

Gas Transmission

RIIO2

NTSCMF 11 February 2020

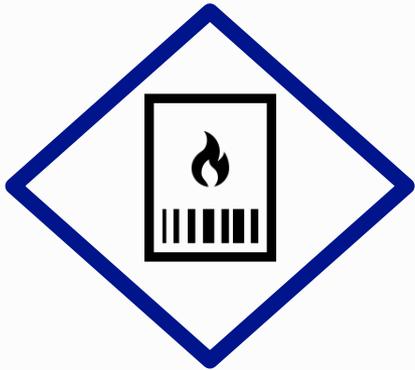
Business Plan updates



nationalgrid

Why do we need the right financial framework?

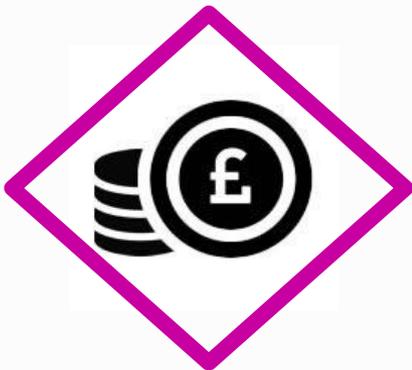
A balanced package is key in ensuring value for consumers



Current and future consumers being fairly charged for the network they use and the services they receive.



Balanced risk and reward, aligning consumer and shareholder requirements drives optimal outcomes



Bridging the financing gap efficiently



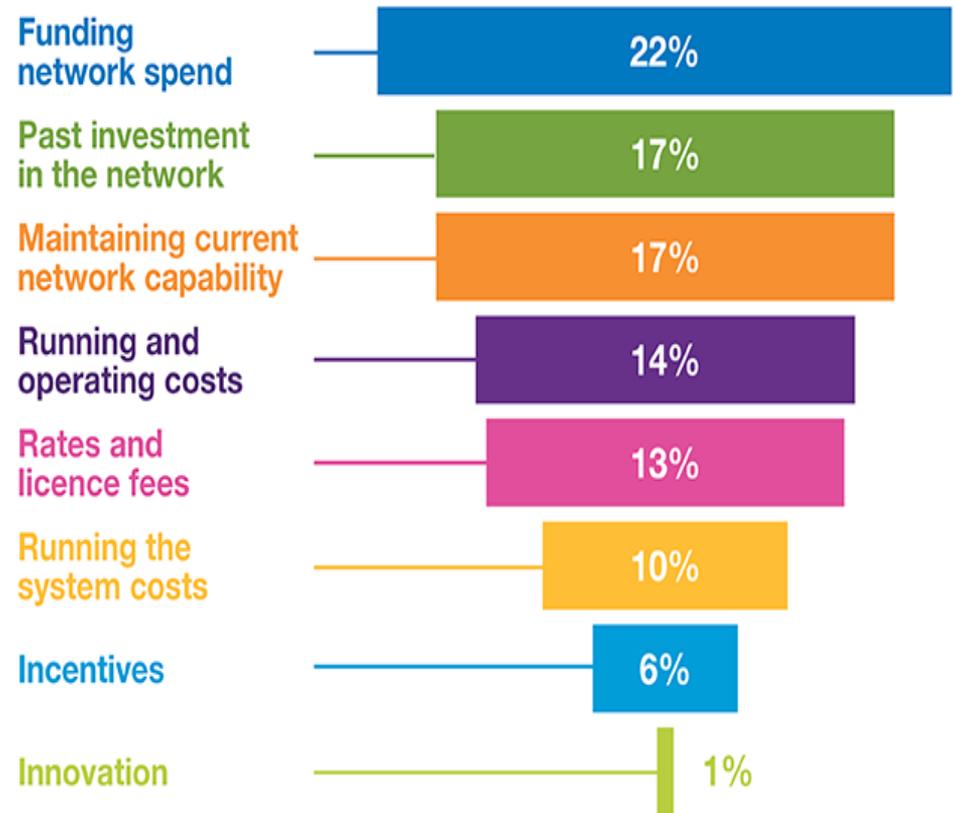
Balancing short term benefits with long term sustainability

What are the impacts for the billpayers?

