

Gas
Transmission

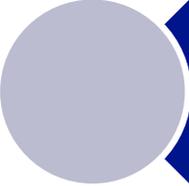
Gas Transportation Charges Update

8 December 2020

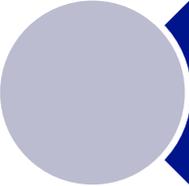
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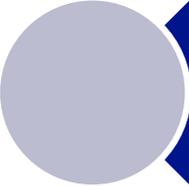
Logistics



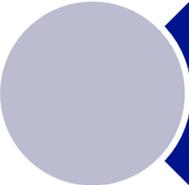
Should last for approximately about 90mins (45mins material and time for questions)



Questions and polling via www.sli.do #32428



All callers will be placed on mute



We will circulate the slides and a recording of this webinar

Welcome

- The new gas charging regime (UNC678A) came into effect from 01-Oct-20
- Monitoring and reflecting on the impacts of the new regime from October had been planned post implementation. Observing the data for October 2020 highlighted concerns with levels of Capacity Neutrality and the likely significant under recovery up to March 2021.
- In early November we notified to industry that we were considering price changes to the revenue recovery charge and potential UNC changes to Capacity Neutrality. Updated prices were issued on 30 November 2020 to be effective from February 2021.
- Should the Modifications related to Capacity Neutrality be implemented they would likely adjust any revenue recovery charges notified

Who we are...



**Chris
Logue**
Market Change Delivery
Manager



**Colin
Williams**
Commercial Codes
Change Manager



**Dave
Bayliss**
Senior Revenue
Analyst

Agenda

- This Webinar is split across four main areas areas:
 1. Reminder of the Regulatory changes implemented from October 2020
 2. High level review of October and November with observations and reasons for signalling specific Transportation Charging changes and UNC change proposals to Capacity Neutrality
 3. Published updates to Transportation charges and the potential impacts of the proposed UNC changes to Capacity Neutrality
 4. Next Steps
- We will close with a Q&A session – questions can be raised via www.sli.do #32428

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Regulatory Changes from October 2020

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Regulatory Changes from October 2020

- Changes to Gas Transportation charging following Ofgem's decision on 28 May 2020 to implement UNC0678A with effect from October 2020 ([https://www.ofgem.gov.uk/system/files/docs/2020/05/unc678 - decision_0.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/05/unc678_-_decision_0.pdf))
- New framework focuses on Capacity charges to recover Transmission Revenues with a new methodology to calculate capacity reserve prices

Changes:

- Uniform Network Code (UNC) Modification proposal 0678A: Postage Stamp pricing for Transmission capacity reserve prices (i.e. one Entry and one Exit price irrespective of geographic location) with the payable price changing each year
 - Except for long term Entry capacity booked before 6 April 2017
- All capacity reserve prices the same (annual, daily, etc) except:
 - 10% discount to reserve prices for interruptible / off peak capacity
 - 50% discount to reserve prices for Storage Capacity
- Managing Transmission Revenue Recovery within year via capacity-based charges.
- Non-Transmission Charges (broadly aligning to SO) recovered via a commodity charge.

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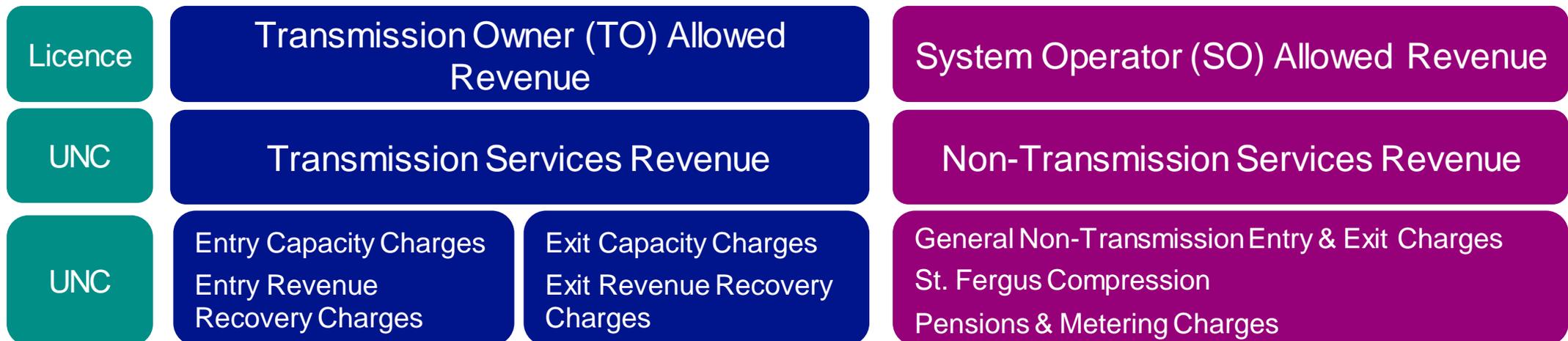
Revenue alignment

