

Gas System
Operator

Capacity Access Review

Transmission Workgroup
9th January 2020

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CAR Plan for today's Workgroup

- December Workgroup's aims;
 - Long-term ambition
 - Specific issues caused by the short-term problems
 - Agree Workplan

- January Workgroup's aims:
 - Overview of Long-term ambition Consultation
 - Capacity Overrun Options

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Long-term ambition consultation

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CAR Long-term Ambition Consultation

Purpose of Consultation:

- To seek feedback on “what” we want a future capacity access regime to deliver through testing the ambition statement and required functions
- To seek feedback on the approach to establishing the long-term capacity access regime
 - Developing the “what” now and the “how” being developed as part of the GMaP process
- To understand whether there are any other short term issues not already identified
- To reach a wider audience than Transmission Workgroup

CAR Long-term Ambition Consultation

Development since last WG:

- Ambition statement is amended in the Consultation to reflect the need for the future capacity access regime to be “dynamic to enable new uses of the NTS and new User’s to access the NTS” (Action 1201)
- Wording around “minimal disruption” in the ambition statement has been amended (Action 1202)
- Short-term issues table has not been amended to include the BBL capacity issue in [square brackets]. Due to publication of Ofgem’s initial impact assessment and minded to position for accessing baseline capacity at Bacton IP (9th December), BBL were happy for this to not be included in the CAR short-term issues list (Action 1203)

Timescales

- The consultation will be published mid-January and will close on Thursday 20th February

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Overrun Charges

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Overruns – Principles

Introduction: The industry has recently expressed concern that with the upcoming implementation of the new Charging Regime the overrun charges will rise, as these are calculated using the highest accepted daily auction bid price multiplied by 8 (and these reserve prices are set to increase). There is also a concern regarding a lack of manifest error provisions which may result in overrun charges, though conversely, the removal of zero price products may result in shippers making bookings more closely aligned with actual requirements.

Principles

- ‘Ticket to ride’ principle remains the fundamental aspect of the capacity regime
- The ticket to ride principle is underpinned by Overrun charges, which provides shippers with commercial incentives to purchase the capacity they require to flow gas. The lower the overrun, the weaker the incentive to purchase Capacity
- 100% of Entry Overrun charges are initially smeared back to Shippers on a monthly basis via capacity neutrality
- Entry overruns are one of the NTS Constraint Management Incentive revenue components (56% of which is returned to shippers)
- Charges apply on Exit when flows exceed aggregate capacity holdings
- 100% of any revenues generated from NTS Exit overruns is being passed back to Users through reduced SO commodity charges

Entry Overruns - History

2000 onwards: multiple rejected proposals attempting to reduce Entry overrun charges: 0401, 0589...

Ofgem concluded that these proposals may reduce the incentive on shippers to acquire capacity rights to cover their intended flows and could increase the risk of shippers under-booking capacity.

0341 – Manifest errors in Entry Capacity Overruns – 2011 Ofgem concluded that the proposal was too broad in its scope and could undermine the commercial incentives to operate in a reasonable and prudent manner. Ofgem was also not convinced that it would be appropriate for the proposal to apply retrospectively from April 2010.

0426 - Amendment to the NTS System Entry Overrun Charge (Removal of zero charges) – 2012 rejected by Ofgem on basis of significant proportion of implementation costs falling on consumers while commensurate benefits have not been demonstrated. The four year period analyzed in the FMR only shows benefits of £37,000 which is small relative to the potential implementation costs of up to £102,000.

Whilst the Workgroup (0426) appreciated the importance of cost reflectivity across the regime, it is its view that the overrun charging components are primarily an incentive for Shippers to purchase capacity consistent with their flow requirements and therefore are not necessarily reflective of the costs incurred by National Grid NTS as a result of an overrun (quote from the 0426 Final Modification Report) .

Revenue from overrun charges

ENTRY		
Financial year	Total Charge Amount (£)	Charge Quantity (kWh)
17-18	2,299,116	2,214,403,275
18-19	391,142	350,723,880
19-20 (up until 13th Oct)	508,850	3,524,888,523

EXIT		
Financial year	Total Charge Amount (£)	Charge Quantity (kWh)
17-18	675,682	755,854,623
18-19	561,792	709,922,425
19-20 (up until 13th Oct)	109,509	406,715,778

Change to revenue following implementation of UNC Modification 0678A

The table below demonstrates potential increase of entry overrun charges based on Postage Stamp model introduced in UNC Modification 0678A. The Reserved Price for Daily Capacity was taken into account to envisage the potential fee increase.

Year 18/19	(£)
Actual Entry Overrun charges (highest bid price x 8)	543,707.17*
Potential Actual Entry Overrun charges updated with Reserved Prices for Daily Standard Capacity (Postage Stamp) x 8	1,138,852.40**

** Fees based on 18/19 Capacity Rates. 18/19 TO Commodity Charge was added to existing 18/19 rate to more accurately demonstrate the difference in fees (in the new Charging Regime TO Commodity Charge will be incorporated in the Capacity rate).*

*** As auctions are likely to increase daily prices, the figure demonstrated in the table is likely to raise further accordingly.*

Options

Option 1: Reduce the multiplier from x 8 to the closest multiplier which will enable collection of similar transporter allowed revenue *(further analysis would be required to arrive to accurate figures)*

Multiplier	Actual charges Year 18/19 (including TO charges)	Charges 18/19 updated with Reserved Prices for Daily Standard Capacity (Postage Stamp)
x8	543,707.17	1,138,852.40
x6	445,921.87	854,139.30
x4	348,136.21	562,426.20
x2	250,350.54	284,713.10

Options

Option 2: No change

Charging components to remain as is, primarily creating an incentive for shippers to purchase capacity consistent with their flow requirement. Putting in place appropriate control system in place to monitor capacity booked and gas flows are User's responsibility.

Option 3: No change, with Manifest Error provision

Attempts at introducing Manifest Error provisions were not supported in the past. Concerns suggested that the manifest error could undermine and weaken the existing obligations, incentives and penalties that exist to support prudent industry operation and behaviour.

Option 4: Make overrun rules at NTS Entry and Exit points consistent

Current NTS Exit rules apply overrun charges when flow exceeds aggregate capacity holdings while at NTS Entry points each shipper is charged for the quantity of gas overrun was incurred for.

Manifest Error

- **Scope** - Would it be applicable to overrun input errors only?
- **Independent procedures** – Who would determine the outcome, do *they* have enough knowledge to make a decision? How quickly do they make decisions?
- **Timescales** – How quickly after the error has occurred does the Manifest Error needs to be claimed?
- **Value of fee (Threshold)** – Is there a minimum overrun charge incurred which would make it Manifest Error valid?
- **Criteria for Manifest Error** – What is the nature of proof which needs to be presented for the Manifest Error procedure to be considered? What are the ‘basis’ of the error which could be considered valid?
- **Remedial Action** – What level of charges should be paid instead of overrun charges incurred?

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