



Revision to the Determination of Non-Transmission Services Gas Year Target Revenue

NTSCMF

03.10.2023



Overview

- The current methodology to set the target revenue for Non-Transmission charges only considers Allowed Revenue for Formula/Regulatory Year (Apr – Mar) that ends in the Gas(Tariff) Year (Oct – Sept).
- This Proposal would revise the method used to determine Gas Year target revenue by considering the Allowed Revenue for both Formula Years that make up the Gas Year instead of only focusing on the Formula Year that ends in the Gas Year as is currently done.
- The aim is to reduce impacts on tariffs from revenue volatility that has been highlighted from recent conditions that were not previously evident for SO (Non-Transmission) Revenues
- The Mod forms part of NGT’s wider strategy to manage Non-Transmission charge volatility as discussed in our latest Non-Transmission Services focused [webinar](#).

Why Change

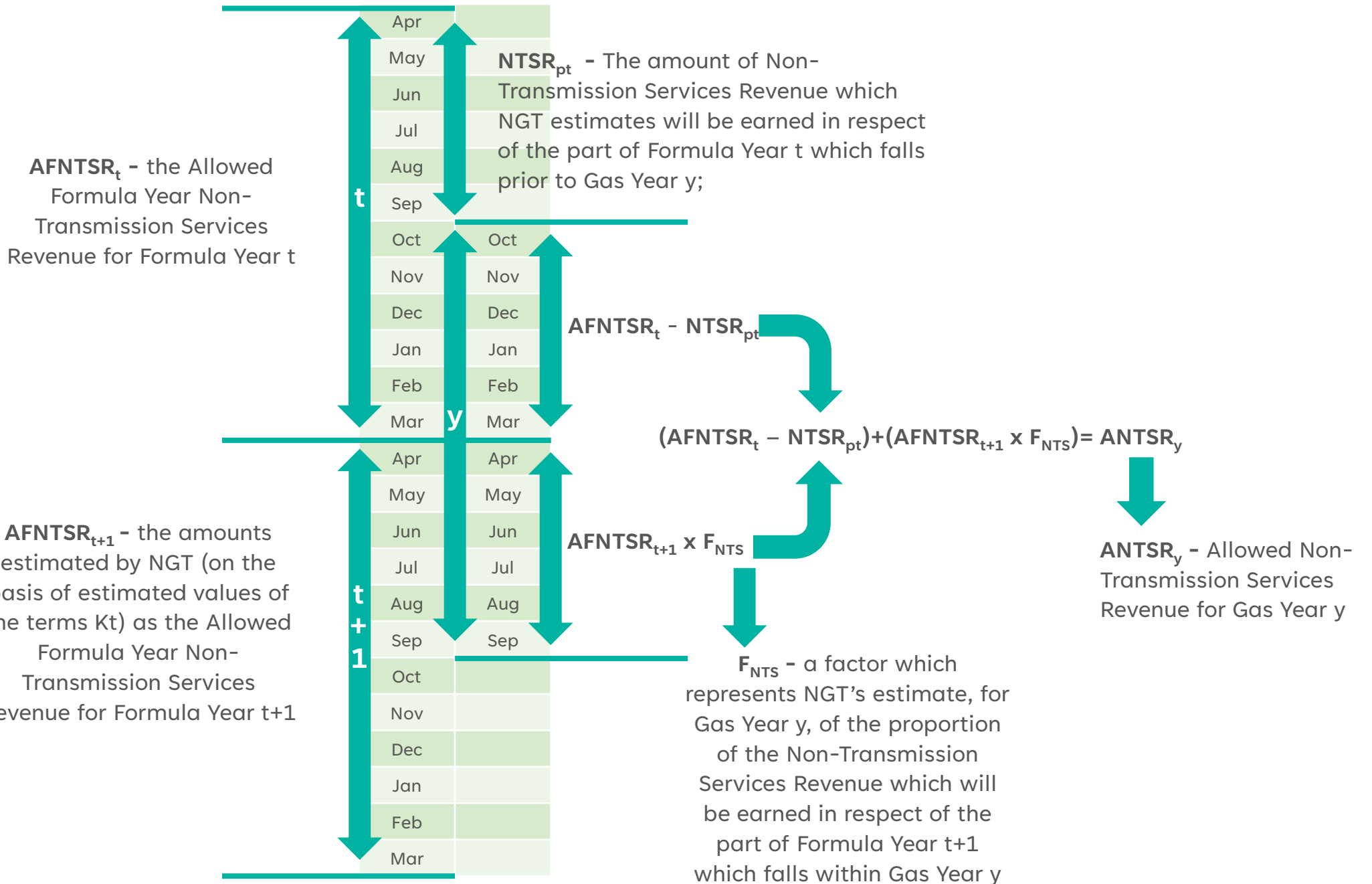
- Historically General Non-Transmission Services (GNTS) revenues have remained relatively stable from year to year as the cost inputs which form them have remained relatively consistent. However more recently Non-Transmission revenues, and therefore charges have experienced significant volatility.
- Under the existing methodology, if there are significant revenue changes across Formula Years, it can result in large swings in GNTS Gas Year target revenue and therefore the GNTS charge from year to year. This oscillation in charges would then repeat in subsequent years.
- This volatility in Non-Transmission charges is being predominantly driven by the volatility in shrinkage costs that NGT is exposed to and the timeliness of the ability to recover those costs.
- Tariff volatility is not desirable and NGT will look at this as a longer term issue however, in addition to these measures, we believe that methodology based solution is required to manage potential revenue volatility as part of the overall charging methodology.

