Transmission Services Charging:
Future Developments and High Level Analysis

NTSCMF Discussions

March 2024

Version 1.1 – Updates from V1.0 have slides marked up with red text (V1.0 available here: https://www.gasgovernance.co.uk/NTSCMF/050324

Transmission Services Introduction

- Reviewing and discussing elements of the Transmission Services charging methodology is in response to a number of items

  - GCD13 – Existing Contracts and potential changes to charges (e.g. a new commodity charge). In the light of UNC0790's rejection for implementation and the reasons given, a separate charge under Transmission charging we do not see as likely.
  - GCD13 does provide a platform to discuss some of the wider benefits or issues of reviewing elements of Transmission Services charging more broadly
  - Entry / Exit split was an example and it has been a topic that has attracted some discussion over time and was notably not included in UNC0621/UNC0678 developments.

- Now feels a suitable time to give the subject of the Entry / Exit split a solid discussion and time to bring out benefits or impacts of any such change.

- To have a facilitated and comprehensive discussion on this would also help address items discussed in NTSCMF that have been raised over time.

Transmission Services – Introduction and Shaping the discussion with Stakeholder input

- We recognise that reviewing and potentially changing the 50/50 split can have significant impacts and will need to be considered and incorporated into the discussion and assessment.

- This is starting the process to develop analysis and support the discussion on the potential benefits or issues on a different Entry / Exit split to the current 50% Entry and 50% Exit.

- This sets a basis to start the analysis and hopefully serves as a basis to build on to expand, refine and focus on the key impacts that Stakeholders will find most useful.

- The main focus of this initial analysis, noting there will be a number of updates and refinements to make this as representative and informative as possible, is to provide a delta impact to prices

- It requires a number of assumptions to help support this, which are provided across these slides
  - It will differ from those prices published due to the assumptions made to help isolate the impact of changes to the % split

- We note that this means a range of impacts will need to be accommodated however we feel it beneficial to structure the analysis in a phased way to build this up over time

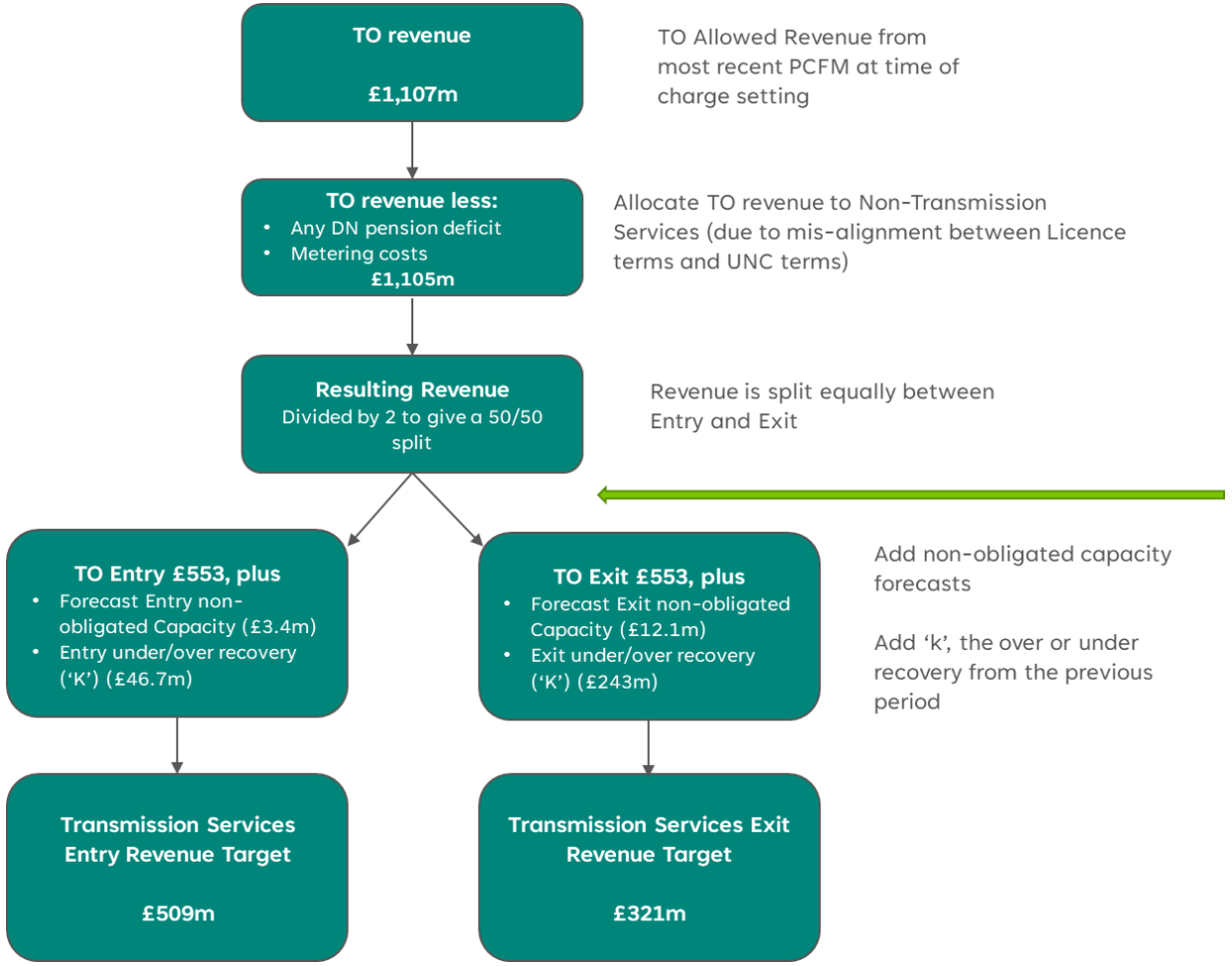
Transmission Services: Entry/ Exit Split Analysis

