

Gas Transportation Charges

- An October 2022 update

29th June 2022

We will start at 13.02

Slido.com
#Charging



Agenda



Dave Bayliss
Revenue Lead

13.00 – 14.00

Transmission Charges

Understanding published October 2022 Transmission Services Entry and Exit Reserve Prices



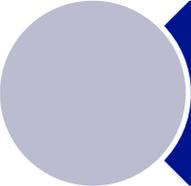
Colin Williams
Charging & Revenue Manager

14.00 – 14.30

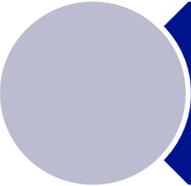
Non Transmission Charges

Update on Non-Transmission Charges for October 2022

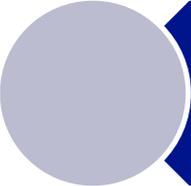
Logistics



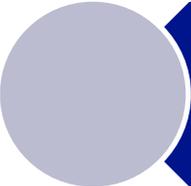
This session scheduled for 60 min



Questions via [slido.com](https://www.slido.com) #charging



All callers will be placed on mute. Please switch off videos / microphones.



We will circulate the slides and a recording of this webinar

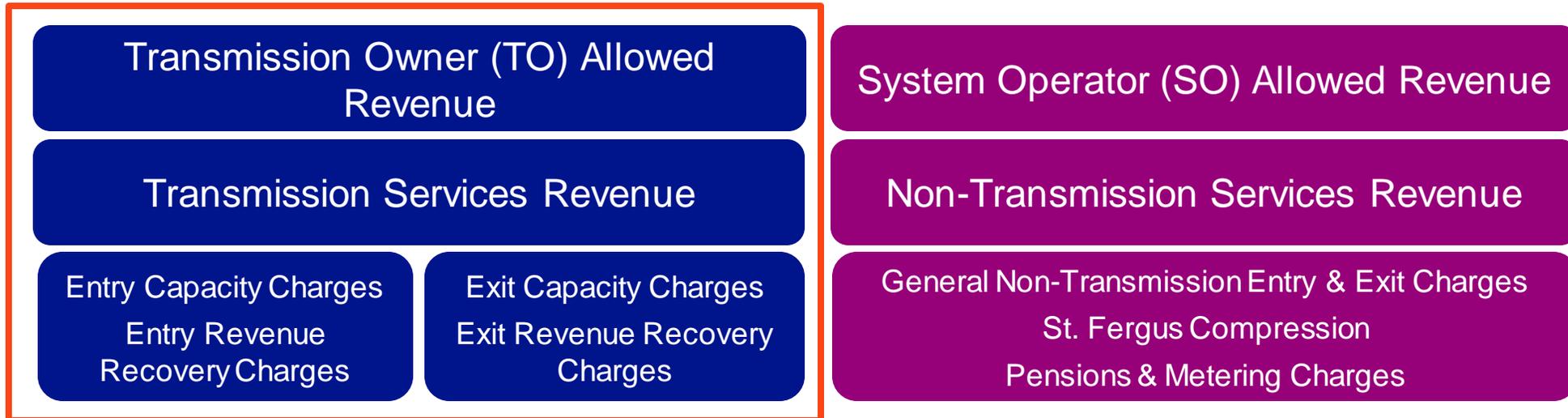
Understanding published October 2022 Transmission Services Entry and Exit Reserve Prices

29th June 2022



Gas Charging – Which charges are we talking about

- **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**
- This session focuses on the Transmission Services Entry and Exit Capacity charges



NTS Transportation Charges: October 2022

Capacity Reserve Prices published on 27 May 2022

Transmission Services Prices (p/kWh/d)	Final	Indicative			
	22/23	23/24	24/25	25/26	26/27
Entry Capacity Reserve Price	0.0851	0.0620	0.0698	0.0671	0.0601
Entry Capacity Reserve Price for Storage (80% discount)	0.0170	0.0124	0.0140	0.0134	0.0120
Transmission Services Entry RRC	0.0000	0.0000	0.0000	0.0000	0.0000
Exit Capacity Reserve Price	0.0218	0.0245	0.0231	0.0240	0.0245
Exit Capacity Reserve Price for Storage (80% discount)	0.0044	0.0049	0.0046	0.0048	0.0049
Transmission Services Exit RRC	0.0000	0.0000	0.0000	0.0000	0.0000

General Non-Transmission Services Prices to be published by end July 2022

NTS Transportation Charges: Drivers

- Charges are calculated using two key drivers:
 - Revenue - the target revenue for the required period(s)
 - Forecasted Contracted Capacity (FCC)