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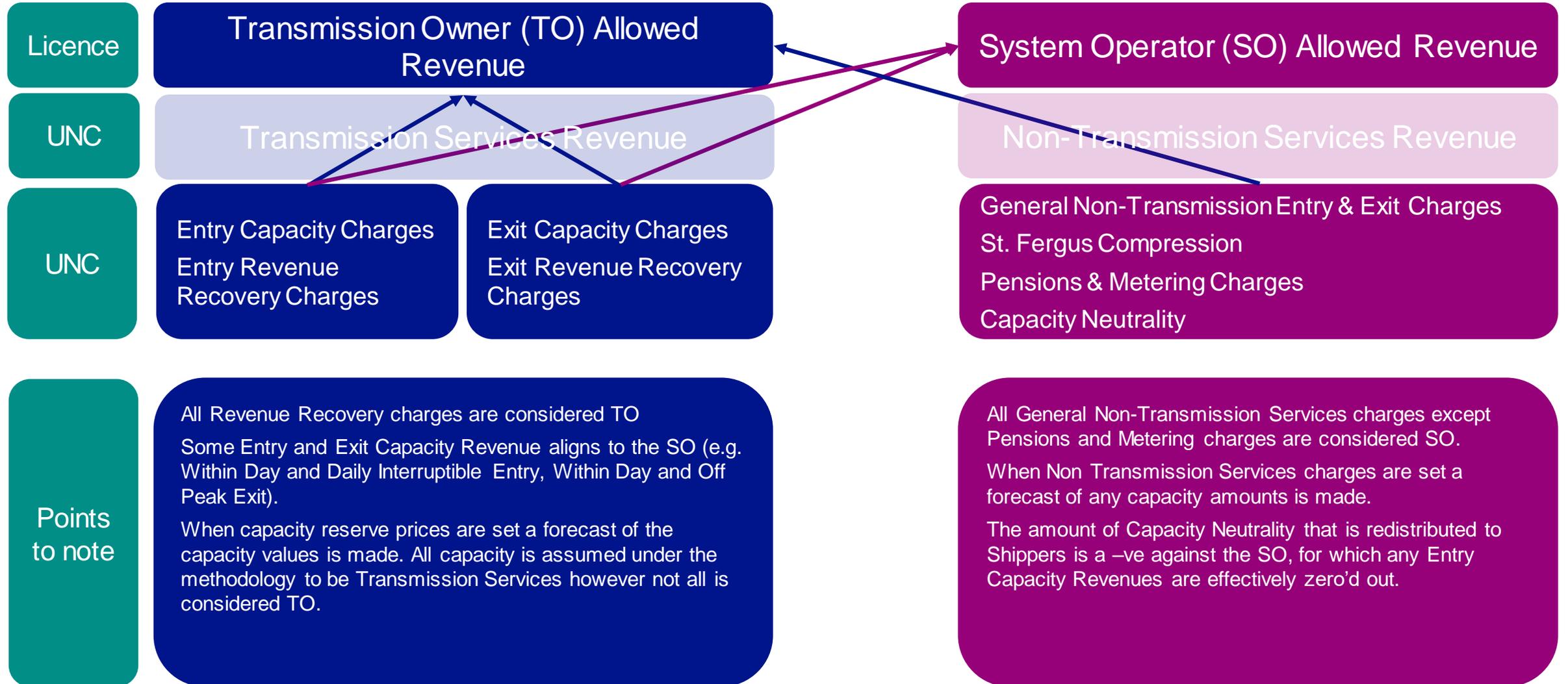


