



Transmission Services Charging: Future Developments

NTSCMF Discussions

June 2024



Transmission Services: Review Agenda

Overview

Consumer Benefits

Relevant Objectives

Relevant Charging Objectives

Next Steps

Transmission Services: Review

- At May's NTSCMF, we discussed interpretation and considerations of the Relevant Objectives and Charging Relevant Objectives as a means to identify areas of development. Thank you for your input. This month:
 - To reflect on the Consumer Benefits in discussing the Entry / Exit split and its part in Transmission Services charging with a view of how this assessment could be more informative.
 - To re-visit the key Relevant Objectives and Charging Relevant Objectives considered in May's meeting.
 - To follow on from May's NTSCMF to provide a basis on which to help Stakeholders share their views on the status quo and any potential change.
- **Please share your thoughts and feedback with us throughout;** your input is vital. Our contact details can be found in the pack if you would like to speak to us outside of NTSCMF.



Transmission Services Charging: Future Developments

NTSCMF Discussions: Consumer Benefits

June 2024



Transmission Services: Consumer Benefits & Relevant Objective

- This section would benefit from Stakeholder input to enhance the discussions.
- Discussion around impacts of change on consumer benefit area and questions around its relevance to the 50/50 split, to help shape reflections. The consumer benefits/impacts is part of the UNC change template and always a factor when considering UNC change proposals.
- When discussing the consumer benefit areas, consideration needs to be given to each consumer group (can equally be considered against Customers of Transportation charges)
 - With a view to developing some improvements, using feedback on how consumer impacts might be measured and / or what assumptions can be made to help make this as relevant as possible.
- Re-visit the key take-aways from the Relevant Objectives and Relevant Charging Objectives discussion from last month.
- We welcome feedback and views on this approach to help shape further. This is by no means exhaustive in terms of interpretation / reflections and will be further enhanced with Stakeholder input.

Consumer Benefit Areas

Consumer Benefit	Considerations for Entry/ Exit Split
<p>Improved safety and reliability Will this change mean that the energy system can operate more safely and reliably now and in the future in a way that benefits end consumers? This area would relate to changes which balance the system safely, securely and at optimum cost, particularly for consumers in vulnerable situations.</p>	<p>Don't believe the Entry/Exit split arrangements will have an impact on safety or reliability.</p>

Consumer Benefit Areas

Consumer Benefit	Considerations for Entry/ Exit Split
<p>Lower bills than would otherwise be the case Will this change lower consumers' bills by controlling, reducing, and optimising spend, for example on balancing and operating the system? This area would relate to changes that are likely to benefit end consumers. This could include any change where it has been demonstrated that it could lower bills for end consumers. It would also consider changes which introduce flexibility across the market to flow energy at the most efficient profile, lower operational costs. and make sure GB consumers can access the cheapest sources of energy. If possible, this section should include any quantifiable benefits. What costs or benefits will pass through to consumers?</p>	<p>What impact would a change to the entry/exit split have on consumer bills?</p> <ul style="list-style-type: none">• Impacts of a larger Exit proportion and why• Impacts of a larger Entry proportion and why• What assumptions do stakeholders make when considering these impacts?• Considerations: Price of gas, savings/costs passed to consumers, impacts on different consumer groups, effects of the increase in one tariff and a decrease in the other.

Consumer Benefit Areas

Consumer Benefit	Considerations for Entry/ Exit Split
<p>Reduced environmental damage</p> <p><i>Will this Modification Proposal support: a reduction in Greenhouse Gas emissions? new providers and technologies? a move to hydrogen or lower greenhouse gases? the journey toward statutory net-zero targets? decarbonisation?</i></p> <p><i>This area would relate to changes which demonstrate innovative work to design solutions which ensure the system can operate in an environmentally sustainable way both now and in the future.</i></p> <p><i>Proposers must provide the impact (if any) of the Modification proposed on Greenhouse Gas Emissions, if it is likely to be material. The Proposer shall assess the quantifiable impact of such Modification in accordance with the Authority's Carbon Costs Guidance</i></p>	<p>Don't believe the Entry Exit split arrangements impacts on this area</p>