- Overview of current arrangements
  - Transmission Services Revenue
  - Apportionment to Gas Year
- Analysis: Aims and Assumptions*
- Entry /Exit Split modelling
  - Allowed Revenues
  - Gas Year Revenues
  - Impact on Prices
- Next steps

* Please note that some assumptions have been updated since the first publication on the JO website, 27th February 2024

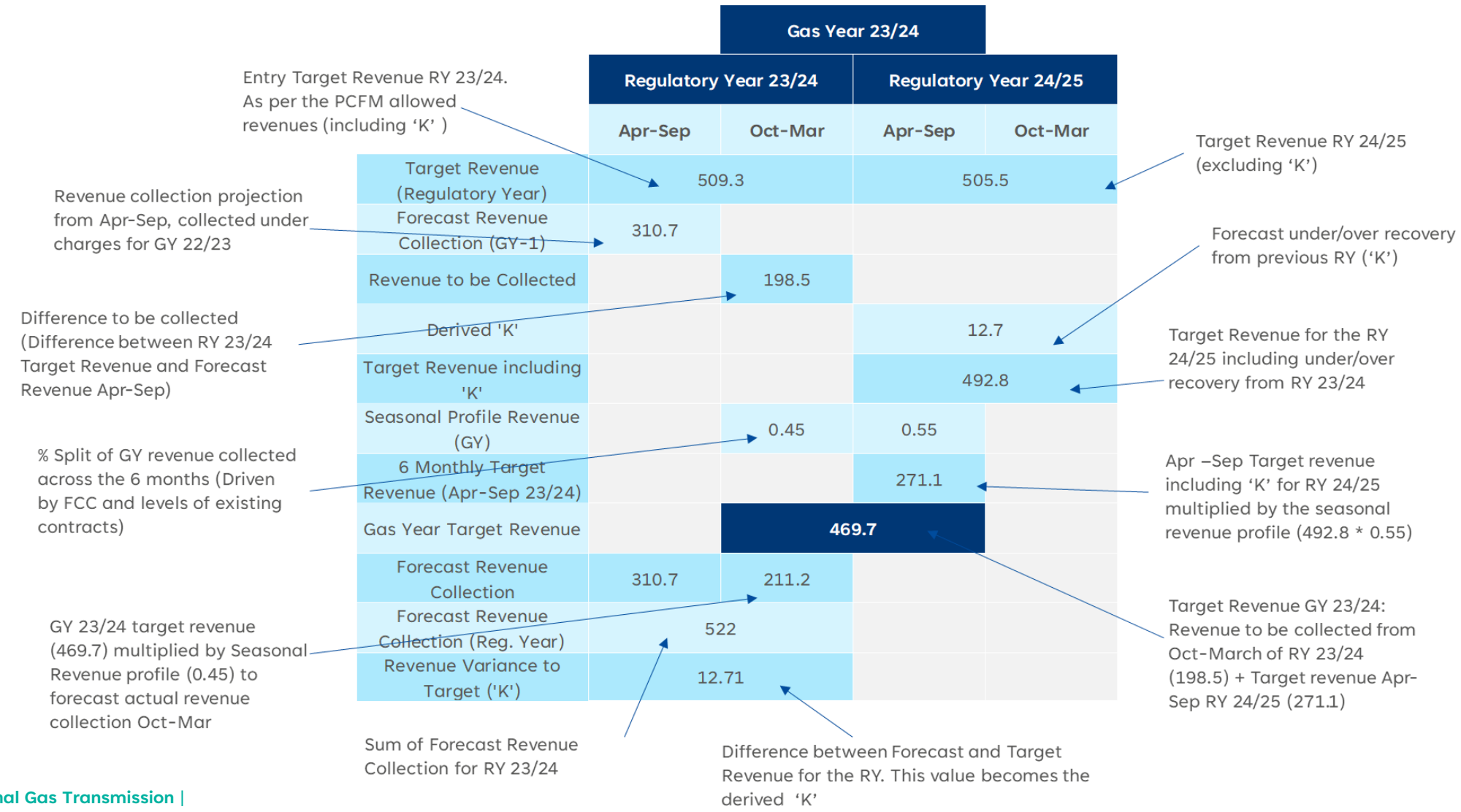
Transmission Services Revenue

- Ofgem set the target revenue we can recover. This is split in to two distinct revenue streams; Transmission Owner (TO) and System Operator (SO)
- Transmission Services Revenue broadly aligns to the TO revenue stream. Any TO revenue associated with Non Transmissions services is reallocated.
- The resulting revenue is then split between Transmission Services Entry and Transmission Services Exit. The split is 50:50, as determined by UNC, TPD, Y, 1.5.3
- Other factors are then accounted for:
  - the levels of non-obligated capacity (due to mis-alignment between Licence terms and UNC terms)
  - any under or over recovery, referred to as 'K_t'
- We publish a Transmission Services Revenue model[1] which outlines how the revenues are split
- The next step in to then determine the Target revenue for the Gas Year, which is detailed within the revenue model



1. https://www.nationalgas.com/document/144311/download

Apportionment of AR to Gas Year (Entry)



Analysis: Aims and Assumptions (1/2)

Demonstrate price sensitivity to various changes to the Entry: Exit apportionment

- Prices Entry/Exit based on 0/100**, 25/75, 50/50 (status quo), 75/25. We have chosen these to help provide some ranges for reference, not based an any preference.
    - **N.B. Accommodating Existing Contracts as we have in this assessment, means 0/100 is not possible – if 0/100 was to be achieved further thinking on Existing Contracts would be required.
- Will use gas year 2023/24 as a starting point
- Isolate sensitivity – 'K' – under / over recovery is not included
    - Therefore assumed no over/under recovery as this will mask impact (for example, Exit allowed revenue for RY 23/24 is £553m, but when accounting for previous years' over-recovery, this is reduced by £243m)

Analysis: Aims and Assumptions (2/2)

Demonstrate price sensitivity to various changes to the Entry: Exit apportionment