Gas Charging – Changes from October 2020

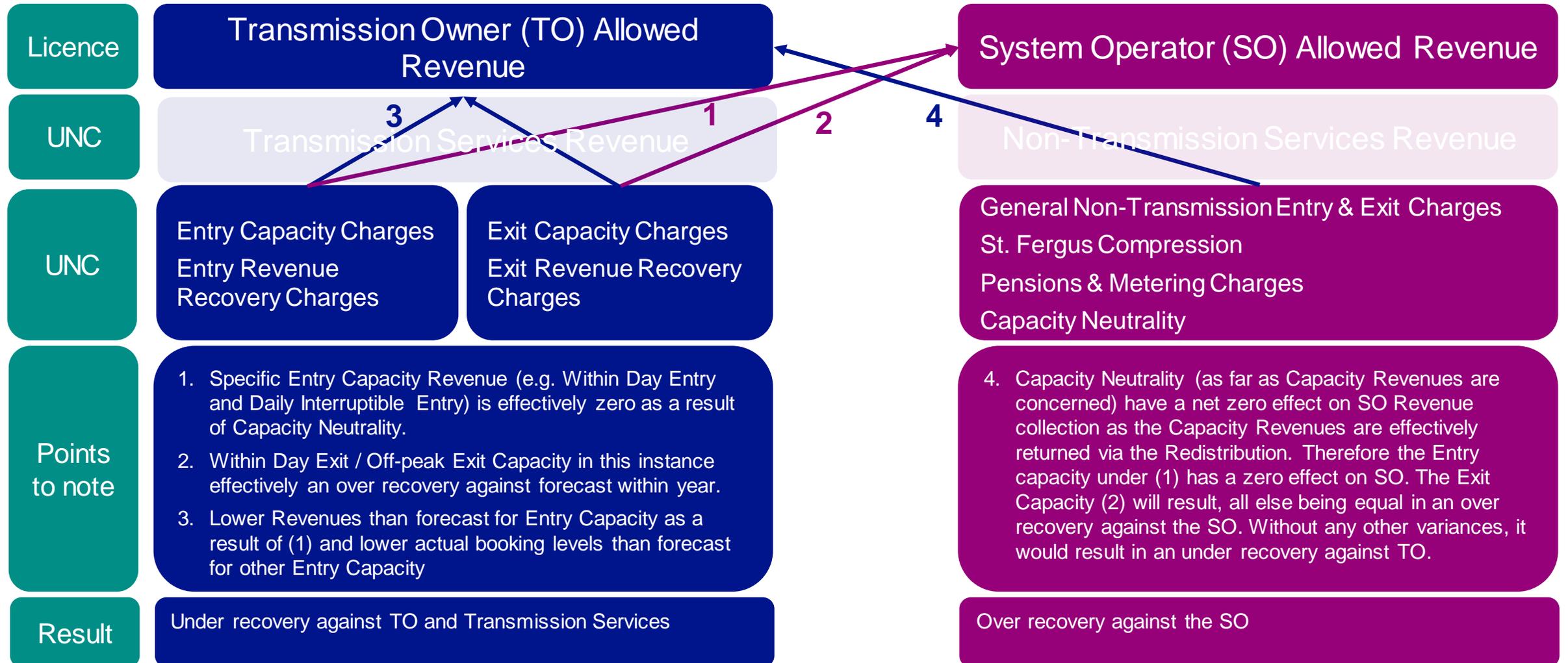
- **Two types of charges** will be effective from 1 October, that will therefore be visible in all invoices issued from November with the ex-post invoicing that takes place.
 - Transmission Services Revenue, which broadly aligns to the Transmission Owner (TO) Revenue, will be recovered by **Transmission Services Charges**
 - Non-Transmission Services Revenues, which broadly aligns to the System Operator (SO) Revenue, will be recovered by **Non-Transmission Services Charges**
- Overview of the main charges and what they recover



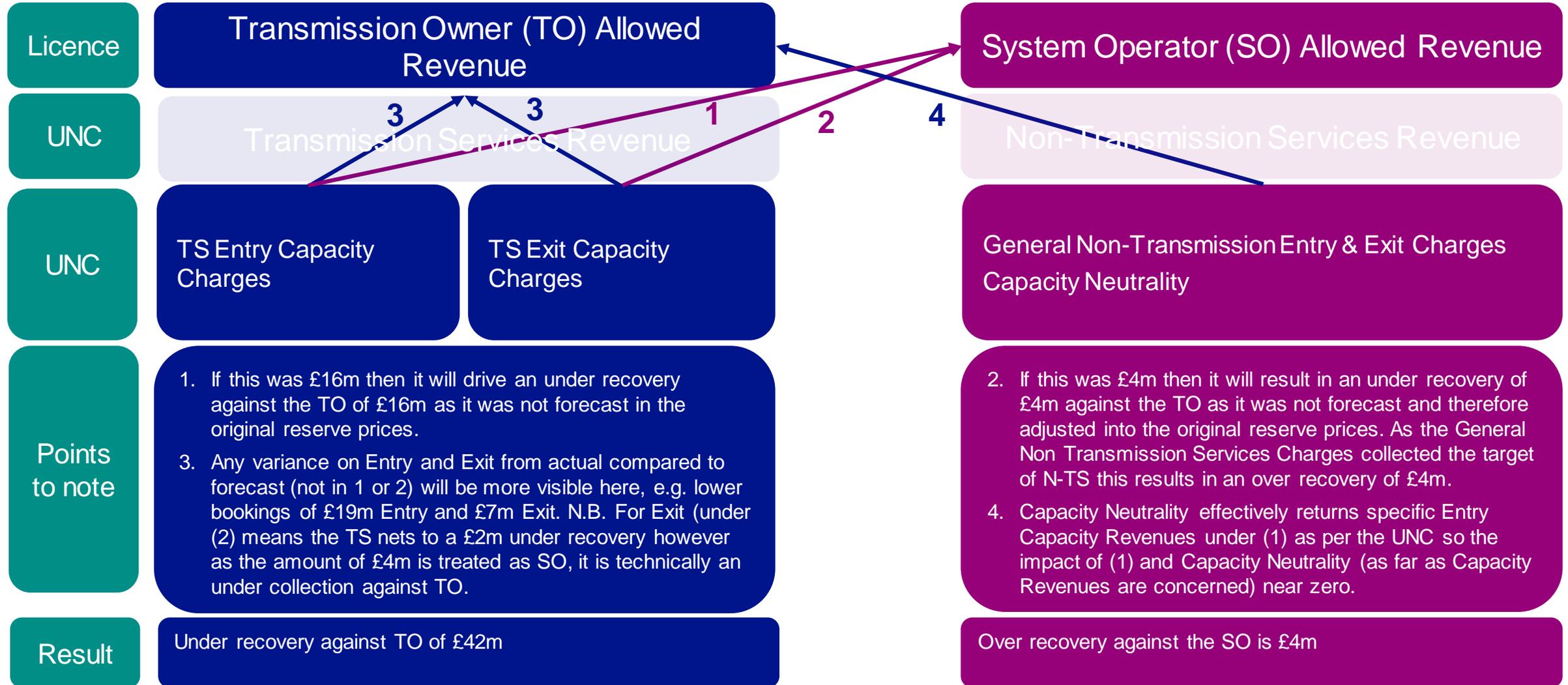
Gas Charging – How the UNC and Licence interact