Consumer Benefit Areas

Consumer Benefit	Considerations for Entry/ Exit Split
<p>Improved quality of service <i>This area would focus on demonstrating why and how the change can improve the quality of service for some or all end consumers. Improved service quality ultimately benefits the end consumer due to interactions in the value chains across the industry being more seamless, efficient, and effective.</i></p>	<p>Don't believe the Entry Exit split arrangements impacts on this area</p>

Consumer Benefit Areas

Consumer Benefit	Considerations for Entry/ Exit Split
<p>Benefits for society as a whole <i>This area would relate to any other identified changes to society, such as jobs or the economy.</i></p>	<p>Impacts on overall economy:</p> <ul style="list-style-type: none">• Would a change lead to economies of scale and increased throughput?• Would competition be enhanced for non-domestic customers?• Could a change make GB a more attractive place to land gas?• Impacts on the electricity market?• Impact on stability/volatility of the tariffs and subsequent consumer impacts



Transmission Services Charging: Future Developments

NTSCMF Discussions: Relevant Objectives and Charging Relevant
Objectives Re-visit

June 2024



Relevant Objectives

a) Efficient and economic operation of the pipe-line system.

Our Understanding/ interpretation	Considerations for Entry/ Exit Split	Discussion Summary:
<p>Pipeline operations and infrastructure are extremely critical for the country's functioning and growth. Economic efficiency implies a state in which resource is optimally allocated whilst minimising waste and inefficiency. Getting the right inputs at the lowest cost</p> <p>Considerations may include:</p> <ul style="list-style-type: none"> • Fuel costs (compressors) • Personnel • Cost of service (capacity charges etc) • Maintenance • Investment • Data & information • Economies of scale (throughput) • Running of the network • Residual balancing • Commercial processes (e.g. capacity auctions) 	<p>Tariffs underpin the economic viability of the NTS. Ofgem set the amount of Allowed Revenue (via the Price Control funding model) we can recover in terms of recovering capital costs, operating costs and expected return. Tariffs are structured in a way to allow this recovery.</p> <p>Do the current arrangements promote efficient and economic operation?</p> <p>Would any amendment to the split enhance this objective if balance were to be more Entry or Exit? Would any consideration be needed in regards to any changes in booking & flow behaviours as a result.</p>	<ul style="list-style-type: none"> • Economies of scale is a key consideration area – can throughput be increased. Would an amendment to the entry/ exit split lower the prices paid by large industrials making them more competitive • If transit gas could be encouraged, this could increase throughput and therefore reduce charges • Question if we should be considering greater use given the drive to net zero. • This objective is relevant for a charging discussion.

Relevant Objectives

- b) Coordinated, efficient and economic operation of
 (i) the combined pipe-line system, and/ or
 (ii) the pipe-line system of one or more other relevant gas transporters.

Our Understanding/ interpretation	Considerations for Entry/ Exit Split	Discussion Comments
<p>Bringing together the different elements of the combined pipeline system through clarity and certainty around how the connected systems will be operated</p> <p>Cooperation between the NTS, IGTs and Distribution Networks</p> <p>[Note: does not include cooperation with interconnectors as this objective relates to holders of a Transportation Licence]</p>	<p>Do the current arrangements promote coordinated efficient and economic operation?</p> <p>Any potential change to entry/ exit split may not directly impact this objective, however consideration will need to be given to existing discounts.</p>	<ul style="list-style-type: none"> • Confirmed relevant gas transporters were those who were a Licenced gas transporter • Does not appear to be the most important of the relevant objectives • Changes in booking behaviours would need to be considered as part of an entry/exit split.

Relevant Objectives

c) Efficient discharge of the licensee's obligations.