Solution

- The proposed solution mirrors the solution that was implemented for Transmission Services through UNC 0796, across to Non-Transmission Services.
- Allowed Non-Transmission Services Revenue for Gas Year y ($ANTSR_y$), where Formula Year t is the Formula Year which ends in Gas Year y shall be determined as follows:

$$ANTSR_y = (AFNTSR_t - NTSR_{pt}) + (AFNTSR_{t+1} * F_{NTS})$$

- The amount of Non-Tx Revenue which NGT estimates will be earned in the part of Formula Year t that doesn't fall within Gas Year y ($NTSR_{pt}$) is subtracted from the Non-Tx Allowed Revenue for Formula Year t ($AFNTSR_t$).
- The Allowed Formula Year Non-Tx Revenue for Formula Year t+1 ($AFNTSR_{t+1}$) is multiplied by is a factor which represents NGT's estimate, for Gas Year y, of the proportion of the Non-Tx Revenue which will be earned in respect of the part of Formula Year t+1 which falls within Gas Year y (F_{NTS}).
- The revenue that remains to be collected from Formula Year t ($AFNTSR_t - NTSR_{pt}$) and the appropriate proportion of Formula Year t+1 revenue to be collected in Gas Year y ($AFNTSR_{t+1} * F_{NTS}$) are then added together to produce the target Revenue for Gas Year y.



