others that may be helpful to include.
- We have tried to think about how each could impact the Charging Methodology and how they could be implemented. This may not be the only way, but we hope it provides a basic understanding to allow you to relate to the potential approach.
- Each option provides:
 - a brief description
 - a simplified method of implementation
 - a non-exhaustive list of things that are worth being aware of and would need to be considered

Option 1:

A new commodity charge based on Utilisation of Existing Contracts

The decision letter from Ofgem suggested a charge set to replicate the Commodity Charges applicable (and therefore expected) under the previous Charging Regime, with a potential link or reference to the LRMC methodology used prior to GY 2020/21.

The Commodity Charge is calculated before the Capacity rates, and not as a consequence of the Capacity Charges.



Option 1:

A new commodity charge based on Utilisation of Existing Contracts

How a charge levied against flows, based on the usage of Existing Contract Capacity, could work:

Apply over all Existing Contract Capacity using [Existing Available Holdings] held at the specific Aggregate System Entry Point except those at [Storage Connection Points/Interconnectors/LNG Terminals].

Apply at each ASEP for each Shipper for each Gas Day based on the Minimum of the amount of flow at the point and the amount of Existing Available Holdings.

This sets the limitation and which value to use for flows to be measured against. ECs are split between Registered and Available.

Once Existing Contracts expire, methodology should out-turn a figure of zero for future years.

Option 1:

A new commodity charge based on Utilisation of Existing Contracts

Considerations:

Capacity Hierarchy:

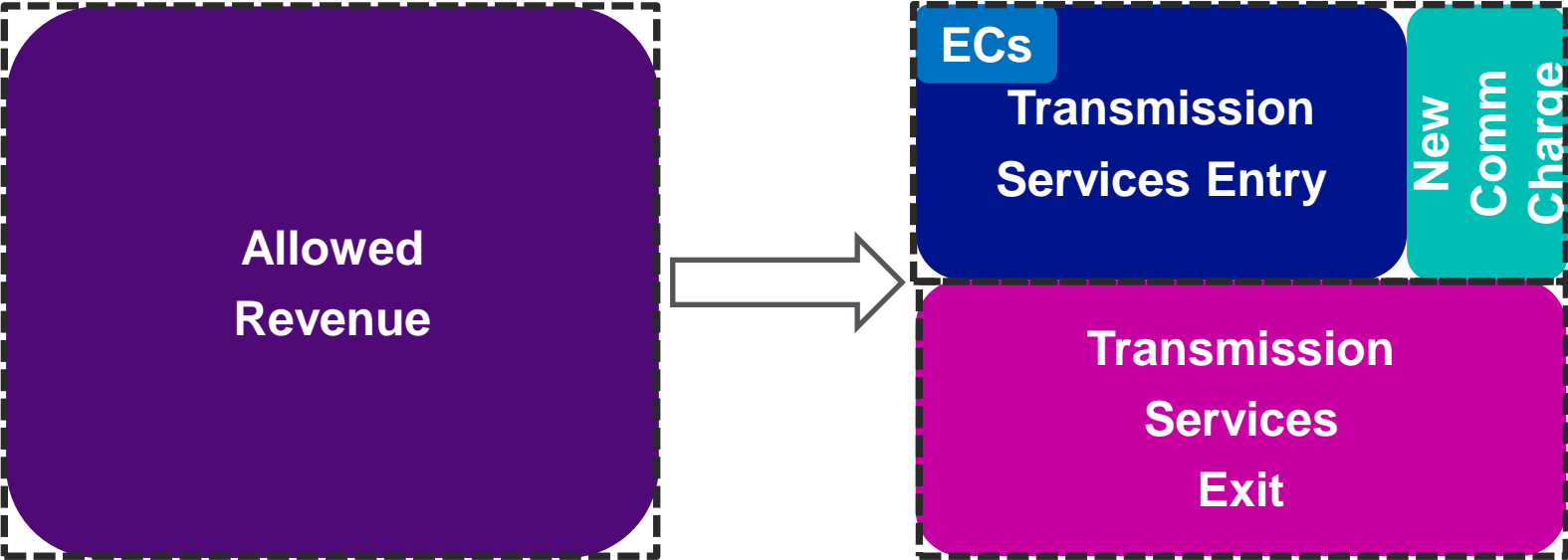
- Do we assume Existing Holdings are flowed against first and the additional charge is to be applied up to level of Existing Holdings?
 - Who holds the Existing Contract for the purposes of levying a commodity charge?
 - Use Existing Available Holdings rather than Existing Registered Holdings?
-
- Commodity may need to be calculated before Capacity in the methodology.
 - Should any exemptions or discounts be offered?
 - How or if to accommodate CNCCD (“Shorthaul”)
 - What considerations should be made if a users EC rate combined with the flow rate exceeds the standard Capacity rates?
 - Needs to comply with how TAR NC is currently embedded in UK Law.