Our Understanding/ interpretation	Considerations for Entry/ Exit Split	Discussion Comments
The provision of enhanced information/ outputs for any of our obligations or any new Licence obligations to ensure that UNC accurately reflects changes to the Licence.	In relation to charging this is set out on Standard Special Condition A5 of our Licence Believe this is neutral	No further comments from workgroup

Relevant Objectives

d) Securing of effective competition:

(i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers

Our Understanding/ interpretation	Considerations for Entry/ Exit Split	Discussion Comments
<p>Competition is considered effective if there are no significant barriers to access products and services – there is a level playing field.</p> <p>Considerations (not exhaustive) may include:</p> <ul style="list-style-type: none"> • Capacity auction/ allocation • Charging structure • Gas quality • Data and information 	<p>How does the status quo support effective competition? Would any change enhance competition?</p> <p>Would a change to the Entry/ Exit split lead to increased competitiveness within GB and to Europe?</p> <p>Are there any cross-subsidy considerations?</p> <p>Can the balance between Entry and Exit adjust to support competition, considering at a combined and individual Entry/Exit level?</p>	<ul style="list-style-type: none"> • Highlighted a disagreement with NGTs interpretation of the objective. This objective contains a competition element between shippers and does not appear to consider competitiveness of GB. Competitiveness of GB would be considered under relevant objective a.

Relevant Objectives

e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards are satisfied as respects the availability of gas to their domestic customers.

Our Understanding/ interpretation	Considerations for Entry/ Exit Split	Discussion Comments
<p>Domestic customer supply security standards are defined in Special Condition A11 of the Licence.</p> <p>This relates to the availability of a supply of gas to domestic customers in regards to historical weather data derived from at least the previous 50 years, is likely to be exceeded only 1 year in 20.</p>	<p>Believe this is not relevant for Transmission Services charging arrangements.</p> <p>Explains DN capacity booking behaviour.</p>	<p>No further comments</p>

f) Promotion of efficiency in the implementation and administration of the Code.

Our Understanding/ interpretation	Considerations for Entry/ Exit Split	Discussion Comments
<p>Ensure that UNC is up to date with Licence amendments including housekeeping. Any enhancements to the modification rules and governance process</p>	<p>Believe this is not relevant for Transmission Services charging arrangements.</p>	<p>No further comments</p>

Relevant Objectives

g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.

Relevant Objective	Our Understanding/ interpretation	Discussion Comments
<p>EU Network codes were developed ~ 10 years ago. We are required by law to adhere to these. This objective was added to facilitate any modifications that had to be raised to ensure compliance with EU Law.</p>	<p>When considering any change to the status quo, compliance will need to be considered.</p> <p>We believe that the output of a potential amended entry/ exit split will be compliant. However, the method we use to apply any amendments would need to be reviewed.</p> <p>Once we have a proposal, this can be worked through in more detail</p>	<ul style="list-style-type: none">Other EU countries have differing arrangements. Netherlands for example have a 40/60 split and have introduced a 20% LNG discount for 2025 and 2026.

Relevant Charging Objectives

a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;

Relevant Objective	Our Understanding/ interpretation	Discussion comments
<p>As set out in SC A5 of the Licence, the charging methodology results in charges which permit NGT to make reasonable profit and no more from its Transportation business.</p> <p>The current methodology can be viewed as a revenue recovery model as opposed to cost recovery model (which does not explicitly match the wording of the relevant objective). We have access tariffs (capacity) and use of network tariffs (commodity charges).</p> <p>Does not include connection charges, or some development stages (e.g. PARCAs)</p>	<p>Ofgem set the amount of Allowed Revenue (via the price control funding model) we can recover in terms of recovering capital costs, operating costs and expected return (incentives). Tariffs are structured in a way to allow this recovery.</p> <p>Are the tariffs reflective of the methodology we are trying to apply?</p> <p>Are the tariffs fair?</p> <p>What discounts should be considered?</p>	<ul style="list-style-type: none"> In relation to discounts, it would be worth considering approach taken by other EU countries which have introduced LNG discounts to enhance security of supply.