- ‘Normalised’ 6 months prior revenue recovery (Rpt in the model)
  - For example, For RY 23/24 anticipated revenue recovery for the first six months (Apr-Oct 23) is based on the previous GY prices, which would have been based on a 50/50 split. If we are modelling a proportion change, we need to account that there would be an corresponding change to this. For modelling purposes, as a starting point we have applied the average Seasonal Allocation Factor (Fry)*.
- For simplicity, an average Seasonal Allocation Factor (Fry) has been applied across the Gas Year modelling*
- For simplicity, forecasts for non-obligated capacity remain unchanged
- Any feedback on these assumptions will help us to help us refine and focus this analysis, adapt and ensure relevance to Stakeholders in ways of sharing the outputs

* These assumptions have been updated since the first publication on the JO website, 27th February 2024

Transmission Services Revenues

Existing methodology:

	2023/24	2024/25	2025/26
TO Allowed Revenue	1106.97	1009.97	988.79
DN Pension	0.00	0.00	0.00
Meter Maintenance	1.85	1.91	1.97
Target (excl 'K')	1105.12	1008.06	986.82
50/50 split	552.56	504.03	493.41
Entry Non-Ob	3.41	3.41	3.41
Entry 'K'	46.71	1.95	0.00
Tx Entry Target	**509.26**	**505.49**	**496.81**
Exit Non-Ob	12.11	12.11	12.11
Exit 'K'	243.44	1.95	0.00
Tx Exit Target	**321.23**	**514.20**	**505.52**

Existing split with revised assumptions:

	2023/24	2024/25	2025/26
TO Allowed Revenue	1106.97	1009.97	988.79
DN Pension	0.00	0.00	0.00
Meter Maintenance	1.85	1.91	1.97
Target (excl 'K')	1105.12	1008.06	986.82
50/50 split	552.56	504.03	493.41
Entry Non-Ob	3.41	3.41	3.41
Entry 'K'	**0.00**	**0.00**	0.00
Tx Entry Target	**555.96**	**507.44**	**496.81**
Exit Non-Ob	12.11	12.11	12.11
Exit 'K'	**0.00**	**0.00**	0.00
Tx Exit Target	**564.67**	**516.14**	**505.52**

Revised Allowed Revenues: Regulatory Year*

The table below shows the output revenues for the Regulatory Year with the revised assumptions as highlighted in the previous slides for the four main scenarios.

Reg. Year	2023/24			2024/25			2025/26			2026/27		
Split	Entry	Exit	Total	Entry	Exit	Total	Entry	Exit	Total	Entry	Exit	Total
75/25	832.25	288.39	1120.64	759.45	264.13	1023.58	743.52	258.82	1002.34	765.72	266.22	1031.94
50/50	555.97	564.67	1120.64	507.44	516.14	1023.58	496.81	505.52	1002.34	511.62	520.32	1031.94
25/75	279.69	840.95	1120.64	255.42	768.16	1023.58	250.11	752.23	1002.34	257.51	774.43	1031.94
5.1/94.9*	60.14	1060.50	1120.64	55.16	968.42	1023.58	54.07	948.27	1002.34	55.59	976.35	1031.94

* **Note:** 5.1% is the lowest that can be modelled due to the value of existing contracts. This has been updated due to revised assumptions following the first publication on the JO website, 27th February 2024

Examples of producing an updated Target Revenue for the Gas Year

Entry / Exit Revenue Scenario shown	Overview
TS Revenues – Gas Year (Entry, 50% baseline)	• Using Regulatory Year revenues per slide 10 • Modelling TS revenues (Entry 50%) • Updated Rpt values using an assumed Seasonal allocation Factor (Fry) • No K
TS Revenues – Gas Year (Entry, 25%)	• Using Regulatory Year revenues per slide 10 • Modelling TS revenues (Entry 25%) • Updated Rpt values using an assumed Seasonal allocation Factor (Fry) • No K
TS Revenues – Gas Year (Entry, 25% - not amending RPt)	• Using Regulatory Year revenues per slide 10 • Modelling TS revenues (Entry 25%) • Existing Rpt values • No K
TS Revenues – Gas Year (Exit, 50% baseline)	• Using Regulatory Year revenues per slide 10 • Modelling TS revenues (Exit 50%) • Updated Rpt values using an assumed Seasonal allocation Factor (Fry) • No K