Target Revenue

- Target Revenue for regulatory years (i.e. April to March) Y and Y+1
- Revenue, actual and forecast, up to 30 September 2022 (the first 6 months of the regulatory year, based on the previous Gas Years prices)
- Revenue profiles across the Gas Years (i.e. October to September)
- Application of UNC Code Modification 0796

Forecasted Contracted Capacity

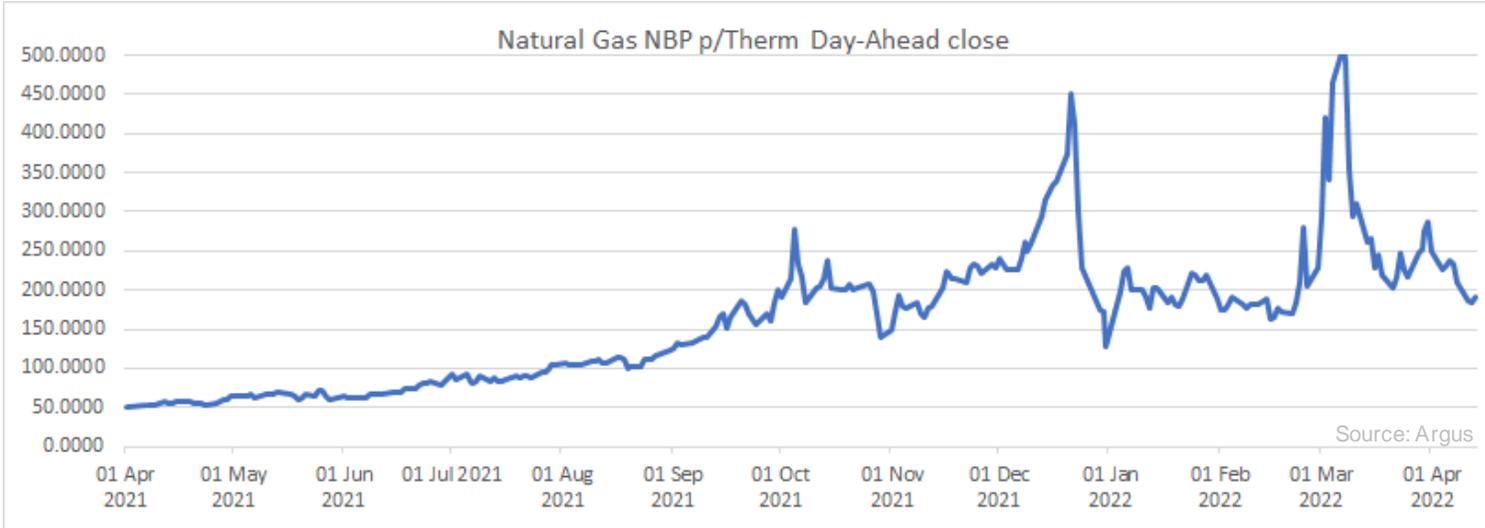
- The amount of capacity forecast to be purchased across the Gas Year
- The Forecasted Contracted Capacity follows the FCC Methodology as per the revised methodology applied for October 2022
- Exceptions to the methodology applied to account for recent activity

Exceptions to Methodology – Revisions to FCC

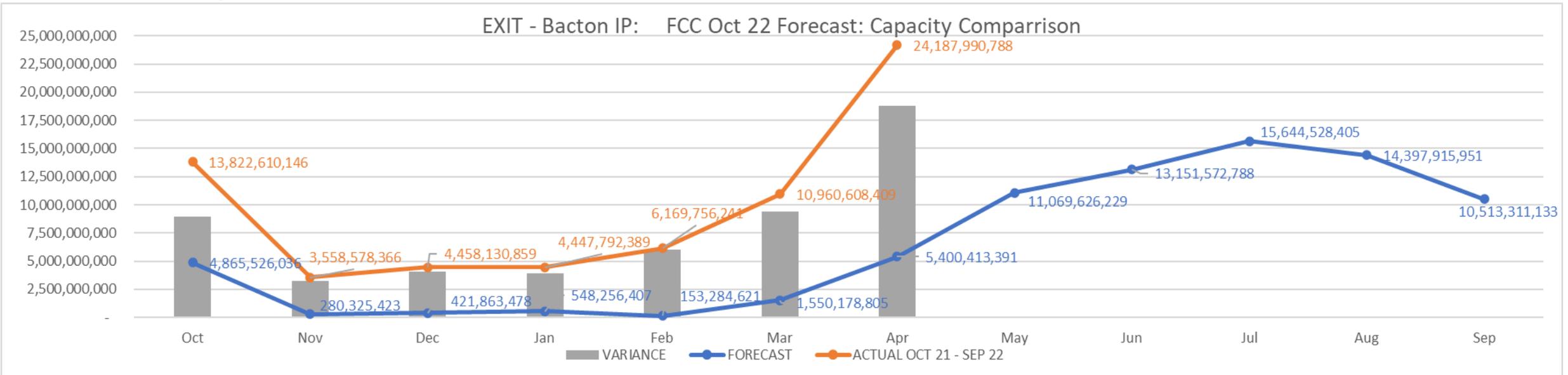
- The FCC forecasts the **volume of capacity** that will be purchased at Entry and Exit for the forthcoming gas year. This is used to drive the **reference price for capacity** to collect allowed revenues
- Revisions to the FCC methodology from Oct 21 resulted in far closer alignment between forecast and actual capacity volumes
- This methodology (updated for Oct 22) has been applied to the FCC for use in setting charges from Oct 22
- However, this methodology is **based on historic flow data** (Y-2 to Y-6), and the most recent years **FES forecasts** (published July 2021), neither of which account for the activity we have seen over recent months