Option 2:

A new commodity charge applied to Entry flows

A charge levied against all Entry Flows, regardless of Capacity type.

Available (which accounts for things like trades pre 2017) feels more suited. However, it must recognise this effectively splits the EC between the party liable for the capacity (invoiced) and the available volume (ability to use).



Option 2:

A new commodity charge applied to Entry flows

How a charge levied against Entry flows could work:

The Transmission Services Entry Flow Charge (EFC) will be payable as a flow-based charge in respect of all Entry Gas Allocations (i.e. Entry Gas Allocation multiplied by the EFC rate) at all System Entry Points [except those at Storage Connection Points and Interconnection Points] ('Qualifying Entry Points').

The EFC is set via an iterative calculation that takes into account the flows that will attract 100% of the rate and those Entry Eligible Quantities (EQ) that will attract a discount in line with the Conditional NTS Capacity Charge Discount, if applicable.

Transmission Services Allowed Revenue at Entry is the total revenue to be collected by Transmission Services Entry Revenue minus known Existing Contract Revenue.

Transmission Services Entry Flow Revenue is the proportion of the Transmission Services Allowed Revenue at Entry to be collected by the Transmission Services Entry Flow Charge (EFC).

Option 2:

A new commodity charge applied to Entry flows

Considerations:

- No Capacity Hierarchy issues to consider
- Commodity may need to be calculated before Capacity in the methodology.
- Should any exemptions or discounts be offered?
- How or if to accommodate CNCCD (“Shorthaul”)
- Ofgem’s rejection leads us to some necessary changes required to the original 0790 proposal decision to make this compliant with TAR NC.
- What considerations should be made if a users EC rate combined with the flow rate exceeds the standard Capacity rates?

Option 3:

A review of Existing Contracts, their flexibility and usage

Restrictions are put in place to limit the flexibility of Existing Contracts, or potentially end date those currently in place.

How this could look in practice:

- Entry Existing Contract Capacity can only be used by the party which has bought the capacity (before 06 April 2017) and has the available capacity at the time of implementation.
- No other trades can take place on this capacity after the implementation date.
- Existing Contracts are excluded from values displayed in any Gemini screens used for Trade & Transfer processes.
- Limitations or restrictions could apply from a specified, future date.

Option 3:

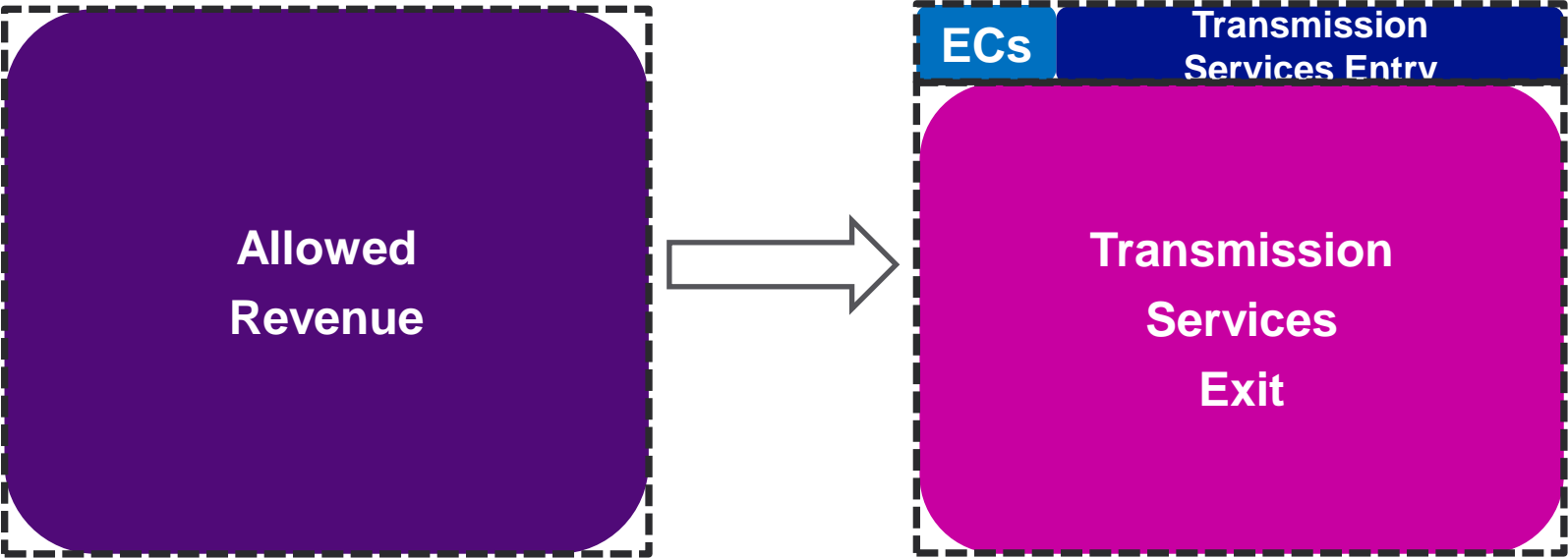
A review of Existing Contracts, their flexibility and usage

Considerations:

- Users were able to use the trade and transfer process at the time of purchasing, creating an inconsistency, though the scale of the impact at that time was unforeseen.
- Some Existing Contracts have already been traded.
 - Does this create a disparity in treatment?
- Needs to comply with how TAR NC is currently embedded in UK Law.
- Impacts on Existing Contracts and Capacity in general if there are restrictions or limitations applied from a future date.

Option 4: Review of the Entry:Exit split

Any modification which looks to address the Entry Exit split, would likely move the burden of cost further to Exit which by default would reduce the Entry Transmission Services Rates, and may bring standard rates more closely in line or potentially below Existing Contract Rates.



Option 4:

Review of the Entry:Exit split

How this could look in practice:

- No new charges to be raised, but this change would impact existing rate calculations, typically this would mean a greater proportion of Revenue applied to Exit than to Entry.