TS Revenues – Gas Year (Entry, 50% baseline)*

	Regulatory Year 2023/24		Regulatory Year 2024/25		Regulatory Year 2025/26	
	Apr-Sep	Oct - Mar	Apr-Sep	Oct - Mar	Apr-Sep	Oct - Mar
Seasonal Allocation Factor **(Fry)**		0.450	0.550	0.465	0.535	0.449
Entry Target Revenue (Regulatory Year)	509.259		505.489		496.814	
Derived K	0.000		**12.710**		**-1.441**	
Entry Target Revenue (Regulatory Year)	509.259		492.780		498.254	
Expected Entry Revenue **(Rpt)**	310.722					
Predicted / Required Revenue to meet RY		198.538		234.346		230.213
Resulting Revenue for first 6 months on next RY			271.143		266.601	
Entry Modelled Revenue (GY)		**469.681**		**500.947**		
Forecast Revenue Collection (6 months)	310.722	211.247	258.434	232.906	268.041	
Forecast Revenue Collection (RY)	521.969		491.339			
Revenue Variance to Target	**12.710**		**-1.441**			

	Regulatory Year 2023/24		Regulatory Year 2024/25		Regulatory Year 2025/26	
	Apr-Sep	Oct - Mar	Apr-Sep	Oct - Mar	Apr-Sep	Oct - Mar
Seasonal Allocation Factor **(Fry)**	0.516	0.484	0.516	0.484	0.516	0.484
Entry Target Revenue (Regulatory Year)	555.965		507.436		496.814	
Derived K	0.000		**-9.697**		**-0.053**	
Entry Target Revenue (Regulatory Year)	555.965		517.133		496.867	
Expected Entry Revenue **(Rpt)**	287.130					
Predicted / Required Revenue to meet RY		268.835		240.360		240.205
Resulting Revenue for first 6 months on next RY			267.076		256.609	
Entry Modelled Revenue (GY)		**535.910**		**496.969**		
Forecast Revenue Collection (6 months)	287.130	259.137	276.773	240.307	256.662	
Forecast Revenue Collection (RY)	546.268		517.081			
Revenue Variance to Target	**-9.697**		**-0.053**			

* This slide has been updated with our revised assumptions following the first publication on the JO website, 27th February 2024

TS Revenues – Gas Year (Entry, 25%)*

	Regulatory Year 2023/24		Regulatory Year 2024/25		Regulatory Year 2025/26	
	Apr-Sep	Oct - Mar	Apr-Sep	Oct - Mar	Apr-Sep	Oct - Mar
Seasonal Allocation Factor **(Fry)**		0.450	0.550	0.465	0.535	0.449
Entry Target Revenue (Regulatory Year)	509.259		505.489		496.814	
Derived K	0.000		**12.710**		**-1.441**	
Entry Target Revenue (Regulatory Year)	509.259		492.780		498.254	
Expected Entry Revenue **(Rpt)**	310.722					
Predicted / Required Revenue to meet RY		198.538		234.346		230.213
Resulting Revenue for first 6 months on next RY			271.143		266.601	
Entry Modelled Revenue (GY)		**469.681**		**500.947**		
Forecast Revenue Collection (6 months)	310.722	211.247	258.434	232.906	268.041	
Forecast Revenue Collection (RY)	521.969		491.339			
Revenue Variance to Target	**12.710**		**-1.441**			

