



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

Pre-Mod Discussion

05 September 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). If there are significant revenue changes across Formula Years, this can be reflected in large swings in the General Non-Transmission Services price from year to year.
- This has become more evident with the recent impacts to Shrinkage costs and the timeliness of the ability to recover them, in accordance with National Gas' Licence
- 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

- The volatility of Non-Transmission tariffs is being predominantly driven by the volatility in shrinkage costs that NGT is exposed to and the timing of when Allowed Revenues are set.
- Without intervention, this volatility can result in large swings in the GNTS Prices from one year to the next. This oscillation in charges would then repeat in subsequent years.
- National Gas 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.
- The proposed changes will reduce the level of year-on-year volatility in GNTS Gas Year target revenues (and therefore tariffs).

# 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.

# Next Steps

- Proposal for Authority Direction and normal UNC Change timelines (i.e. not urgent):
- Mod to be raised at UNC Modification Panel on 21st September 2023
- NTSCMF Workgroup development in October, November and December (concluding sooner if feasible to do so)
- Send to Ofgem for decision in January 2024
- In order to implement for setting 2024 charges, a decision is required by end of May 2024
  - To ensure a full view of the overall charging framework (Transmission Services and Non-Transmission Services) is known at the time of Transmission Services charge setting that get published end of May