Gas Charging – Breaking down the under recovery



Gas Charging – Example using October 2020



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Observations
/ Signalling
changes

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Main reasons for under recovery - summary

- Deviation from forecasts used in setting capacity reserve prices and revenue recovery of allowed revenues
 - for capacity bookings which includes the amount and the profiling across the month(s)
 - Capacity bookings can vary across the range of capacity products on Entry and Exit including those attracting discounts under the new regime
- Capacity neutrality (impacts Entry only)
 - Revenues which flow through capacity neutrality do not contribute towards collection of Maximum Allowed Revenue (MAR)
 - The value of revenues which have historically flowed through capacity neutrality have been low, now the revenues flowing through capacity neutrality are higher.



- Whilst there is a logic to including such revenues in capacity neutrality the increase in revenues associated to this process due to the new charging regime means that this should be reviewed.

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Published prices
and potential
impacts with
UNC proposals

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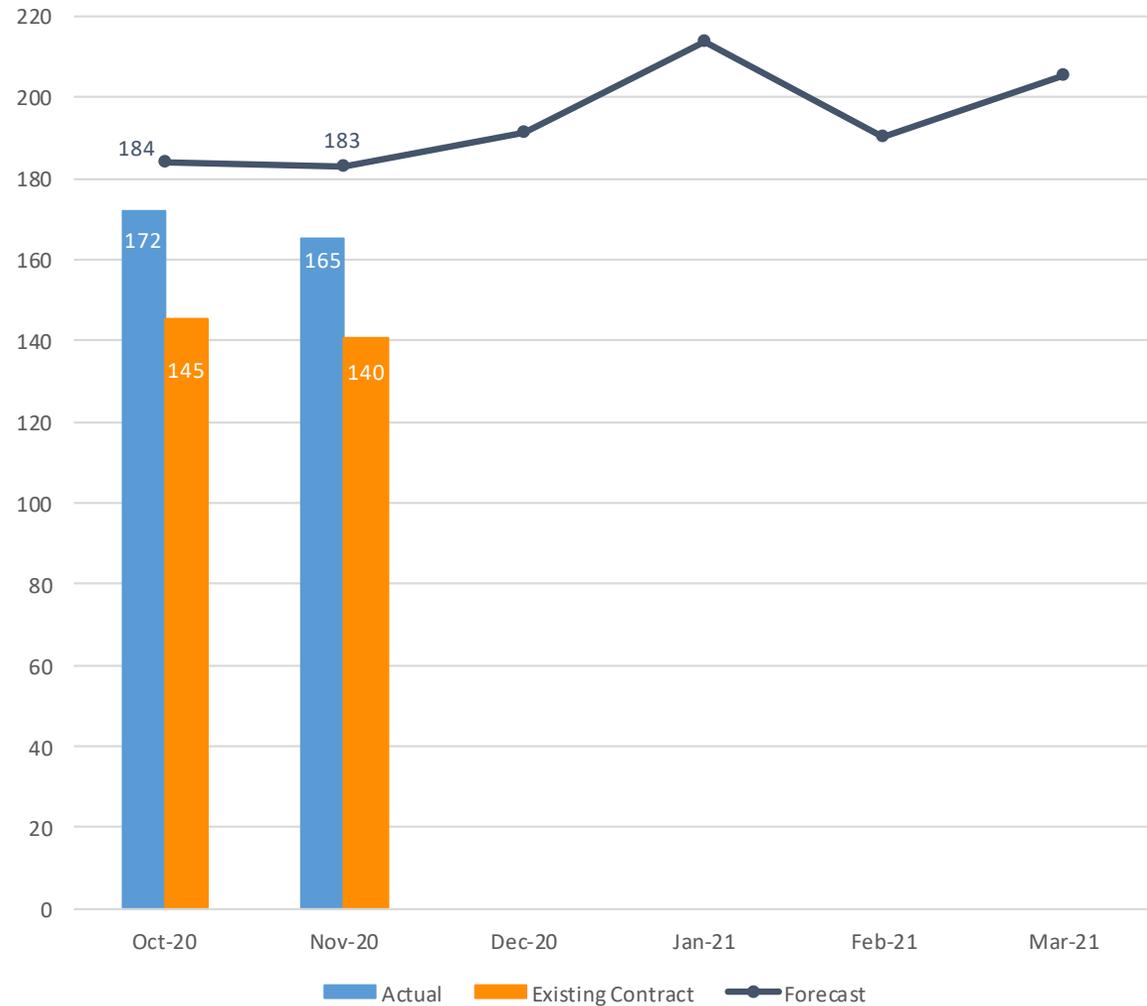