	Regulatory Year 2023/24		Regulatory Year 2024/25		Regulatory Year 2025/26	
	Apr-Sep	Oct - Mar	Apr-Sep	Oct - Mar	Apr-Sep	Oct - Mar
Seasonal Allocation Factor **(Fry)**	0.516	0.484	0.516	0.484	0.516	0.484
Entry Target Revenue (Regulatory Year)	279.685		255.420		250.109	
Derived K	0.000		**-4.849**		**-0.026**	
Entry Target Revenue (Regulatory Year)	279.685		260.269		250.135	
Expected Entry Revenue **(Rpt)**	144.444					
Predicted / Required Revenue to meet RY		135.241		121.003		120.925
Resulting Revenue for first 6 months on next RY			134.417		129.183	
Entry Modelled Revenue (GY)		**269.657**		**250.187**		
Forecast Revenue Collection (6 months)	144.444	130.392	139.266	120.977	129.210	
Forecast Revenue Collection (RY)	274.836		260.242			
Revenue Variance to Target	**-4.849**		**-0.026**			

* This slide has been updated with our revised assumptions following the first publication on the JO website, 27th February 2024

TS Revenues – Gas Year (Entry, 25% - not amending RPt)

	Regulatory Year 2023/24		Regulatory Year 2024/25		Regulatory Year 2025/26	
	Apr-Sep	Oct - Mar	Apr-Sep	Oct - Mar	Apr-Sep	Oct - Mar
Seasonal Allocation Factor **(Fry)**		0.450	0.550	0.465	0.535	0.449
Entry Target Revenue (Regulatory Year)	509.259		505.489		496.814	
Derived K	0.000		**12.710**		**-1.441**	
Entry Target Revenue (Regulatory Year)	509.259		492.780		498.254	
Expected Entry Revenue **(Rpt)**	310.722					
Predicted / Required Revenue to meet RY		198.538		234.346		230.213
Resulting Revenue for first 6 months on next RY			271.143		266.601	
Entry Modelled Revenue (GY)		**469.681**		**500.947**		
Forecast Revenue Collection (6 months)	310.722	211.247	258.434	232.906	268.041	
Forecast Revenue Collection (RY)	521.969		491.339			
Revenue Variance to Target	**12.710**		**-1.441**			

	Regulatory Year 2023/24		Regulatory Year 2024/25		Regulatory Year 2025/26	
	Apr-Sep	Oct - Mar	Apr-Sep	Oct - Mar	Apr-Sep	Oct - Mar
		0.450	0.550	0.465	0.535	0.449
	279.685		255.420		250.109	
	0.000		**64.360**		**-14.572**	
	279.685		191.060		264.681	
	310.722					
		-31.037		150.293		108.486
			105.127		141.623	
		74.091		**291.915**		
	310.722	33.324	40.767	135.721	156.195	
	344.045		176.488			
	64.360		**-14.572**			

TS Revenues – Gas Year (Exit, 50% baseline)*

	Regulatory Year 2023/24		Regulatory Year 2024/25		Regulatory Year 2025/26	
	Apr-Sep	Oct - Mar	Apr-Sep	Oct - Mar	Apr-Sep	Oct - Mar
Seasonal Allocation Factor **(Fry)**		0.504	0.496	0.503	0.497	0.449
Entry Target Revenue (Regulatory Year)	321.234		514.197		505.522	
Derived K	0.000		**86.108**		**-18.843**	
Entry Target Revenue (Regulatory Year)	321.234		428.090		524.365	
Expected Entry Revenue **(Rpt)**	279.070					
Predicted / Required Revenue to meet RY		42.163		301.919		245.131
Resulting Revenue for first 6 months on next RY			212.278		260.390	
Entry Modelled Revenue (GY)		**254.441**		**562.310**		
Forecast Revenue Collection (6 months)	279.070	128.271	126.170	283.076	279.233	
Forecast Revenue Collection (RY)	407.341		409.247			
Revenue Variance to Target	**86.108**		**-18.843**			