Timeline and Assumptions

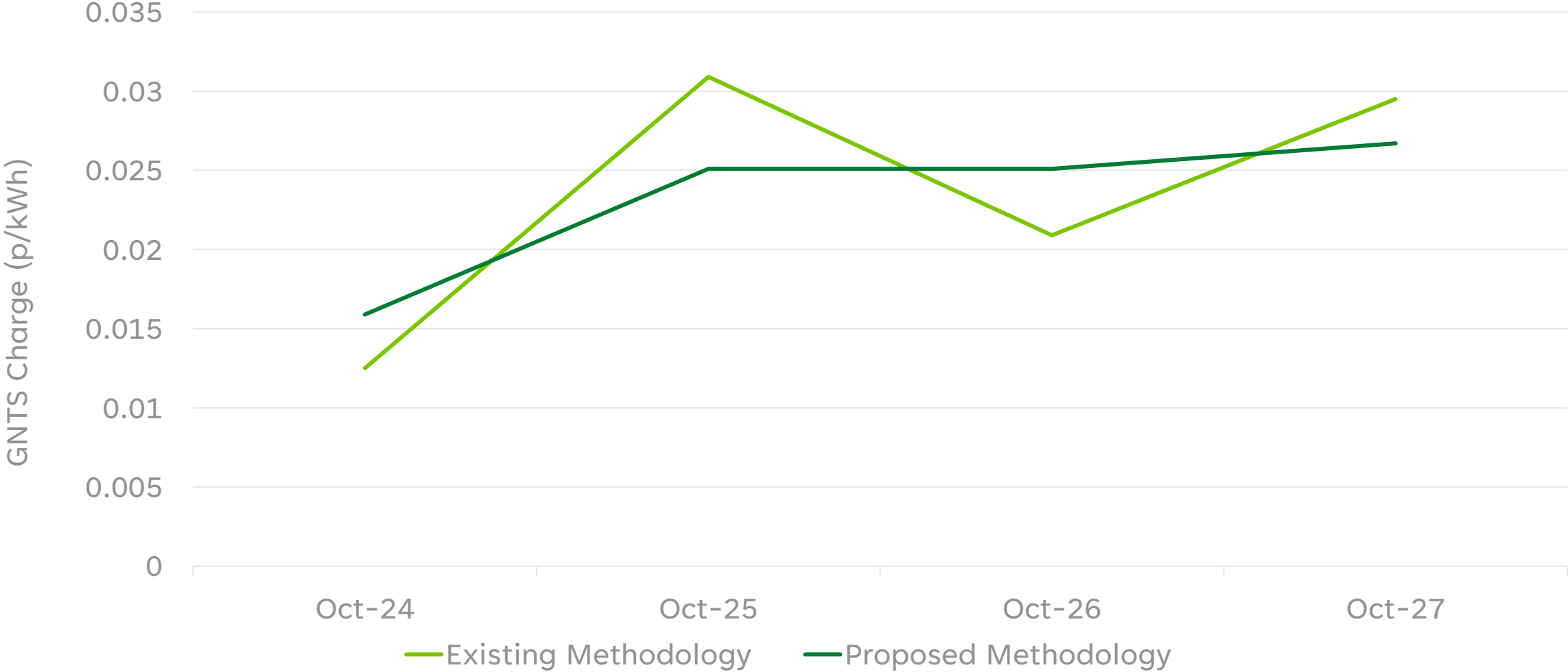
- We hope to receive a decision from Ofgem on the Modification before the end of May 2024 so that a full view of the regime is known at the time of Transmission Services Charge setting.
- A decision before May 2024 will allow the changes to come into effect for the charges applicable from October 2024 onwards.
- In the example that follows we have assumed implementation in time for October 2024 charges and this is when any revenue smoothing effect would begin.
- The proposed changes to the methodology will always have a smoothing effect on Gas Year target revenues compared to the status quo however they would not remove all fluctuations in charges.
- Initial discussions on further measures in addition to this modification (as motioned previously in our latest Non-Transmission focused [webinar](#)) will be held later this year with a view to potentially bringing forward further structural reforms beyond 2024.

GNTS Revenue and Charge Impacts

		Oct-23	Oct-24	Oct-25	Oct-26	Oct-27	5 Year Total
Existing Methodology	GNTS Charge (p/kWh)	0.0533	0.0125	0.0309	0.0209	0.0295	
	FY Revenue Collected (£m)	826.729	493.106	408.579	420.401	433.684	2582.499
	FY Under-Over Collection	-99.738	100.213	0.043	-0.391	0.267	0.394
Proposed Methodology	GNTS Charge (p/kWh)	0.0533	0.0159	0.0251	0.0251	0.0267	
	FY Revenue Collected (£m)	826.729	526.084	373.423	426.284	431.267	2583.786
	FY Under-Over Collection	-99.738	133.191	-35.114	5.491	-2.15	1.680