Published Prices for updated TSRRCs, General N-TS charges

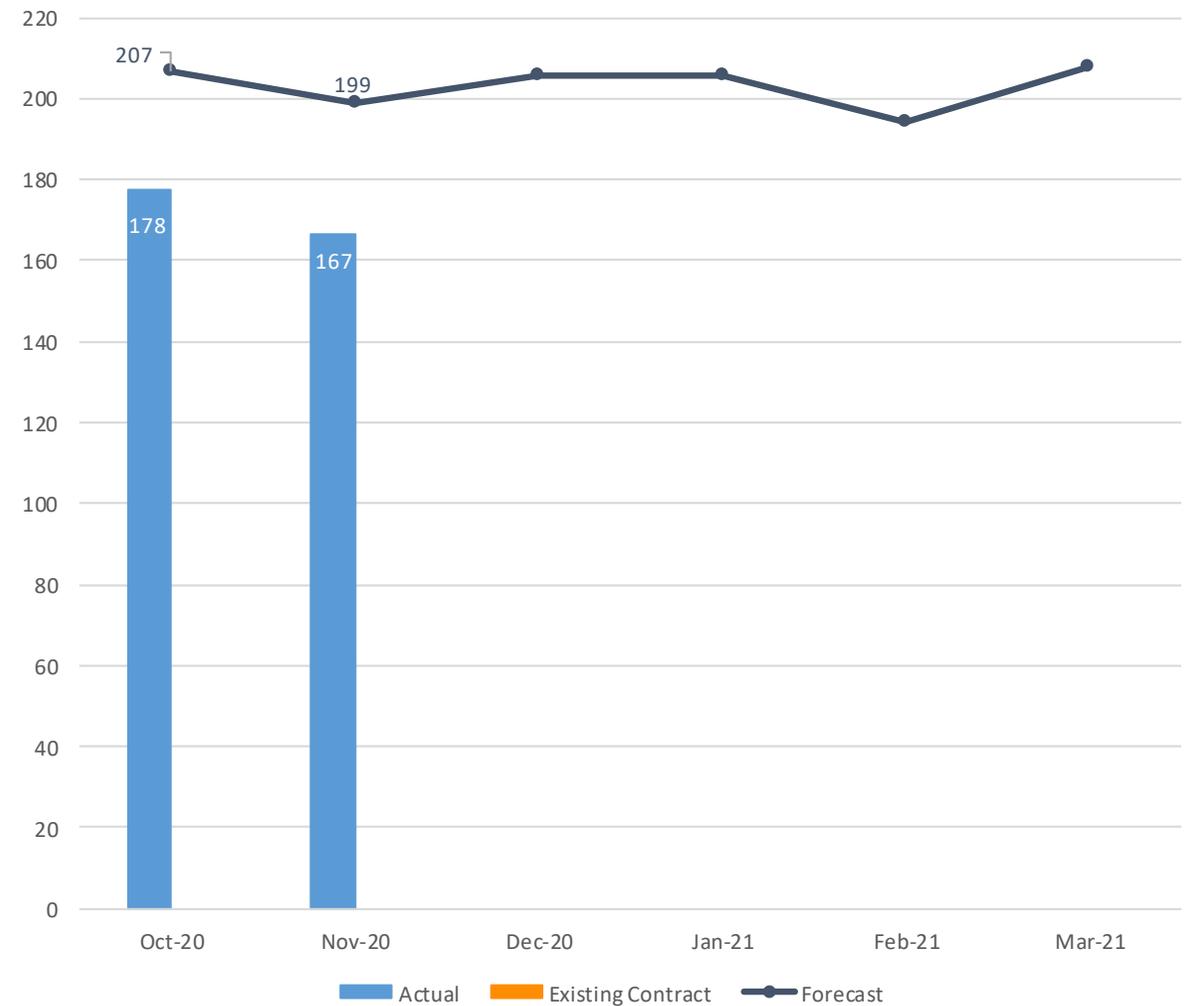
- **Three types of charges** were updated and published on 30 November 2020 to be effective from 1 February:
 - **Transmission Services Entry Revenue Recovery Charge**, which aligns to the Transmission Owner (TO) Revenue is 0.0717p/kWh/d. This will be applied from 01 February 2021 for a duration of five (5) months (February 2021 to June 2021 inclusive). Any charges from April 2021 will be in addition to this.
 - **Transmission Services Exit Revenue Recovery Charge**, which aligns to the Transmission Owner (TO) Revenue is 0.0124p/kWh/d. This will be applied from 01 February 2021 for a duration of two (2) months (February 2021 and March 2021). Any charges from April 2021 will therefore not include this.
 - **General Non-Transmission Services Charges** which aligns to the System Operator (SO) Revenue is 0.0064p/kWh. This will be applied for a duration of two (2) months (February 2021 and March 2021). Any charges from April 2021 will therefore not include this.
 - N.B. Charges from April will consider the need for updated prices in light of continuing to review and monitor the revenue recovery position. National Grid will also be under a new Price Control Settlement (R11O2) that is effective from April 2021 which will set the revenues to recover from April 2021 onwards.