Relevant Charging Objectives

aa) That, in so far as prices in respect of transportation arrangements are established by auction, either:

no reserve price is applied, or

that reserve price is set at a level -

(I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and

(II) best calculated to promote competition between gas suppliers and between gas shippers;

Our Understanding/ interpretation	Considerations for Entry/ Exit Split	Discussion Comments
<p>For Transmission Services, prices are calculated using a ‘top-down’ approach. The Allowed Revenue for Transmission services is split equally between Entry and Exit. FCC, volume of existing contracts, and discounts then drive the capacity reference prices.</p> <p>This objective is looking at the auction process. If you change the entry/ exit split, prices are calculated in the same way as per the current methodology. It is the apportionment of revenue that will (potentially) change</p>	<p>This objective could be considered neutral if we are just looking at amending the entry/ exit split. However, there are consequences to this that may need further thought:</p> <ul style="list-style-type: none"> • Would an amended split lead to changes in booking behaviour or increased/ decreased throughput / impacts to competition for capacity / impacts to prices & premiums? • Could reserve price changes lead to impacts on Existing Contracts? • Any general implications for auction related processes if prices were to reduce significantly? <ul style="list-style-type: none"> • Incentive to purchase capacity & Overrun implications 	<ul style="list-style-type: none"> • There is an association between a change in price and a change in behaviour. However, the impacts would be difficult to assess accurately • Existing contracts cannot be cancelled/ returned • Implications regarding Ofgem assessments and difficulty in proving theory quantitatively.

Relevant Charging Objectives

b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;

Our Understanding/ interpretation	Considerations for Entry/ Exit Split	Discussion Comments
<p>Does the charging methodology recover charges as intended.</p> <p>This could include considerations around the patterns of use of the NTS, as well as external factors such as gas price volatility</p> <p>This could also include updating alongside Licence conditions, expectations or obligations.</p>	<p>Have there been any developments in the transportation business that we need to consider that can be addressed by the entry/ exit split?</p> <p>Are there any external factors that require consideration (e.g. development of LNG facilities across EU, GB competitiveness compared to other countries)</p>	<ul style="list-style-type: none"> • Since the 50/50 split has been in place, there has been a shift in how GB operates. The historic beach to meter and patterns of supply have changed significantly. • This is a very relevant objective in relation to the entry/exit split • Compliance with EU TAR will be key

Relevant Charging Objectives

c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers;

Our Understanding/ interpretation	Considerations for Entry/ Exit Split	Discussion Comments
<p>Competition is considered effective if there are no significant barriers to access products and services – there is a level playing field.</p> <p>In terms of the Charging Methodology, considerations may include:</p> <ul style="list-style-type: none"> • Capacity auction/ allocation process • Charging structure and timeliness of publication of charges • Data and information • Discounts 	<ul style="list-style-type: none"> • How does the status quo promote competition from a pricing perspective? • Are there currently any pricing barriers to the network? • How sensitive are shippers to price when considering GB as a place to land gas? • Should we have the same pricing methodology for all connection points? • What is the right amount Entry should pay? What is the right amount exit should pay? (currently entry prices higher than for exit) • Can pricing arrangements impact security of supply? 	<ul style="list-style-type: none"> • Competitiveness of GB and security of supply is not a relevant objective – this is government’s remit. • There is anecdotal evidence that traders have referenced entry costs being a barrier • This objective is around fairness and equity between shippers. Prices should not drive competition but facilitate it. Charges should be fair, equitable and benign. • Need to consider (if possible) the impact on NBP prices. Does a change to entry/ exit split lead to a shift in the NBP

Relevant Charging Objectives

d) That the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).

Our Understanding/ interpretation	Considerations for Entry/ Exit Split	Discussion Comments
The Licensee shall not dispose of or relinquish operational control over any transportations assets, save where the Secretary of State otherwise agrees.	Considered neutral/ not relevant	There were no further comments

e) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.