	Regulatory Year 2023/24		Regulatory Year 2024/25		Regulatory Year 2025/26	
	Apr-Sep	Oct - Mar	Apr-Sep	Oct - Mar	Apr-Sep	Oct - Mar
Seasonal Allocation Factor **(Fry)**	0.502	0.498	0.502	0.498	0.502	0.498
Entry Target Revenue (Regulatory Year)	564.672		516.143		505.522	
Derived K	0.000		**-9.706**		**-0.171**	
Entry Target Revenue (Regulatory Year)	564.672		525.849		505.692	
Expected Entry Revenue **(Rpt)**	283.249					
Predicted / Required Revenue to meet RY		281.423		252.369		251.858
Resulting Revenue for first 6 months on next RY			263.775		253.664	
Entry Modelled Revenue (GY)		**545.198**		**506.032**		
Forecast Revenue Collection (6 months)	283.249	271.718	273.480	252.198	253.834	
Forecast Revenue Collection (RY)	554.967		525.678			
Revenue Variance to Target	**-9.706**		**-0.171**			

* This slide has been updated with our revised assumptions following the first publication on the JO website, 27th February 2024

Revised Target Allowed Revenues: Gas Year*

- The table below shows the output revenues from the method highlighted in the previous section that can be used to calculate a range of updated prices for the four main scenarios that can provide a range of impacts

Gas Year	2023/24			2024/25			2025/26			2026/27		
Split	Entry	Exit	Total	Entry	Exit	Total	Entry	Exit	Total	Entry	Exit	Total
75/25	802.16	278.66	1080.82	743.75	259.07	1002.82	752.64	261.74	1014.38	777.96	270.18	1048.14
50/50	535.91	506.03	1041.94	496.97	506.03	1003.00	502.90	511.36	1014.26	519.78	528.25	1048.02
25/75	269.66	811.74	1081.40	250.19	752.99	1003.18	253.15	760.98	1014.13	261.59	786.31	1047.91
5.1/94.9*	58.08	1023.55	1081.63	54.08	949.24	1003.32	54.69	959.34	1014.04	56.43	991.38	1047.81

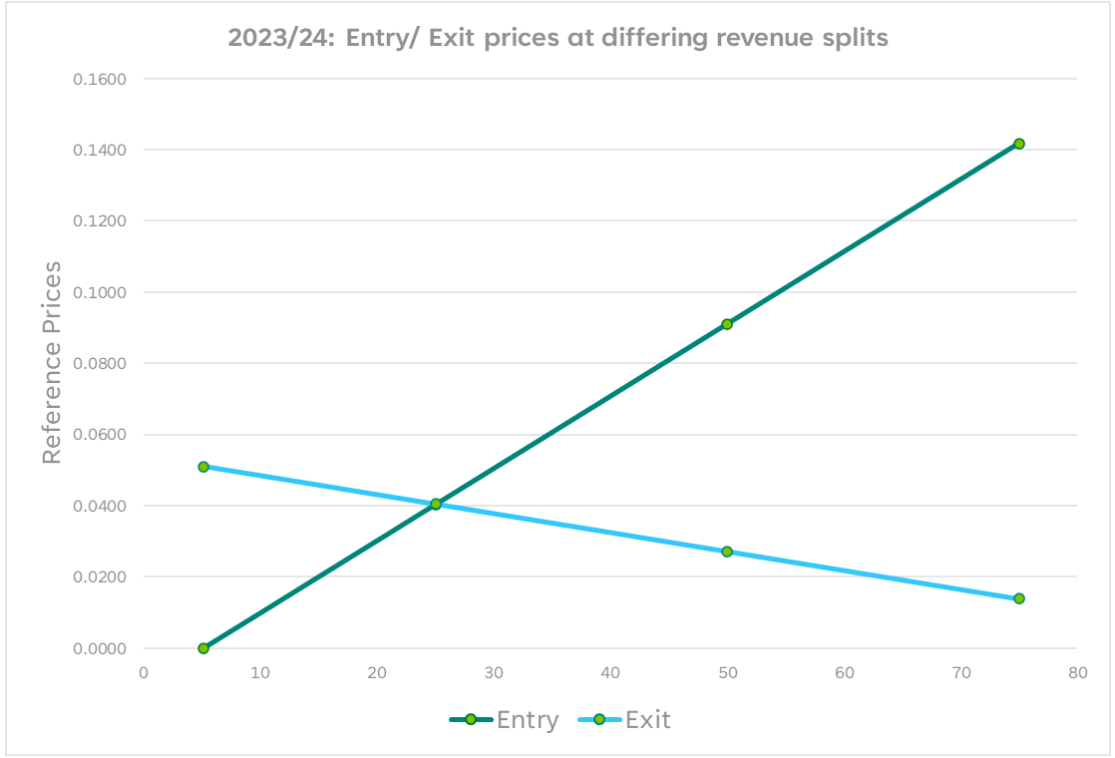
* **Note:** 5.1% is the lowest that can be modelled due to the value of existing contracts

