NTSCMF Action update: Action 0301 & 0801

January 2024

Overview – Non-Obligated Capacity

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- Potential scenarios for thoughts
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Action summary

Action(s) summary

- 0301: National Gas Transmission to consider the effect of the removal of non-obligated entry capacity revenue from capacity neutrality.
  - *Would NGT consider this to be a helpful change? Does NGT consider that there are other necessary, or desirable changes (in UNC and/or Licence) to appropriately manage non-obligated entry cashflows?*

- 0801: National Gas Transmission to Provide an overview, and an understanding of the reasons underpinning the current treatment, of recovered revenue for Entry Non-Obligated capacity and its inclusion in capacity neutrality. This will also cover thoughts on the potential impacts, for discussion, of changing the treatment of Non-Obligated Entry Capacity revenue.

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Overview and relevant information

Overview

- As part previous *Action 1001* under NTSCMF this was an opportunity to discuss Non-Obligated Capacity and Overruns as part of the topic entered on the NTSCMF Issues Tracker – this was added due to the different treatment for Entry and Exit for Non-Obligated / Overruns.

- Non-Obligated Exit Capacity revenues contribute towards the SO Revenue Recovery.
  - Exit has no neutrality process, the revenues remain contributing to revenue collection
  - Entry is part of Capacity Neutrality – recovered revenues are returned in the same month.

- Non-Obligated Entry and Exit Capacity also forms one element of the Constraint Management Incentive that adjusts the allowed revenues. Forecast for this included into PCFM and therefore charges. Any reconciliation against actuals for this, adjusts the next year's revenues.

- Any recovery of revenues different to forecast for Non-Obligated Exit Capacity adjusts the Non-Transmission and the SO recovered Revenues and therefore the SOK to feed into the next year. Therefore the position (difference to actual for a year) adjusts the Non-Transmission Charges in a subsequent year

- It is helpful to refer to this Revenue Mapping document when considering revenue / charging treatment (https://www.gasgovernance.co.uk/sites/default/files/ggf/2021-12/Determination%20of%20Target%20Revenues%20and%20Recovery%20v0.2.pdf)

Overview

To summarise where we believe the concerns are being raised from some Stakeholders relate to the following factors:

- Entry charges can impact Exit charges and vice versa
- Capacity charges (Tx Entry and Tx Exit) can impact commodity charges (General Non-Tx)
- Transmission Services charges can impact Non-Transmission charges and vice versa over time
- Transmission Owner Revenues does not precisely relate to Transmission Services Revenues and System Operation Revenues does not exactly match Non-Transmission Services Revenue
- Treatment is different for Non-Obligated Entry capacity recovered revenues and Exit Non-Obligated capacity recovered revenues (i.e. that Entry has an additional feature whereby recovered revenues are returned to Shippers, Exit does not have this).

Relevant information

- Charges for Transportation have always had an element of influencing charges / recovered revenues.
- Non-Obligated capacity revenues, for example, have always been part of SO Recovered Revenues.
- For charges, Entry and Exit (for commodity) related to SO (the old SO Commodity charges) have always had an element of Entry impacting Exit, and vice versa.
- Recovered revenues have remained unchanged in terms of where they are directed under the Licence (i.e. TO or SO) except for:
  - A Licence change to clarify updating where some capacity recovered revenues are directed (linked to UNC0748 - Prospective Removal of Entry Capacity Revenue from Capacity Neutrality Arrangements). This did not impact Non-Obligated Entry or Exit Capacity Recovered Revenues

Relevant information

Licence change to clarify updating of revenue allocations:

- https://www.ofgem.gov.uk/publications/modification-national-grid-gas-plc-gas-transporter-licence-change-part-b-special-condition-21-and-part-b-special-condition-23

- This Licence change confirmed that Obligated Capacity Recovered Revenues could be treated as Transportation Owner rather than System Operator Recovered Revenues.

- Non-Obligated Capacity Recovered Revenues were not adjusted and remained under System Operation Recovered Revenues.

- From National Gas' perspective, Non-Obligated capacity for Entry and Exit are attributable to SO Activity and should therefore remain as SO recovered revenues

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Overview of how it currently works

Current arrangements

Historically (up to 31 December 2020)

- Revenue from the sale of within-day firm entry capacity, any non-obligated entry capacity sold in any auction, and any DISEC sold, was defined as SO revenue in accordance with the NTS Licence.
- This revenue was treated as recovered revenue and at the same time was redistributed through the UNC defined entry capacity neutrality mechanism (i.e. neutral)

- These arrangements were put in place to provide linkage between entry capacities sold within-day and potential buyback costs and any non obligated and potential buyback costs resulting from the sale of that entry capacity.
- Neutrality costs and revenues are shared for each gas day between National Grid NTS SO and Users, the latter prorated to their firm Entry Capacity holdings.