Exceptions to Methodology – Revisions to FCC

Gas Prices



Interconnector Export



Exceptions to Methodology – Revisions to FCC

Demand

- Engaged with the FES team prior to 2022 Publication – key changes:
 - Revised LDZ demand down (Domestic and I&C)
 - Increased Power Generation forecast

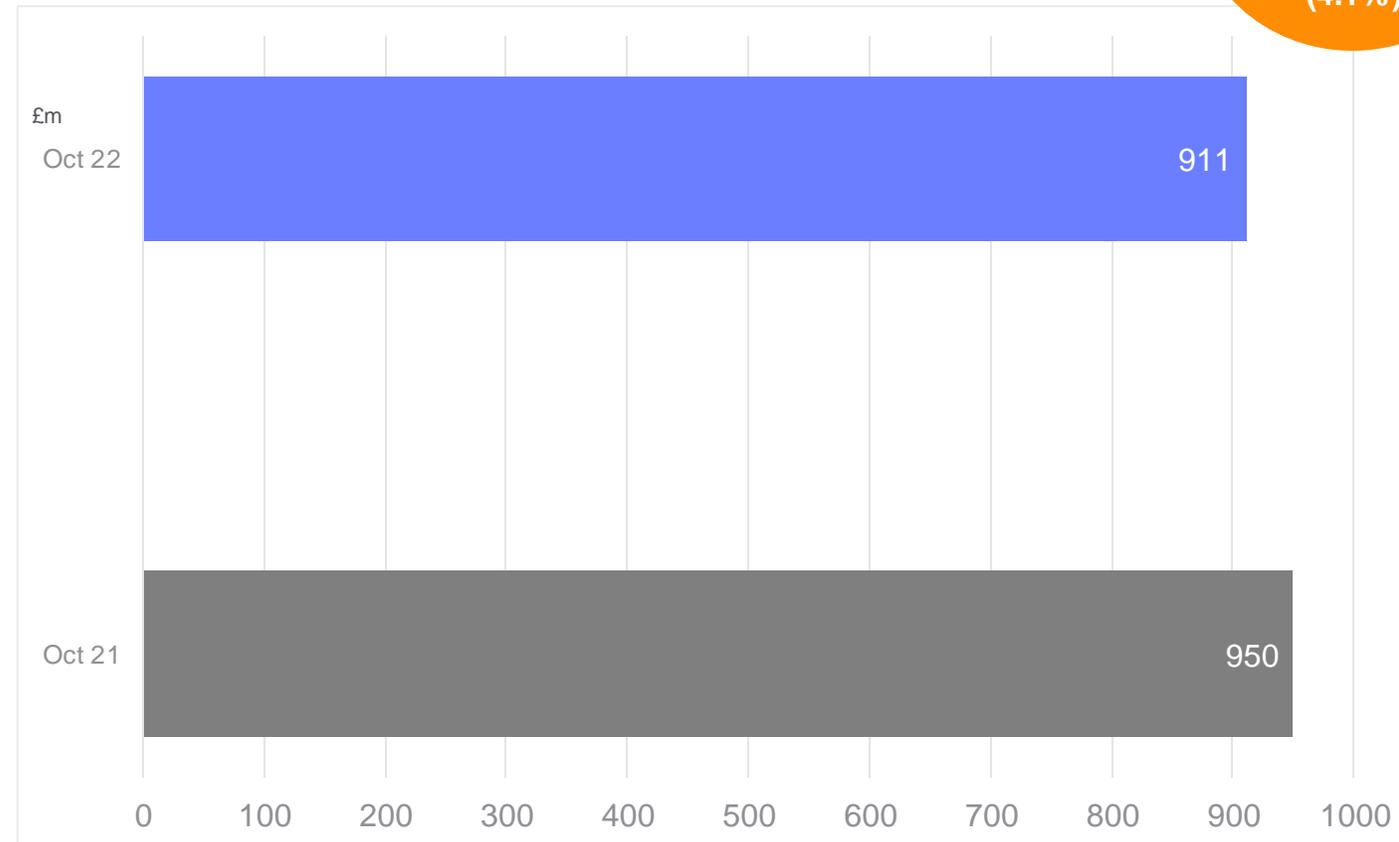
Increased Interconnector Export