GNTS Charge Impact

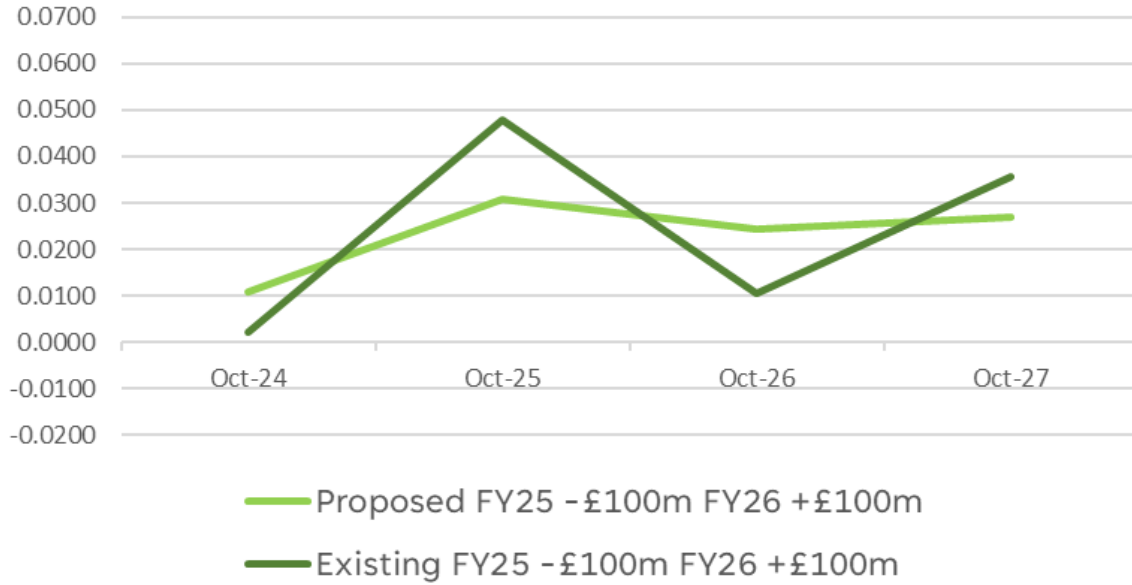
Indicative GNTS Charge



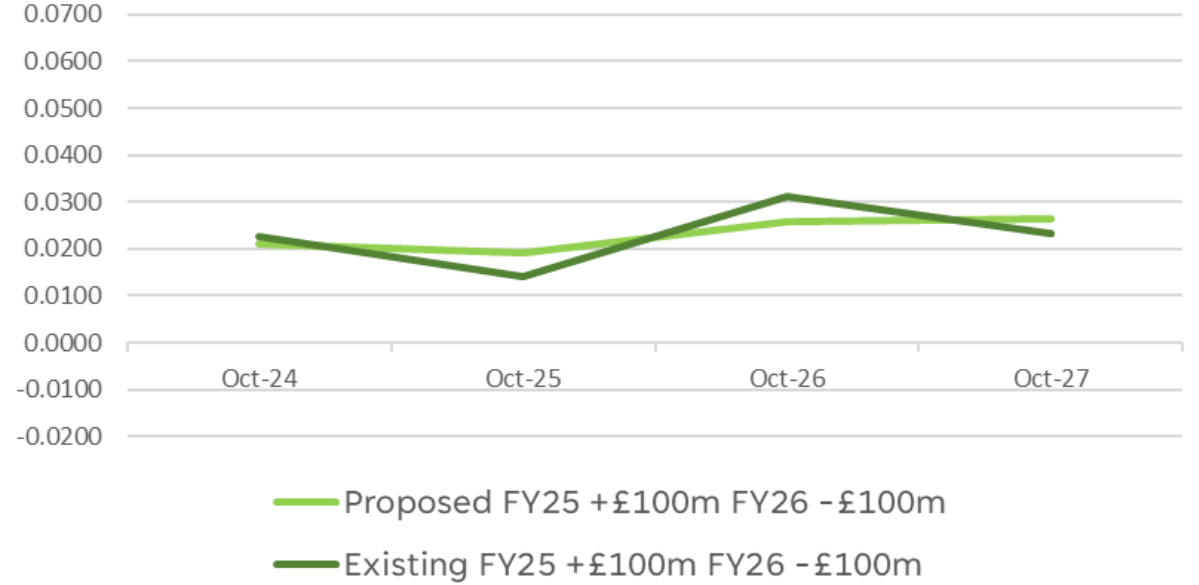
Additional Analysis

- The following slides show four different scenarios that model the impacts the Proposal would have if Allowed Revenues for 2024 onwards were to change substantially from the indicatives.
- The four scenarios modelled are:
 - Allowed Revenues for FY25 decreased by £100m and Allowed Revenues for FY26 increased by £100m
 - Allowed Revenues for FY25 increased by £100m and Allowed Revenues for FY26 decreased by £100m
 - Allowed Revenues for FY25 decreased by £200m and Allowed Revenues for FY26 increased by £200m
 - Allowed Revenues for FY25 increased by £200m and Allowed Revenues for FY26 decreased by £200m
- The values presented in these scenarios are for illustrative purposes only, with the aim of demonstrating the sensitivity of the GNTS charge should the variance in Allowed Revenues from year to year change and the impact the Proposal would have if implemented.