RIIO-2 bills comprise elements relating to our RIIO-2 plan and past investment

- Regulation makes sure that our charges represent an efficient cost for the services we provide, whilst also allowing us to invest in the transmission networks.
- These services are provided across the industry, and we use a proxy consistent with Ofgem's methodology to calculate the consumer component of the bill.
- Suppliers book capacity to take gas off the Transmission system and it is this revenue which form the basis of our consumer bill calculation

Bill components categorised by revenue driver*



* Based on RIIO-1 financial parameters and current demand assumption

Revenues and potential impact on tariffs

Presentation of our revenues was revised from the July to the December plan

Forecast revenue charged through entry and exit customer charges

National Grid framework £bn (2018/19 price base)	RIO-2 average	RIO-1 average
July draft submission	1.02	1.05
Presentational difference Removal of directly collected costs	(0.10)	(0.11)
July draft submission re-presented	0.92	0.94
December submission	0.97	0.92

July to December : RIO-2 update of totex plan, GSO costs (e.g. shrinkage, constraint management), pass through costs.

RIO-1 alignment to 2018/19 RRP submission, update of 2019/20 and 2020/21 forecasts.

Forecast percentage changes in entry and exit charges

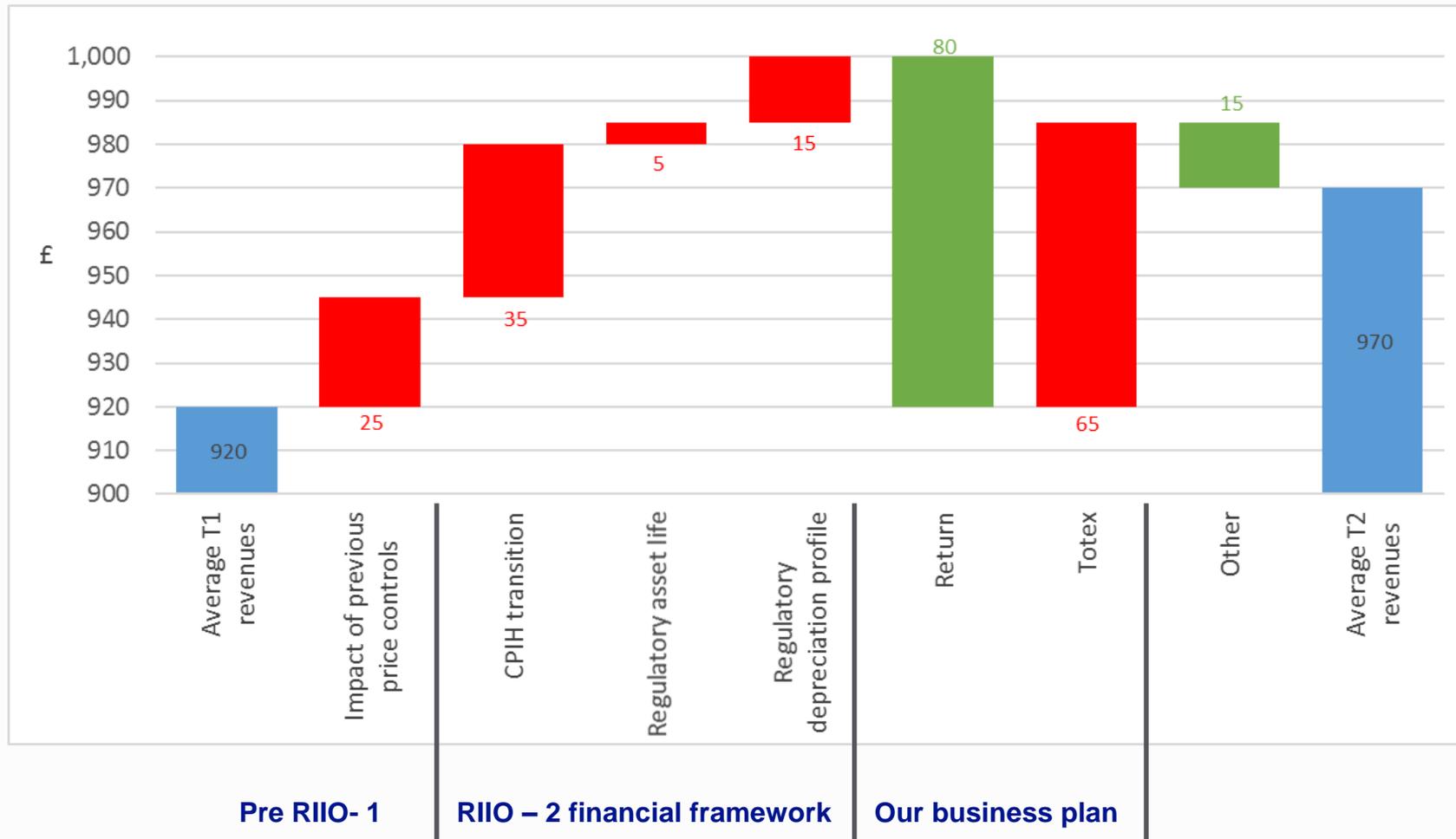
National Grid framework (2018/19 price base)	Change from RIO-1 average to RIO-2 average	Change over RIO-2 (2021/22 to 2025/26)
Average entry charges	+1%	+4%
Average exit charges	+1%	+4%