- Bacton IP exit flows to remain high over summer months, with winter months forecast to reflect last winter actuals
- Additional Entry gas requirements to be met predominantly via Milford Haven, Isle of Grain, and Beach.

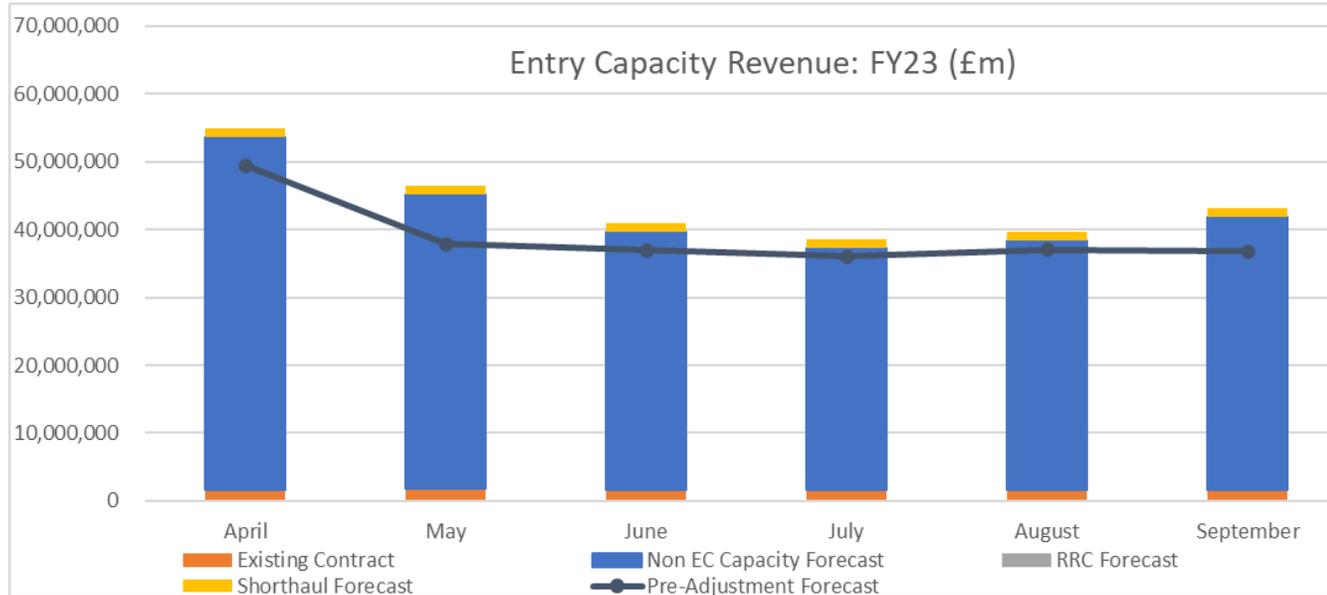
Transmission Services Allowed Revenues

Target Revenue Decrease
-£39m
(4.1%)