Forecasts vs Actuals – Capacity: October 2020

Entry Capacity - Forecast v Actuals (TWh/m)

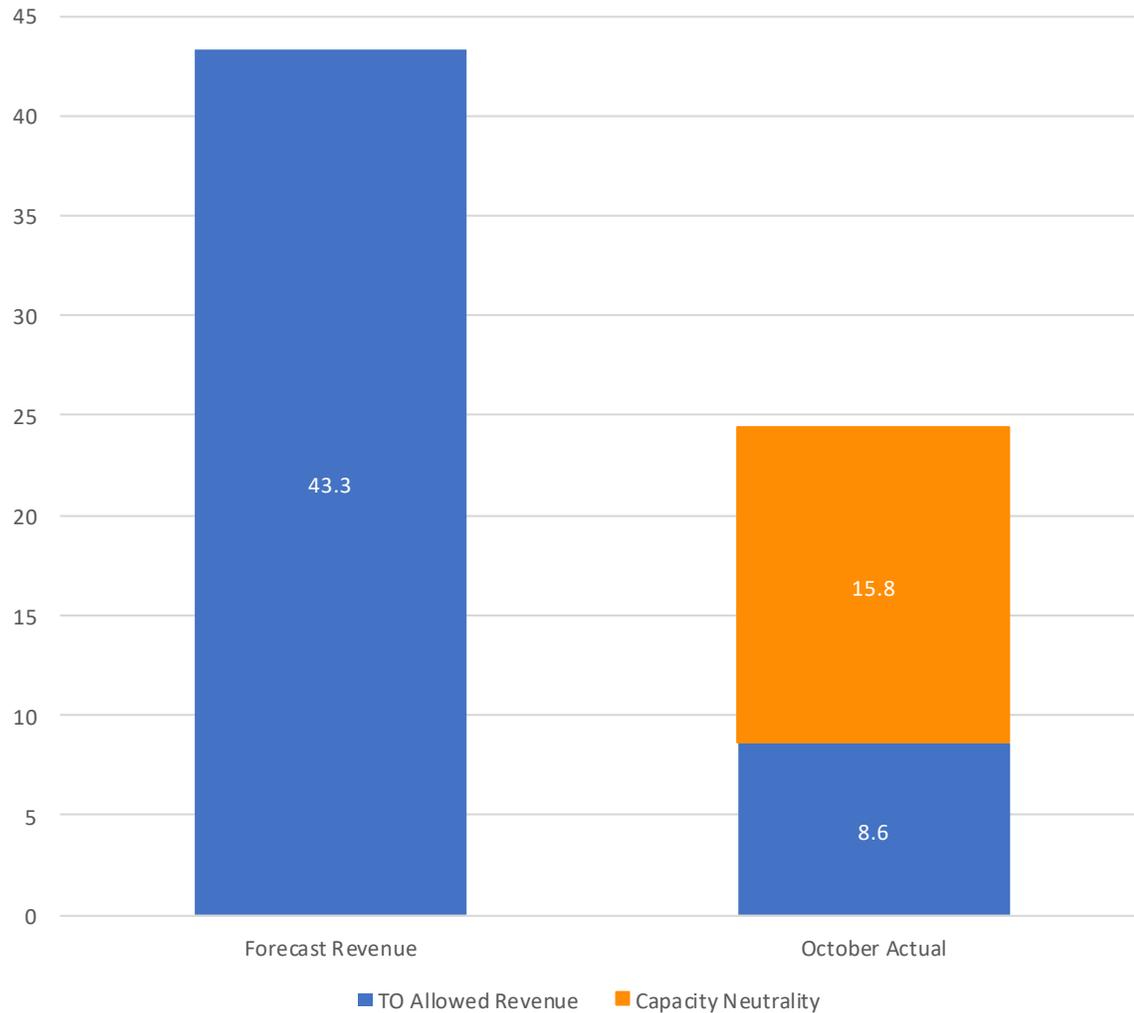


Exit Capacity - Forecast v Actuals (TWh/m)