UNC 0748 (01 January 2021)

- UNC0748 changed the treatment of certain revenues and they were removed from capacity neutrality
- The NTS Licence was subsequently changed to clarify that these revenues were to be classed as TO Recovered revenue.
- Non-Obligated Capacity is considered a SO activity and therefore SO Recovered Revenue. This remained within capacity neutrality (which is Entry only).

Charge Setting & Reconciliations across years for Entry

	Charge Setting	Recovery (UNC)	Recovery (Licence)	Reconciliation versus target
Non-Obligated Entry Capacity	Capacity volume part of overall FCC for charge setting. Forecast Revenue added to Transmission Services to allow for its recovery from capacity. [No reciprocal revenue reduction on Non-Transmission revenue assumed - Capacity Neutrality process.]	Revenue is technically recovered revenue for the SO per the Licence. At the same time, any recovered revenue for Non-Obligated Entry is returned to Shippers via Capacity Neutrality each month	Recovery and Return part of the SO Revenue collection (i.e. net zero impact each month)	Any impact would be dependent on the use of Obligated Capacity. (e.g. if all obligated capacity forecasts were accurate and therefore revenue recovered from Obligated and only Non-Obligated varied, there would be nothing to reconcile).

Charge Setting & Reconciliations across years for Exit

	Charge Setting	Recovery (UNC)	Recovery (Licence)	Reconciliation versus target
Non-Obligated Exit Capacity	Capacity volume part of overall FCC for charge setting. Forecast Revenue added to Transmission Services to allow for its recovery from capacity. Value of revenue is Transmission Services under the UNC	Transmission Services Revenue	System Operator Revenue	If the recovered value is greater than forecasted (i.e. part of charge setting), all else being equal it would reduce the Non-Transmission Services charge in the next year. For an under recover to forecast, it would increase the Non-Transmission Charge in the next year.

Materiality – Non-Obligated Exit Capacity

- Non-Obligated Capacity is forecasted as part of Entry and Exit Capacity Reserve Price calculations

Non-Obligated Capacity	Actuals (Apr 23 to Oct 23)
Exit	£4.9m
Entry	£1.0m
Total	£5.9m

- The level of Non-Obligated as actuals is shown for awareness. Taking a whole year view, for Entry in particular, with estimates more in the region of £1.7m for a 12m period. Using this and looking at pricing impacts to General Non-Transmission, over time would equate to:

		Indicatives			
p/kWh	23/24	24/25	25/26	26/27	27/28
Price including current treatment	0.0533	0.0125	0.0309	0.0209	0.0295
Price if changing so Entry was not part of capacity neutrality	0.0531	0.0124	0.0308	0.0208	0.0293

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Potential Scenarios for thoughts

Potential scenarios, if changing treatment

- It should be noted that Entry and Exit have been different for a very long time without issue to date (save for UNC0748)
- Whilst Entry and Exit are treated differently as far as Non-Obligated revenue is concerned, no specific compliance issues have been raised over their respective treatment.
- They can be different between Entry and Exit and any prospective change should be considered on a range of rationale such as:
  - *Benefits (e.g. to customers/consumers)*
  - *Compliance (with relevant codes/legislation)*
  - *Complexity*
  - *Materiality*
  - *Rationale for having arrangements as they are*

Revenue treatment: Non-Obligated Capacity

What if....	What might change...	Comments / Questions
Entry revenue treatment were to match Exit	Revenues removed from Capacity Neutrality.	• Entry Non-Obligated Capacity Recovered Revenues would not be returned via Capacity Neutrality leaving a net contribution towards recovered revenue. Materiality is very small.
Exit revenue treatment were to match Entry	A capacity neutrality like arrangement would need to be introduced for Exit	• Exit Non-Obligated Capacity Revenues would be returned to Shippers like it is for Entry. • Exit could be more complex with Shippers/GDNs arrangements for capacity.
Ringfence Non-Obligated Entry and / or Exit Capacity (assume treatment same with Entry not going through capacity neutrality.	Likely need to carve out to be its own Non-Tx capacity charges for Entry and Exit in addition to removing from Capacity Neutrality	• Would this necessitate a separate methodology to reconcile a Non-Tx capacity charge? • Would likely still have impact on GNon-Tx if part of same price determination • Would likely still have interaction / impact on Tx charges unless reconciliations were ringfenced too • Likely complicated to set up and facilitate charging rules to ensure its isolation.
Non-Obligated were TO not SO Recovered Revenue	Changes to Revenue Determination in UNC Changes to Licence to change Non-Ob from SO Activity to TO Activity	• Would reduce, not remove, revenue interactions between Transmission Services and Non-Transmission Services • Likely would necessitate changes the Licence on a number of levels. • Could impacts on what is TO and SO Activity and any knock on impacts • Fundamentally this would seemingly impact the Activity defined in the Licence and if this was an issue for Stakeholders, would likely be a Price Control consideration.