Assuming demand remains at 2020/21 levels and changing methodology does not change from that in force in 2018/19

What are the impacts of our plan for the billpayers?

We can describe the change in average revenues through 7 key drivers

Drivers of forecast revenue (18/19 prices)

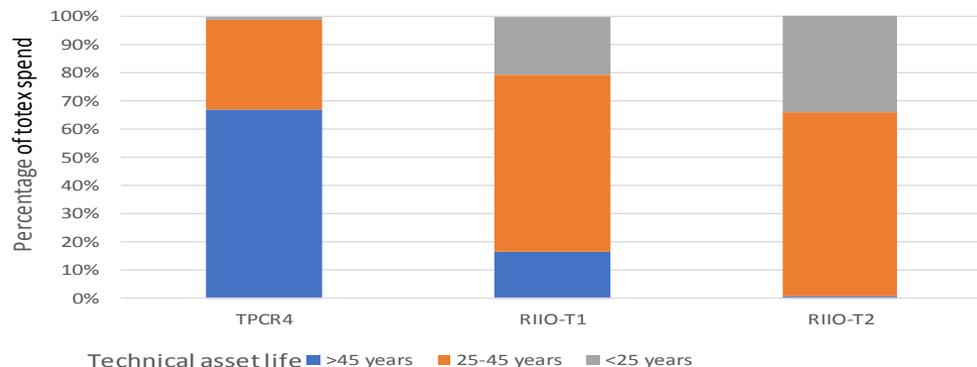


What is our proposal for depreciation and asset lives?

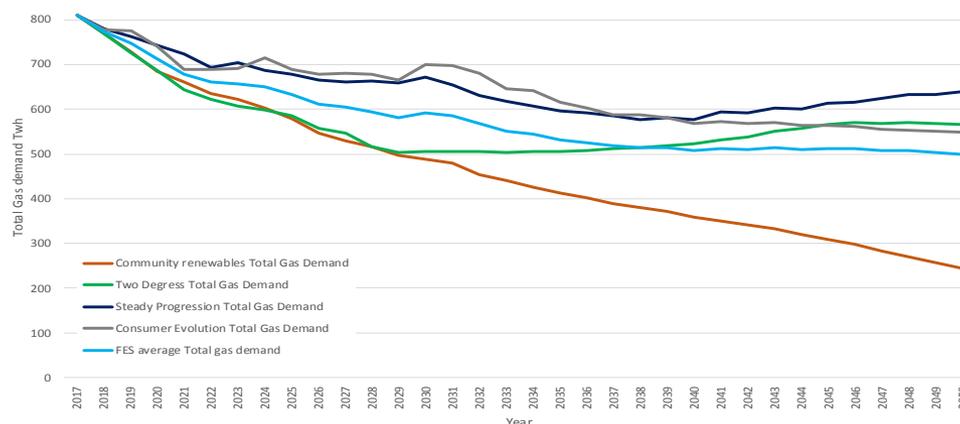
We aim to reflect the networks services provided to customers in the depreciation charge