- The output Entry and Exit prices are shown on the next slide

* This slide has been updated with our revised assumptions following the first publication on the JO website, 27th February 2024

Price Impact 2023/24*

2023/24	Entry Reference Price	Exit Reference Price
50/50 Baseline	0.0910	0.0272
25/75	0.0403	0.0405
5.1/94.9	0.0000	0.0510
75/25	0.1418	0.0139



- **Note 1:** 5.1% is the lowest that can be modelled due to the value of existing contracts
- **Note 2**: At a revenue split of 25.06/ 74.94 Entry and Exit prices are equal for GY 23/24 at 0.0404
- **Note 3:** Every percentage change to entry split leads to a c. 0.00203 change to entry prices and a c. 0.00053 change to exit prices

* This slide has been updated as a consequence of our revised assumptions following the first publication on the JO website, 27th February 2024

Price Impact – indicative forward prices*

Baseline

50/50	2023/24	2024/25	2025/26	2026/27	2027/28
Entry	0.0910	0.0859	0.0905	0.0901	0.0873
Exit	0.0272	0.0257	0.0262	0.0276	0.0284

25/75	2023/24	2024/25	2025/26	2026/27	2027/28
Entry	0.0403	0.0384	0.0411	0.0419	0.0418
Exit	0.0405	0.0382	0.0390	0.0410	0.0423

5.1/94.9	2023/24	2024/25	2025/26	2026/27	2027/28
Entry	0.0000	0.0007	0.0019	0.0036	0.0056
Exit	0.0510	0.0482	0.0492	0.0517	0.0534

75/25	2023/24	2024/25	2025/26	2026/27	2027/28
Entry	0.1418	0.1334	0.1398	0.1383	0.1329
Exit	0.0139	0.0132	0.0134	0.0141	0.0145

* This slide has been updated as a consequence of our revised assumptions following the first publication on the JO website, 27th February 2024

Discussion Points and Next Steps

From April NTSCMF onwards:

- We welcome reflections on what has been presented so far
- Continued development of assumptions & impact on prices based on feedback
- Building and maintaining a list of topics that need to be accommodated into the analysis and present areas where further thinking is required:
  - E.g. ‘K’, any transition period from status quo to a changed % split, accommodating Existing Contracts
- Analysis can be shaped following comments and feedback as we go though
- Reviewing potential benefits and / or issues of reviewing this or any associated topic as we work it through and how/if they can be accommodated or tested through the analysis process
- Stakeholders input, through NTSCMF or direct, will be invaluable as this topic is given time for discussion.

Draft Timeline

January 2024

Set out structure of discussions via NTSCMF

February 24 - July 24

Options will be discussed and developed through a standing NTSCMF agenda item

August 2024

Raise potential UNC Modification

August 24 - April 25

UNC Modification Workgroup development

May 2025

UNC Modification for consultation

June 25 - January 26

Ofgem to complete impact assessment if required and make decision on Proposal

January 2026

Approval required by May 2026 for October 2026 implementation

October 2026

Aim to implement changes to come into effect for the prices applicable from 01 October 2026

The above dates are indicative only. The outcome of discussions will inform the plan going forwards.

Thank you

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national gas transmission