Revenue treatment: Non-Obligated Capacity

Theme	Summary / Comments
Capacity impacting commodity or vice versa	• Capacity revenue, e.g. Non-Obligated Capacity can impact General Non-Transmission charges • This will naturally have some effect, however is it relatively small in its impact for Non-Obligated Entry capacity.
Transmission Services impacting Non-Transmission Services or vice versa	• Transmission Services is recovered from all capacity charges including Non-Obligated. Both Entry and Exit Non-Obligated Revenue contributes towards SO Revenue Recovery • Reconciliations for Entry do not currently impact other charges. • Reconciliations from forecast to actuals will marginally impact General Non-Tx charges. • There is nothing to say they can't influence each-other and where they might there is clear rationale as to why. To separate would necessitate different treatment such is isolating or changing Non-Obligated capacity treatment that can have broader implications.
Entry and Exit treatment being different for Non-Obligated	• Treatment for each does not have to align for any compliance measure • They have been different for a very long time. UNC0748 resolved some treatment issues to update revenues to TO Revenue Activity & recovery.
Alignment of TO and SO to Transmission and Non-Transmission Services Revenues	• Determination of Transmission Services and Non-Transmission Services does not align exactly to TO and SO. • Historically there has always been degree of one charge potentially influencing another • They do not have to align, and will present some influencing across different charges. • Aligning would present further challenges on how charges could/should be separated.

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Reflections and inviting Stakeholder views

Reflections for discussion

- Given this material, what are Stakeholder views? Are there any observations that have not included?
- Linked to the NTSCMF issues Tracker (reference can be linked to CMF003, 0008) – does this help to address the reasons they were added?
- Historically for both Non-Obligated Capacity and Overruns, levels of revenues referred to have been very low. Under the new methodology values are higher by virtue of reserve prices being higher.
- General Non-Transmission Services charging – single rate for Entry and Exit. Reconciliations impact across Entry and Exit irrespective of how driven so there is always an element of one charge influencing another, across Entry / Exit between TO and SO.
- Entry is the way it is, historically, to act as a cost reducing impact to constraints should they occur.
- One question on the action has been to question degrees of ‘cross-subsidy’. It is worth noting that there has always been a degree of one charge impacting another so any challenge should be focused on the specific item rather than holistically unless there are broader concerns.

NTSCMF – December 2023 – specific questions

Specific questions raised in December 2023 NTSCMF

1. Does the current Entry treatment inflating the GNTS price, have a detrimental impact for consumers?

- *It does not inflate the price (save for the point under (2) below) with the process as it stands. No adjustment is made to revenues for SO to create NTS Revenue therefore there is no upward or downward pressure on GNTS as a result of capacity neutrality. If treatment was changed then it would impact GNTS prices.*
- *For consumers, monies are returned to Shippers for Non-Obligated via capacity neutrality. The net position across all Shippers is the same, therefore it could be argued has a neutral impact consumers. As monies are returned to Shippers through capacity neutrality, the net position to Shippers would likely reflect in Shipper costs and therefore be part of onward costs to the market / consumers. The impact to consumers will always depend on how the flow of charges works through.*

2. If it were treated like Exit would there be a reduction to GNTS prices?

- *Yes, albeit marginally. As has been shown the materiality of this is extremely small. If removed from capacity neutrality then Non-Obligated Entry capacity revenue would reduce the amount of SO revenues to collect from General Non-Transmission charges (c. 0.0001p/kWh price impact).*
- *For consumers, much like the status quo, the end impact to consumers is likely neutral. It would depend on how the flow of onward charges work through. The net money flowing through is the same. How Shippers charge onwards and ultimately to consumers would dictate any impact, as it would for any Transportation charge.*

Reflection on the action

- As a reminder, at its core the action(s) seem to focus on the reasons for the existing arrangements and if they should be updated for Non-Obligated Entry Capacity Revenue. The observations in this pack should help support Stakeholders to form their own view on the set up for Non-Obligated capacity revenues and the status quo and views on alternative arrangements

- To facilitate this discussion we recognise it may be helpful to share an initial view.

- National Gas's initial view is that a change in this area is **not needed** at this time. We will keep levels and value associated to Non-Obligated Entry under review and if there is any further changes this may be revisited.

- As a means to potentially lower the cost impact associated to Entry constraints this remains a theoretical benefit were it to happen. There is nothing to clearly suggest the current treatment for Entry Non-Obligated is wrong or has any compliance issues.

- This does not follow the same pattern as those revenues removed from Capacity Neutrality under UNC0748. They were obligated revenues and considered to be Transporter/Transmission owner activity necessitating the change.

- We welcome feedback in this discussion to gather views from Stakeholders.

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national gas transmission