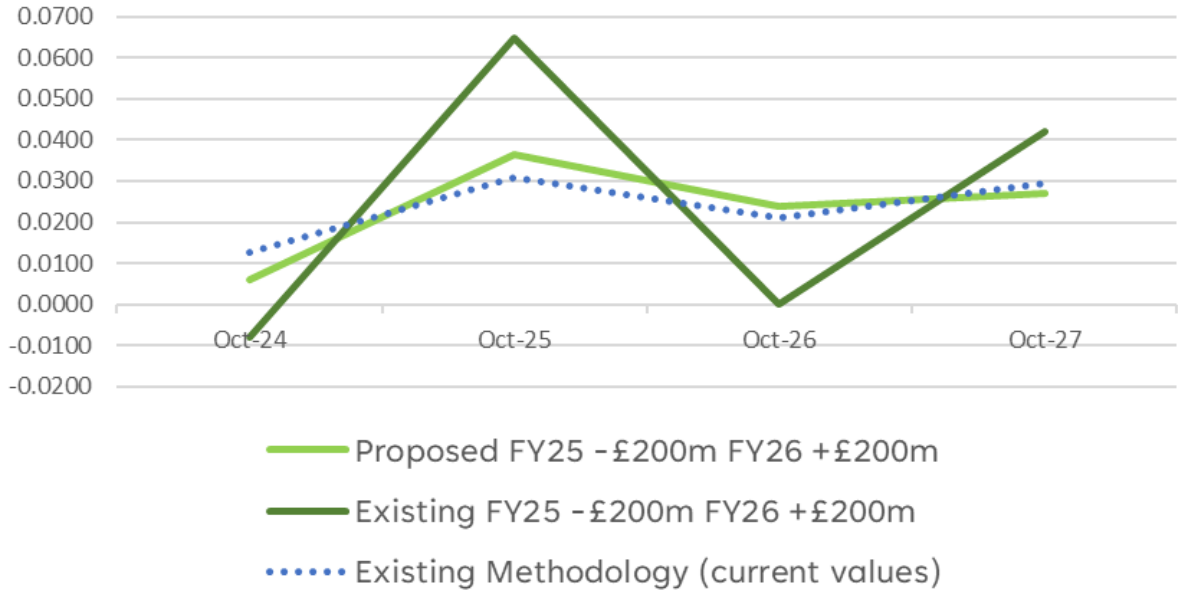
Indicative GNTS Charges
(FY25 -£100m FY26 +£100m)



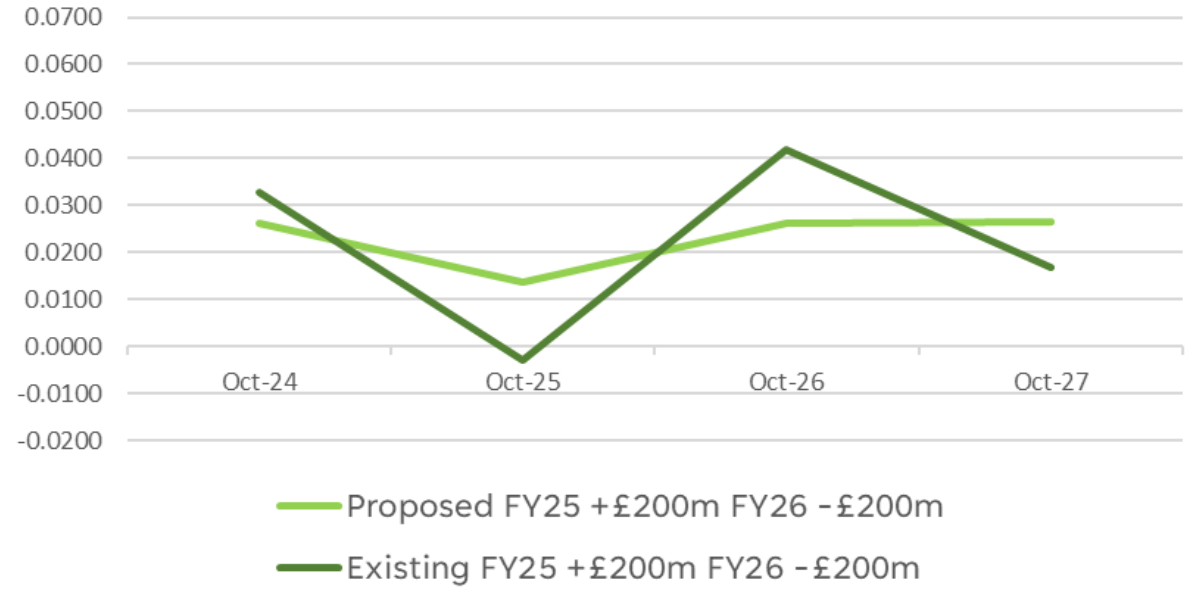
Indicative GNTS Charges
(FY25 +£100m FY26 -£100m)