- There are two aspects which determine the regulatory depreciation profile:
 - the length of time over which the investment is to be recovered; and
 - the phasing of the costs charged to the customer base over the asset life.
- Our proposal is to adjust asset lives to **25 years** (from 45 years) and change the depreciation method to **sum of digits** (from straight line)

Changing work mix reduces technical asset lives for new additions



Gas demand declines under the four FES18 scenarios



RIIO2: Tariff Impacts

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Indicative RIIO-T2 tariff impacts
(incorporating Action 905)



RIIO-T2: Tariffs – Assumptions (1/2)

- **General Assumptions**

- Revenues used based on Business Plan proposals for Transmission only
- Uses revenue values that include, where appropriate, adjustments (e.g. Revenue adjustments such as MOD or equivalent)
- Transmission Services Revenues are applied as equivalent to a Tariff (Gas) Year (i.e. using a regulatory year and applying this revenue to a tariff year) to illustrate the potential change over the T2 period
- Models Transmission Services Entry and Exit Capacity Reference / Reserve prices only
- Shows specific tariff values for firm capacity (i.e. not interruptible tariffs)
- Tariffs are in nominal terms (i.e. uses a forecast of 2021/22 revenues inclusive of forecast inflation to calculate 2021/22 tariffs)

RIO-T2: Revenues and Tariffs – Assumptions (2/2)

- **Details of Capacity Calculation:**

- 0678 (and alternatives) are currently with Ofgem for decision
- We have modelled here using 0678A Postage Stamp (PS) Transmission Services Reference Price Methodology only, based on the Ofgem Minded to Position, this in no way assumes the outcome from the 0678 governance with Ofgem including any potential effective date;
- Uses Forecast Contracted Capacity (FCC) in line with the FCC methodology contained in 0678.
- Tariffs are “fully adjusted” to cater for storage discount (50%) interruptible (10%).
- Existing Contracts treated as per 0678A (i.e. have their capacity price as per their allocation. Revenue and capacity values are netted off in the calculation)
- Does assume a base starting from an updated proposal away from the current methodology and for simplicity shows using 0678A.
- Capacity reference/reserve prices are not comparable to those 0678A Modification pages. Using the revenues as outlined ensures a consistent approach so that the T1 and T2 numbers presented are on the same terms and can be readily compared.

Indicative Entry Capacity Prices under T2 base revenues

Entry Point Type	T1 - 2020/21 - Firm Capacity Reserve Prices (p/kWh/d)	T2 - 2021/22 - Firm Capacity Reserve Prices (p/kWh/d)	T2 - 2022/23 - Firm Capacity Reserve Prices (p/kWh/d)	T2 - 2023/24 - Firm Capacity Reserve Prices (p/kWh/d)	T2 - 2024/25 - Firm Capacity Reserve Prices (p/kWh/d)	T2 - 2025/26 - Firm Capacity Reserve Prices (p/kWh/d)
STORAGE SITE	0.0226	0.0242	0.0236	0.0231	0.0216	0.0212
INTERCONNECTION POINT	0.0453	0.0484	0.0472	0.0462	0.0431	0.0425
BEACH TERMINAL	0.0453	0.0484	0.0472	0.0462	0.0431	0.0425
ONSHORE FIELD	0.0453	0.0484	0.0472	0.0462	0.0431	0.0425
BEACH TERMINAL	0.0453	0.0484	0.0472	0.0462	0.0431	0.0425
STORAGE SITE	0.0226	0.0242	0.0236	0.0231	0.0216	0.0212
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LNG IMPORTATION TERMINAL	0.0453	0.0484	0.0472	0.0462	0.0431	0.0425
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STORAGE SITE	0.0226	0.0242	0.0236	0.0231	0.0216	0.0212
INTERCONNECTION POINT	0.0453	0.0484	0.0472	0.0462	0.0431	0.0425
BIOMETHANE PLANT	0.0453	0.0484	0.0472	0.0462	0.0431	0.0425
BEACH TERMINAL	0.0453	0.0484	0.0472	0.0462	0.0431	0.0425
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ONSHORE FIELD	0.0453	0.0484	0.0472	0.0462	0.0431	0.0425