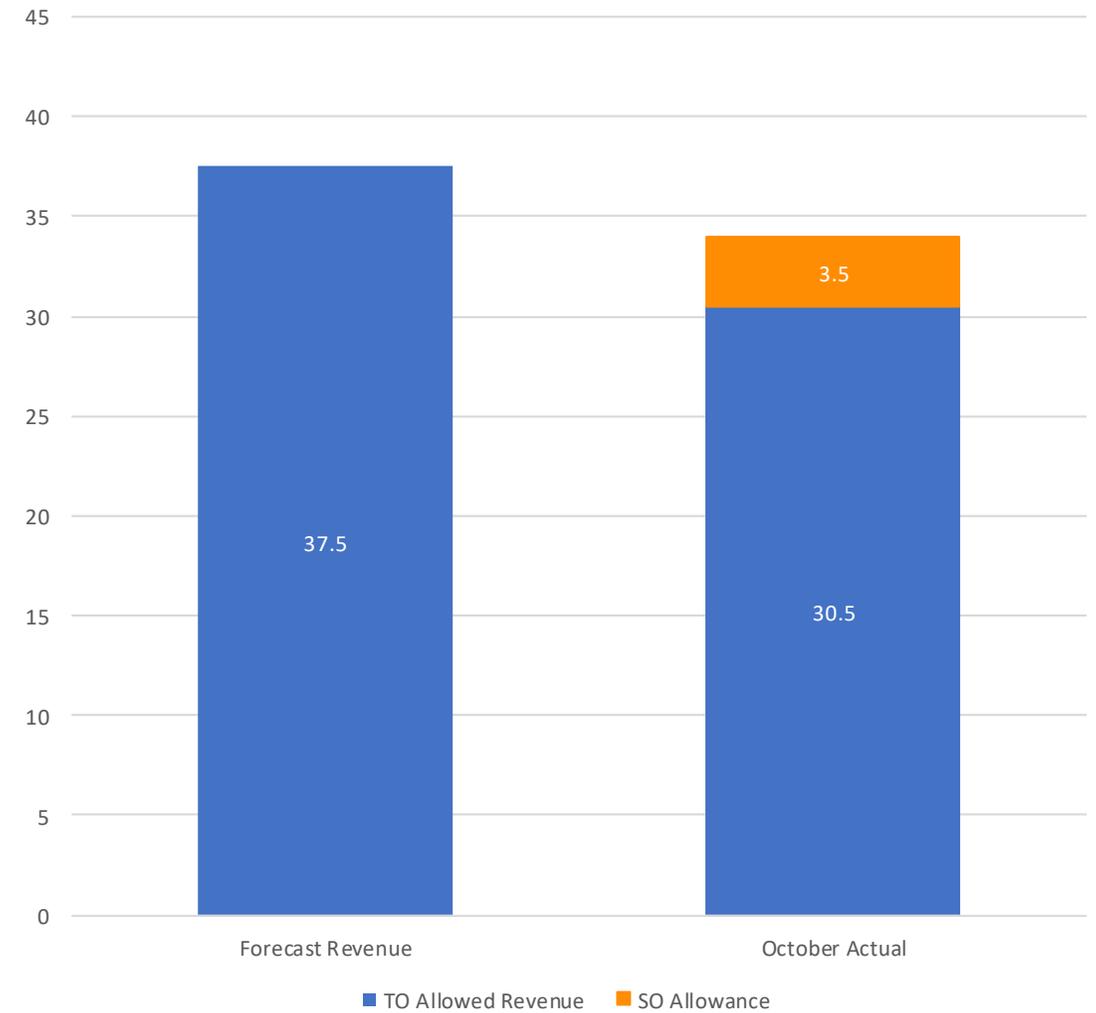


Forecasts vs Actuals – Revenue: October 2020

Entry Capacity Revenue - Oct 20 (£m)



Exit Capacity Revenue - Oct 20 (£m)



Forecast Under-Recovery Oct 20 – Mar 21

	Entry
Target Revenue	£274m
Forecast TOTAL CAPACITY	£154m
Capacity Neutrality	£93m
TO Revenue	£61m
TO Under-Recovery	(£213m)
Entry TSRRC	0.0717
	Feb 21 – Jun 21 (5 months)

	Exit
Target Revenue	£219m
Forecast TOTAL CAPACITY	£198m
SO Revenues	£22m
TO Revenue	£176m
TO Under-Recovery	(£43m)
Exit TSRRC	0.0124
	Feb 21 - Mar 21 (2 months)
General Non Transmission	0.0064 (previously 0.0128)
	Feb 21 - Mar 21 (2 months)

TSRRC Calculation

Anticipated Under / Over
Recovery

Fully Adjusted Capacity

	Entry RRC	Exit RRC
Under-Recovery Value to be collected via RRC	Forecast TO Entry under-recovery Oct 20 – Mar 21 £213m	Forecast TO Exit under-recovery Oct 20 – Mar 21 £43m
FCC	The Entry FCC is that as calculated under the FCC methodology, and used in the setting of the Entry Capacity Reserve prices for Gas Year October 2020 – September 2021.	The Exit FCC is that as calculated under the FCC methodology, and used in the setting of the Entry Capacity Reserve prices for Gas Year October 2020 – September 2021.
FCC Correction Factor	Total Entry Capacity was 6.4% lower than forecast. This (6.4%) correction factor has been applied to the forecast total capacity sold for all future months.	Total Exit Capacity was 14.3% lower than forecast. This (14.3%) correction factor has been applied to the forecast total capacity sold for all future months.
Monthly Phasing / Profiling of Annual FCC	Monthly phasing calculated on a Monthly FCC profile and the amount of capacity allocated monthly across Y-1.	FCC value profiled across months based on the amount of capacity allocated monthly across Y-1 weighted for winter period.
Existing Contract Capacity	The total value of Existing Contracts (registered) capacity for Gas Year October 20 – September 21 as per the values used in the setting of the Entry Capacity Reserve prices for Gas Year October 2020 – September 2021.	There is no Existing Contract Capacity at Exit Points.
Trade / Transfer of Existing Contract Capacity	Forecast trade volume based on future actuals to date and % EC volumes above demand traded in Oct 20.	N/A
Applicable months for RRC	February 21 – June 21 (5 months)	February 21 – March 21 (2 months)