Indicative GNTS Charges
(FY25 -£200m FY26 +£200m)



Indicative GNTS Charges
(FY25 +£200m FY26 -£200m)





Appendix – Scenario Data

		Oct-23	Oct-24	Oct-25	Oct-26	Oct-27	5 Year Total
Existing Methodology FY25 -£100m FY26 +£100m	Allowed Revenues Used	826.467	392.893	508.537	420.793	433.416	
	GNTS Charge (p/kWh)	0.0533	0.0023	0.0477	0.0106	0.0357	
	FY Revenue Collected (£m)	826.729	393.149	508.292	421.252	433.335	2,582.758
	FY Under-Over Collection	0.262	0.256	-0.244	0.459	-0.082	0.651
Proposed Methodology FY25 -£100m FY26 +£100m	Allowed Revenues Used	826.467	392.893	508.537	420.793	433.416	
	GNTS Charge (p/kWh)	0.0533	0.0109	0.0308	0.0244	0.0268	
	FY Revenue Collected (£m)	826.729	477.086	397.975	453.372	428.217	2,583.379
	FY Under-Over Collection	0.262	84.192	-110.561	32.579	-5.200	1.272
Existing Methodology FY25 +£100m FY26 -£100m	Allowed Revenues Used	826.467	592.893	308.537	420.793	433.416	
	GNTS Charge (p/kWh)	0.0533	0.0227	0.0141	0.0313	0.0232	
	FY Revenue Collected (£m)	826.729	593.063	308.866	420.510	433.662	2,582.830
	FY Under-Over Collection	0.262	0.170	0.329	-0.283	0.245	0.723
Proposed Methodology FY25 +£100m FY26 -£100m	Allowed Revenues Used	826.467	592.893	308.537	420.793	433.416	
	GNTS Charge (p/kWh)	0.0533	0.0210	0.0193	0.0258	0.0266	
	FY Revenue Collected (£m)	826.729	576.063	348.513	398.603	434.316	2,584.224
	FY Under-Over Collection	0.262	-16.831	39.977	-22.190	0.900	2.117

Appendix – Scenario Data

		Oct-23	Oct-24	Oct-25	Oct-26	Oct-27	5 Year Total
Existing Methodology FY25 -£200m FY26 +£200m	Allowed Revenues Used	826.467	292.893	608.537	420.793	433.416	
	GNTS Charge (p/kWh)	0.0533	-0.0079	0.0646	0.0001	0.0421	
	FY Revenue Collected (£m)	826.729	293.193	608.965	420.778	433.728	2,583.393
	FY Under-Over Collection	0.262	0.299	0.429	-0.015	0.312	1.286
Proposed Methodology FY25 -£200m FY26 +£200m	Allowed Revenues Used	826.467	292.893	608.537	420.793	433.416	
	GNTS Charge (p/kWh)	0.0533	0.0060	0.0364	0.0237	0.0269	
	FY Revenue Collected (£m)	826.729	429.067	422.171	479.867	425.167	2,583.002
	FY Under-Over Collection	0.262	136.174	-186.366	59.075	-8.249	0.895
Existing Methodology FY25 +£200m FY26 -£200m	Allowed Revenues Used	826.467	692.893	208.537	420.793	433.416	
	GNTS Charge (p/kWh)	0.0533	0.0329	-0.0028	0.0418	0.0168	
	FY Revenue Collected (£m)	826.729	693.020	208.193	420.984	433.268	2,582.195
	FY Under-Over Collection	0.262	0.127	-0.343	0.191	-0.148	0.088
Proposed Methodology FY25 +£200m FY26 -£200m	Allowed Revenues Used	826.467	692.893	208.537	420.793	433.416	
	GNTS Charge (p/kWh)	0.0533	0.0261	0.0136	0.0263	0.0266	
	FY Revenue Collected (£m)	826.729	626.041	324.563	369.597	437.167	2,584.098
	FY Under-Over Collection	0.262	-66.852	116.027	-51.196	3.751	1.991