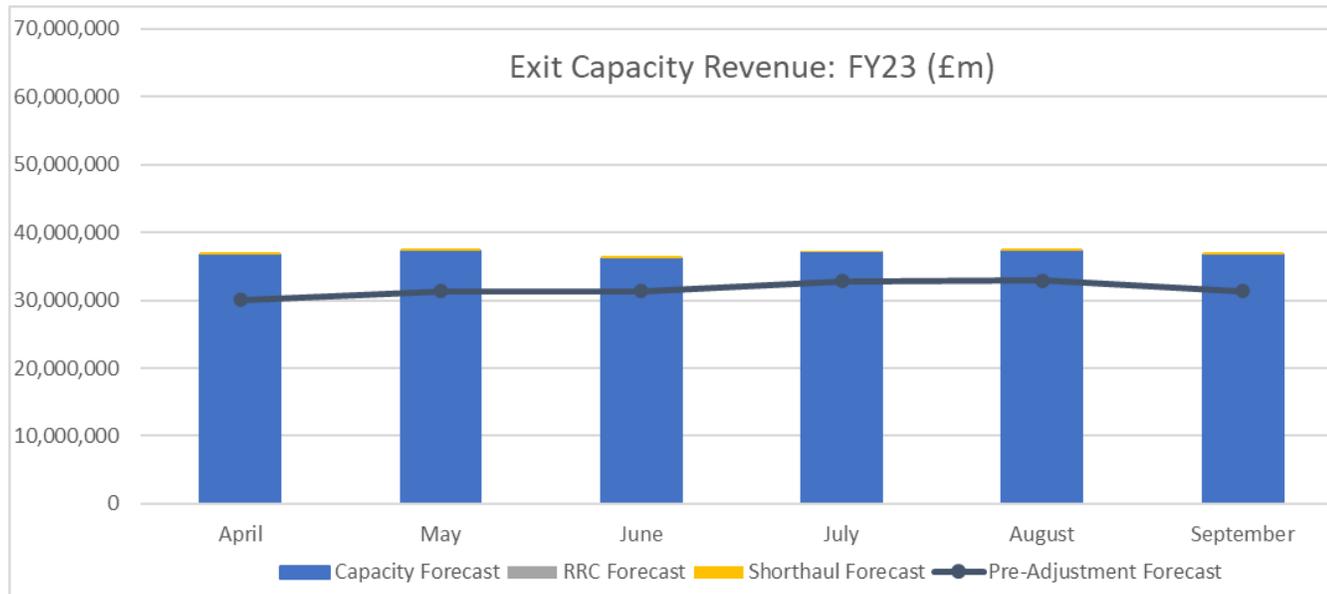
TO MAR 22/23 (inc. 'K') £893.7m
Transmission Services / General Non-Transmission Services (DN Pension / Meter Maintenance / Non-Ob Capacity) Adjustments £17.4m
Target Revenue £911m