Indicative Percentage Difference in Entry charges (flat average)

	Change from 2020/21 to 2021/22	Change from 2021/22 to 2022/23	Change from 2022/23 to 2023/24	Change from 2023/24 to 2024/25	Change from 2024/25 to 2025/26
Percentage Difference	+7%	-2%	-2%	-7%	-2%

- 20/21 calculated as if on PS
- The percentages above are relative the preceding year;
- They include the treatment of Existing Contracts, which will have both a revenue and volume impact when calculating the tariffs;
- They represent a year to year change only (from 21/22 onwards);
- These are “flat” averages

Indicative Average Exit Point Type Capacity Prices under T2 base revenues

Row Labels	Average of T1 - 2020/21 - Firm Capacity Reserve Prices (p/kWh/d)	Average of T2 - 2021/22 - Firm Capacity Reserve Prices (p/kWh/d)	Average of T2 - 2022/23 - Firm Capacity Reserve Prices (p/kWh/d)	Average of T2 - 2023/24 - Firm Capacity Reserve Prices (p/kWh/d)	Average of T2 - 2024/25 - Firm Capacity Reserve Prices (p/kWh/d)	Average of T2 - 2025/26 - Firm Capacity Reserve Prices (p/kWh/d)
GDN (EA)	0.0180	0.0202	0.0206	0.0222	0.0229	0.0236
GDN (EM)	0.0180	0.0202	0.0206	0.0222	0.0229	0.0236
GDN (NE)	0.0180	0.0202	0.0206	0.0222	0.0229	0.0236
GDN (NO)	0.0180	0.0202	0.0206	0.0222	0.0229	0.0236
GDN (NT)	0.0180	0.0202	0.0206	0.0222	0.0229	0.0236
GDN (NW)	0.0180	0.0202	0.0206	0.0222	0.0229	0.0236
GDN (SC)	0.0180	0.0202	0.0206	0.0222	0.0229	0.0236
GDN (SE)	0.0180	0.0202	0.0206	0.0222	0.0229	0.0236
GDN (SO)	0.0180	0.0202	0.0206	0.0222	0.0229	0.0236
GDN (SW)	0.0180	0.0202	0.0206	0.0222	0.0229	0.0236
GDN (WM)	0.0180	0.0202	0.0206	0.0222	0.0229	0.0236
GDN (WN)	0.0180	0.0202	0.0206	0.0222	0.0229	0.0236
GDN (WS)	0.0180	0.0202	0.0206	0.0222	0.0229	0.0236
INDUSTRIAL	0.0180	0.0202	0.0206	0.0222	0.0229	0.0236
INTERCONNECTOR	0.0180	0.0202	0.0206	0.0222	0.0229	0.0236
POWER STATION	0.0180	0.0202	0.0206	0.0222	0.0229	0.0236
STORAGE SITE	0.0090	0.0101	0.0103	0.0111	0.0114	0.0118
Grand Total	0.0173	0.0194	0.0197	0.0213	0.0219	0.0226

Indicative Percentage Difference in Exit charges (flat average)

	Change from 2020/21 to 2021/22	Change from 2021/22 to 2022/23	Change from 2022/23 to 2023/24	Change from 2023/24 to 2024/25	Change from 2024/25 to 2025/26
Percentage Difference	+12	+2	+8	+3	+3

- 20/21 calculated as if on PS
- The percentages above are relative the preceding year;
- They represent a year to year change only (from 21/22 onwards);
- These are “flat” averages

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