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Potential impacts of UNC proposals on Capacity Neutrality

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Reminder of the proposals

- There are two UNC proposals to be raised by National Grid in relation to Capacity Neutrality and Entry Capacity Revenues
 1. A prospective looking proposal that would remove specific revenues associated to Within Day and Daily Interruptible Capacity from the Entry Capacity Neutrality process;
 2. A retrospective proposal that would apply the method outlined in (1) from 1 October to a specific date. This would result in a charge to parties that received Entry Capacity Neutrality payments in this period for the proportion of the entry capacity neutrality 'pot' that is associated to Within Day and Daily Interruptible Capacity revenues.
- It is proposed that both of these will request urgent status to achieve a decision at the earliest possible date.
- Both of these proposals have the potential to impact the published TSRRC discussed today, dependent on the timing.
- The prospective modification was submitted to Ofgem 08 December for urgency consideration. The retrospective modification will

Potential impacts of the proposals on the TSRRC for Entry

- Two scenarios are considered here for this modification. These are presented to provide an estimate of the potential impacts.
 - A decision in December to implement the prospective proposal that would cease certain revenues from being part of Capacity Neutrality from 1 January 2021, with TSRRC adjusted from 1 February 2021.
 - A decision in December to implement the prospective proposal that would cease certain revenues from being part of Capacity Neutrality from 1 February, with TSRRC adjusted from 1 February 2021.

	Implementation of Capacity Neutrality change	£m adjustment [^]	TS Entry RRC effective from*	TS Entry RRC pre change	TS Entry RCC post change
1	Jan 21	£41m	Feb 21	0.0717	0.0578
2	Feb 21	£25m	Feb 21	0.0717	0.0632

- Assumptions:
 - *Assumes same period of recovery as per those issued on 30 November 2020 (<https://www.nationalgrid.com/uk/gas-transmission/charging/transmission-system-charges> under Final Notices).
 - [^]The “£m adjustment” represents the amount forecasted to not go through Capacity Neutrality with implementation dates as per the table (i.e. under (1) the value forecast for January, February and March 2021).

Potential impacts of the proposals on the TSRRC for Entry

- Here we add on one additional scenario to include the retrospective modification to provide a combined picture. These are presented to provide an estimate of the potential impacts.
- As per previous slide. January 2021 implementation, TSRRC effective from February 2021.
 - As per previous slide. February 2021 implementation, TSRRC effective from February 2021.
 - Retrospective modification implemented from February 2021. TSRRC impact effective February 2021.

	Implementation of Capacity Neutrality change	£m adjustment [^]	TS Entry RRC effective from*	TS Entry RRC pre change	TS Entry RCC post change
1	Jan 21	£41m	Feb 21	0.0717	0.0578
2	Feb 21	£25m	Feb 21	0.0717	0.0632
3	Feb 21	£93m	Feb 21	0.0717	0.0405

- Assumptions:
 - *Assumes same period of recovery as per those issued on 30 November 2020 (<https://www.nationalgrid.com/uk/gas-transmission/charging/transmission-system-charges> under Final Notices).
 - [^]The “£m adjustment” represents the amount forecasted to not go through Capacity Neutrality with implementation dates as per the table.

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Next Steps

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Next Steps / Timeline

What	Detail	When
Published prices	Updated prices published to account for anticipated revenue under recovery to March 2021.	Issued 30 November 2020 to be effective from February 2021.
UNC Proposal(s) on Capacity Neutrality	Prospective Modification	Submitted 8 December, expectation is consultation to start 8 th December, closing 5pm 11 th December.
	Retrospective Modification – full timetable to be considered post NTSCMF discussion on 7 th December	Timetable and steps to be considered for the proposal
Industry Engagement to share the outputs and discuss impacts	Use of Webinars / Ad-hoc Publications to Industry Engagement to share the outputs and discuss impacts	8 December, potentially 16 December and any further sessions as needed.
	Charging Forum (NTSCMF https://www.gasgovernance.co.uk/ntscmf) is an additional forum to discuss charging matters including charging centred modifications to the UNC	5 January 2021
	Discussions with National Grid on a bilateral basis. Opportunity to discuss with National Grid bilaterally if desired	Ongoing
RIIO2	Details of the new Price Control arrangements from April 2021 – March 2026	December 2020. Impacts from an allowed revenue perspective and impacts on charging to be assessed post publication.
Future Years Charging	Charge Setting for April 21 and October 21 and the required inputs will be able to take account of the data to date	January 21 and April/May 21

Q & A



Contact

Chris Logue
Market Change Delivery Manager

T +44(0)7880 784888

Chris.logue@nationalgrid.com

Colin Williams
Commercial Codes Change Manager

+44 (0)7785 451776

Colin.williams@nationalgrid.com

General Questions

General Regulatory Change Queries
box.gsoconsultations@nationalgrid.com

General Charging Queries
box.NTSGasCharges@nationalgrid.com

General Capacity Queries
box.capacityauctions@nationalgrid.com