Revenue Forecast: FY23 – April 22 – September 22

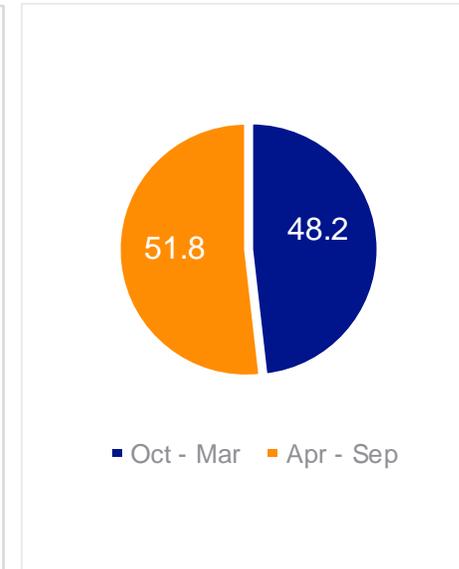
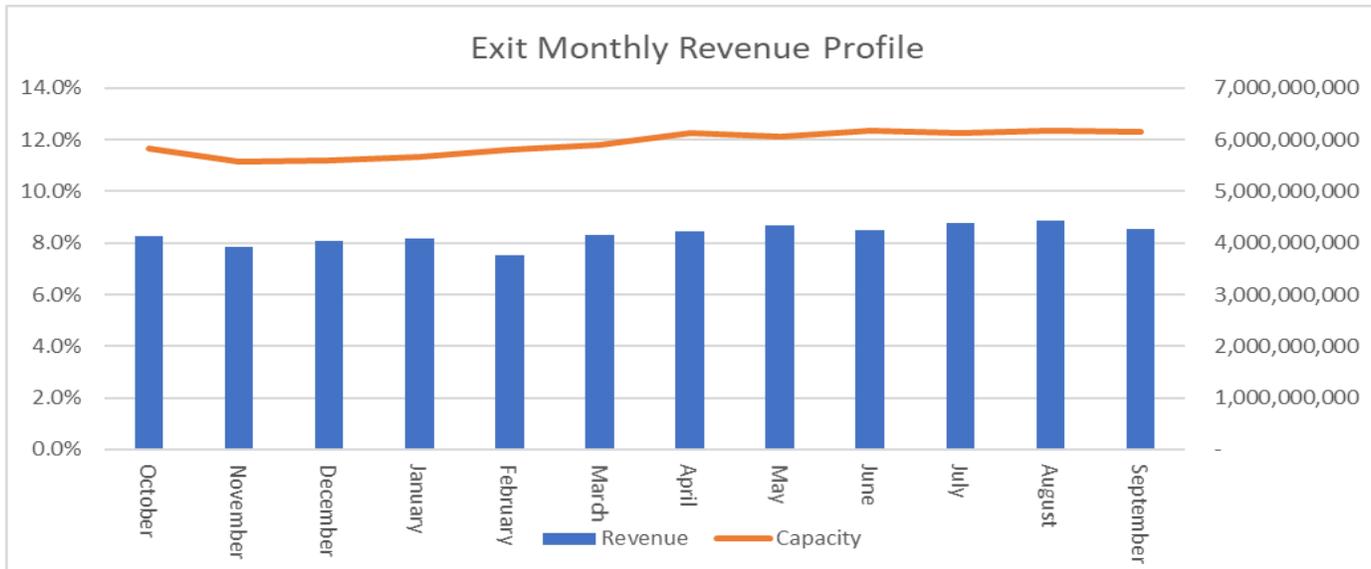
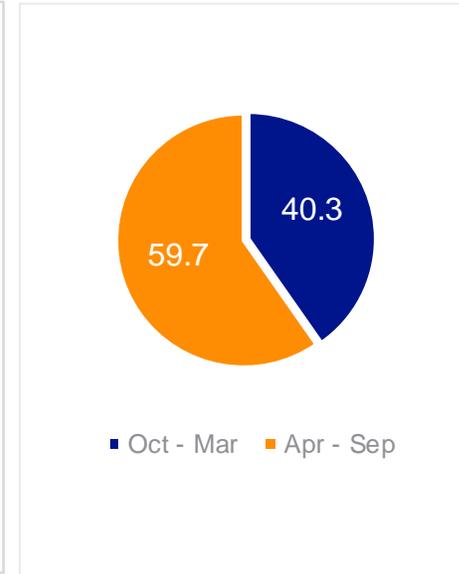
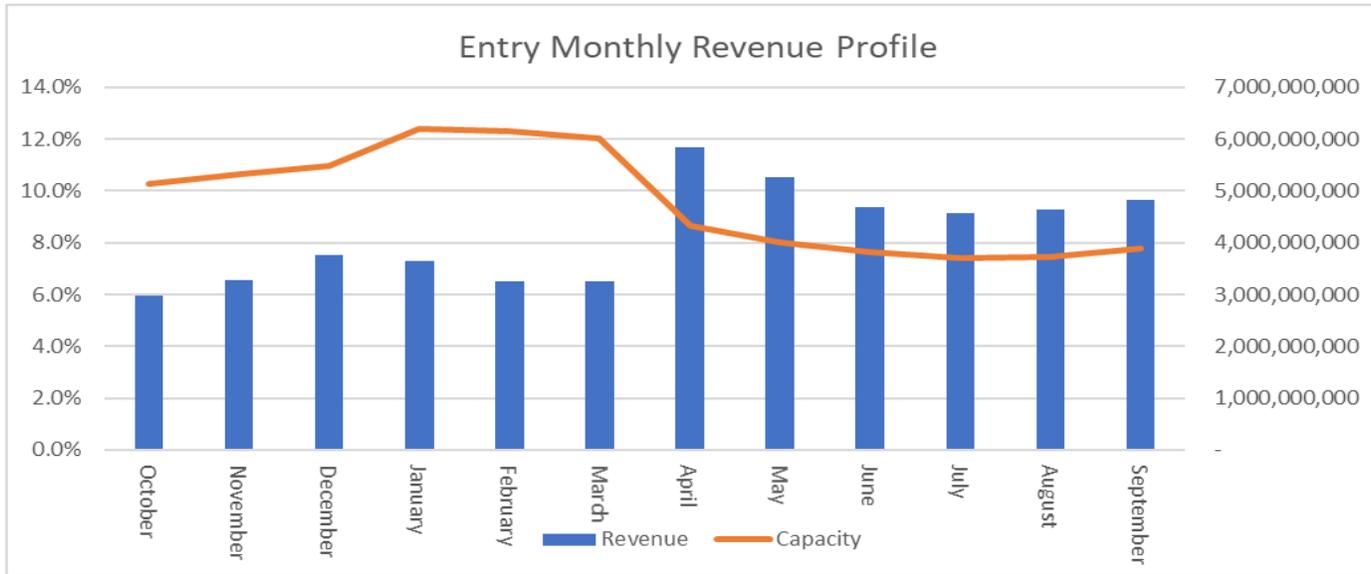


Entry	
Pre-Adjustment Forecast	£234.0m
RPT	£263.7m (+£29.7m)