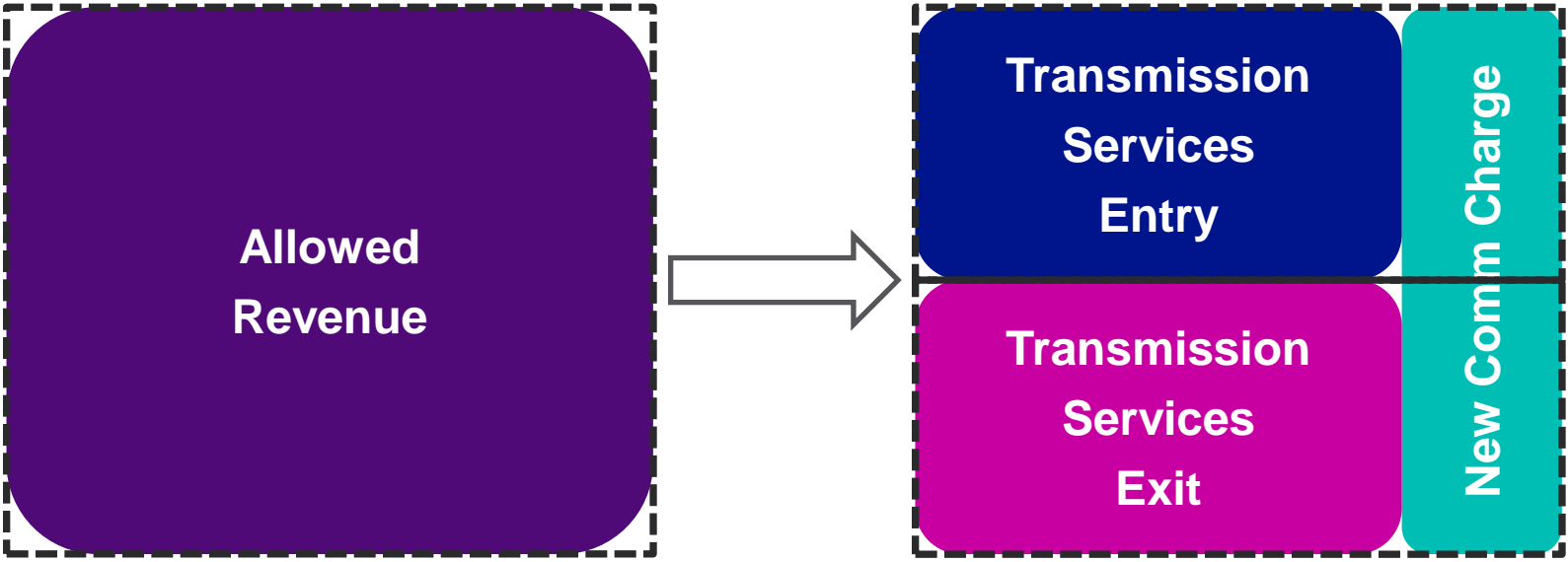
Considerations:

- This is a mechanism used around Europe with no TAR conflict.
- Justification of need to move the existing 50:50 split.
 - Further justification required to define the new ratio.
 - Should the ratio be fixed or could it be dynamic?
- What considerations should be made if a users EC rate exceeds the standard Capacity rates?

Option 5:

A new commodity charge applied to all flows

A charge levied against all Flows, Entry & Exit, regardless of Capacity type.



Option 5:

A new commodity charge applied to all flows

How this could look in practice:

The Transmission Services Flow Charge will be payable as a flow-based charge in respect of all Gas Allocations (i.e. Gas Allocation multiplied by the rate) at all System Points [except those at Storage Connection Points and Interconnection Points] ('Qualifying Points').

The rate is set via an iterative calculation that takes into account the flows that will attract 100% of the rate [and those Eligible Quantities (EQ) that will attract a discount in line with the Conditional NTS Capacity Charge Discount, if applicable].

Transmission Services Allowed Revenue is the total revenue to be collected by Transmission Services Revenue minus known Existing Contract Revenue.

Transmission Services Flow Revenue is the proportion of the Transmission Services Allowed Revenue to be collected by the Transmission Services Flow Charge.

Option 5:

A new commodity charge applied to all flows

Considerations:

- Commodity may need to be calculated before Capacity in the methodology.
- Should any exemptions or discounts be offered?
- How or if to accommodate CNCCD (“Shorthaul”)
- Needs to comply with how TAR NC is currently embedded in UK Law.
- This would impact both Entry and Exit charges.
- What considerations should be made if a users EC rate exceeds the standard Capacity rates?

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Next Steps

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Next Steps

- Develop, share and publish a Gas Charging Discussion Document. Issued by National Grid, to seek views on:
 - The impacts of Existing Contracts and their influence in the Charging Methodology;
 - Options related to Entry charging and potentially wider;
 - Potential modifications to take forward following feedback and discussion;
 - On any option, taking into account the points raised in Ofgem's letter on 0790 and the decision not to implement.
- On review, if any are to be taken forward, focus would be on October 2024 as a potential implementation date.
- Using NTSCMF as the principle industry forum to discuss these topics.