Our Understanding/ interpretation	Considerations for Entry/ Exit Split	Discussion Comments
EU Network codes were developed ~ 10 years ago. Further EU changes will be considered in terms of how/if they are incorporated.	<p>We believe that the output of a potential amended entry/ exit split will be compliant. However, the method we use to apply any amendments would need to be reviewed.</p> <p>Once we have a proposal, this can be worked through in more detail</p>	Option of aligning with electricity changes.

Relative Charging Objectives and Relevant Objectives

- There may be differences in interpretation of Relevant Charging Objectives and Relevant Objectives
- There is an element of duplication between the Relevant Objectives and the Charging Relevant Objectives
- Focus attention on the Charging Relevant Objectives primarily and then consider the Relevant Objectives
- All Relevant Objectives have an equal weighting however some are likely to draw more discussion in relation to this topic than others and these should be focused on.



Transmission Services Charging: Future Developments

NTSCMF Discussions: Next Steps

June 2024



Next Steps

We welcome reflections on what has been presented so far and how we take it forwards.

From July NTSCMF onwards:

- **Development discussions on status quo vs potential changes**
- **Analysis supporting discussions**

Reviewing potential benefits and/or issues of Transmission Services charging and reforms

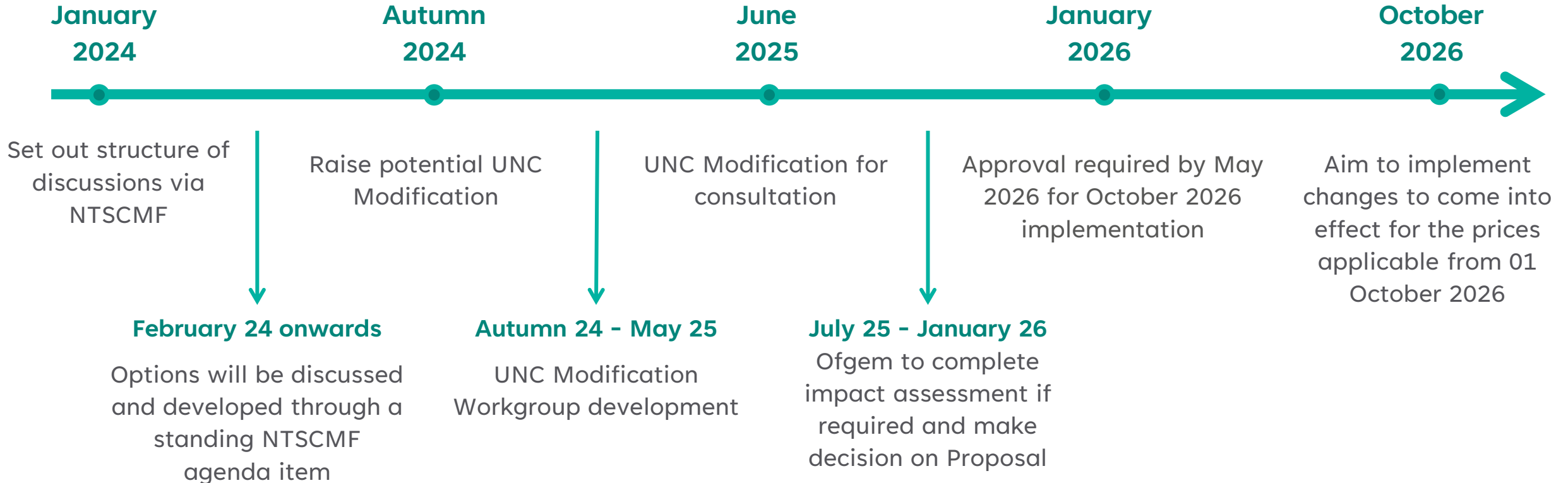
Are there any other drivers or objectives that changes could aim to deliver

Additional analysis is an important supporting tool to inform discussions

We suggest that we bring some scenarios and analysis in July to assess options against the relevant objectives, charging relevant objectives, and consumer impact areas

At all times, Stakeholders input through NTSCMF or direct, will be invaluable as this topic is given time for discussion.

Draft Timeline



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

Thank you

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