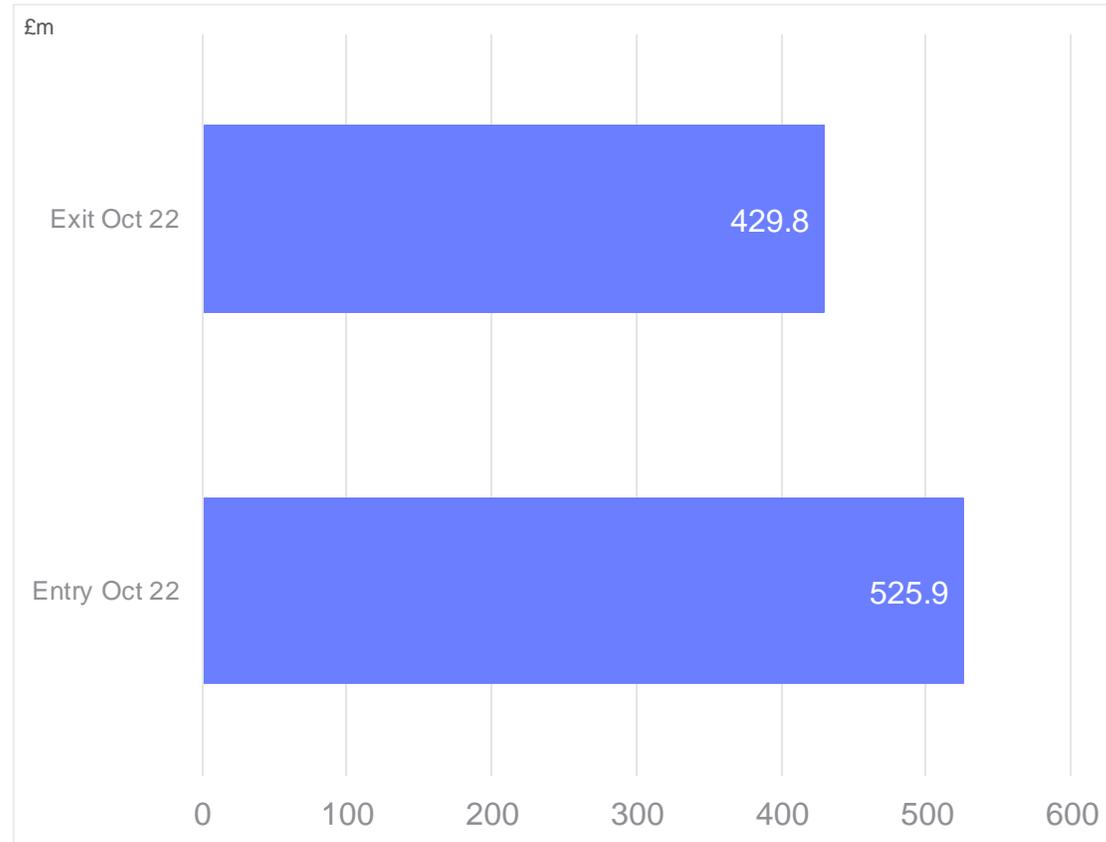
Exit	
Pre-Adjustment Forecast	£189.8m
RPT	£223.0m (+£33.2m)

Revenue Profile Oct 22



Gas Year Target Revenues

ENTRY
TO MAR / 2 £424.3m
+ TO 'K' and SO Capacity £74.0m = £498.3m
- RPT £263.7m = £234.5m
+ (0796) % FY24 Allowed Revenue £291.4m = Target Revenue £525.9m



EXIT
TO MAR / 2 £424.3m
+ TO 'K' and SO Capacity (£11.4m) = £412.8m
- RPT £223.0m = £189.8m
+ (0796) % FY24 Allowed Revenue £240.0m = Target Revenue £429.8m

0796 Example Workings - Entry

	Y (FY)		Y+1 (FY)	
	Apr - Sep	Oct - Mar	Apr - Sep	Oct - Mar
Target Revenue (FY)	498.251		466.011	
Forecast Revenue Collection (GY-1)	263.713			
Revenue to be collected (FY)		234.538		
Derived 'K'			-22.395	
Target Revenue including 'K'			488.407	
Seasonal Revenue Profile (GY)		0.403	0.597	
6 Monthly Target Revenue (Apr – Sep F+1)			291.404	
Gas Year Target Revenue		525.942		
Forecast Revenue Collection	263.713	212.143		
Forecast Revenue Collection (FY)	475.586			
Revenue Variance to Target ('K')	-22.395			

Target Revenues as per the FY PCFM Allowed Revenues inc. K

Revenue Collection projection for the first six months of the FY (Apr – Sep) collected under the existing charges from GY-1

Difference between FY Target Revenue for Y and Forecast Revenue collected in the first 6 months of Y

Split of Gas Year annual revenue collected across the 6 monthly periods, (Iterative process driven by FCC, price and levels of existing contracts).

Gas Year Target Revenue multiplied by Seasonal Revenue Profile (GY) to forecast actual revenue collected in each of these 6 months.

Sum of Forecast Revenue Collection for 1) Apr – Sep of FY Y and 2) Oct – Mar of FY Y.

Difference between Forecast Revenue Collection (FY) and Target Revenue (FY). This value becomes the derived 'K' added into the Target Revenue for collection in Y+1.

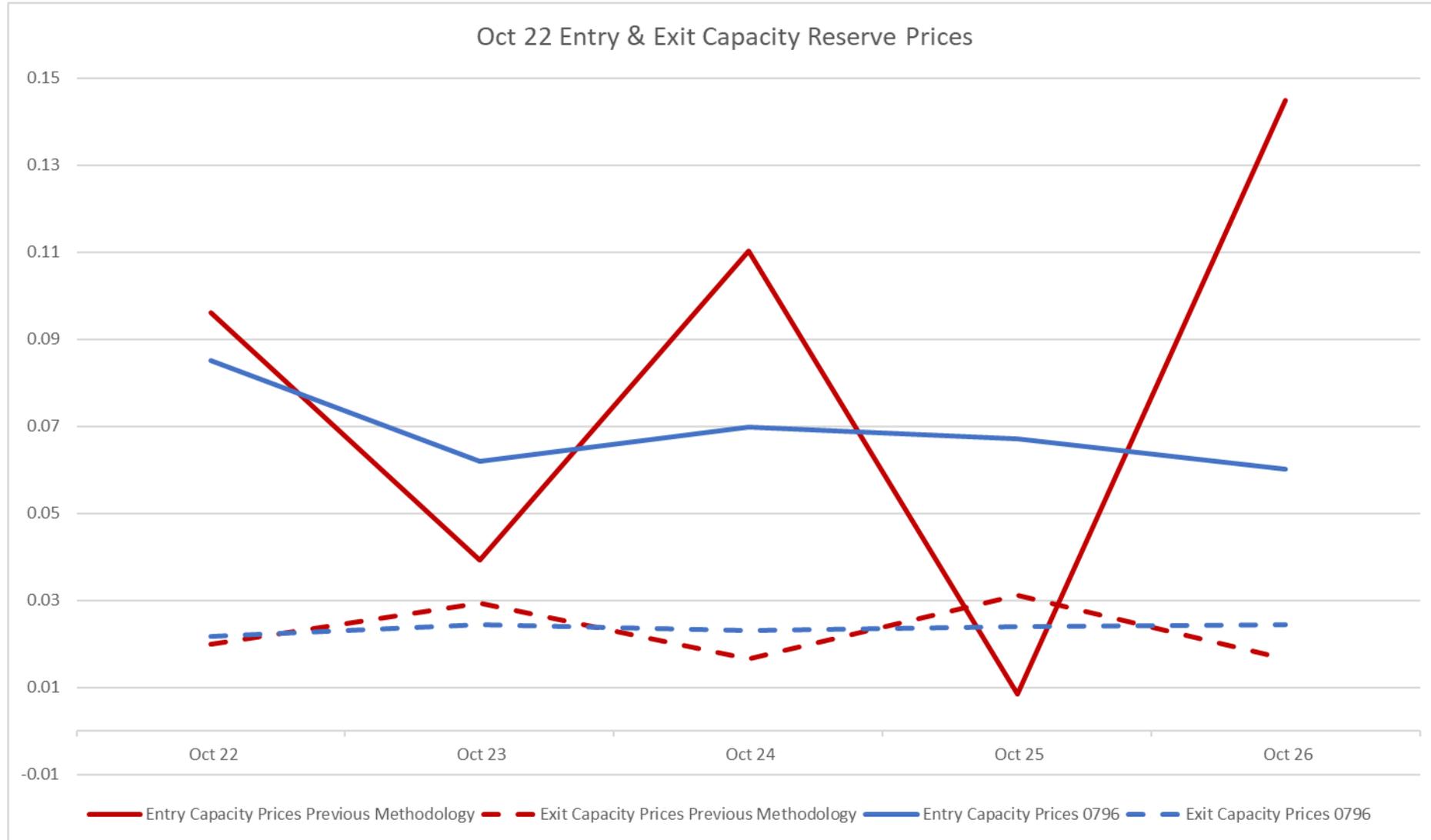
Forecast under/over recovery position from Y. (Revenue Variance to Target ('K')). Iterative process based on target revenues and revenue collection.

Target Revenue for Y+1 plus forecast under/over recovery from Y.

Y+1 Target Revenue including K multiplied by Seasonal Revenue profile for Apr – Sep. Calculates the target revenue collection for the 2nd 6 months of the Gas Year.

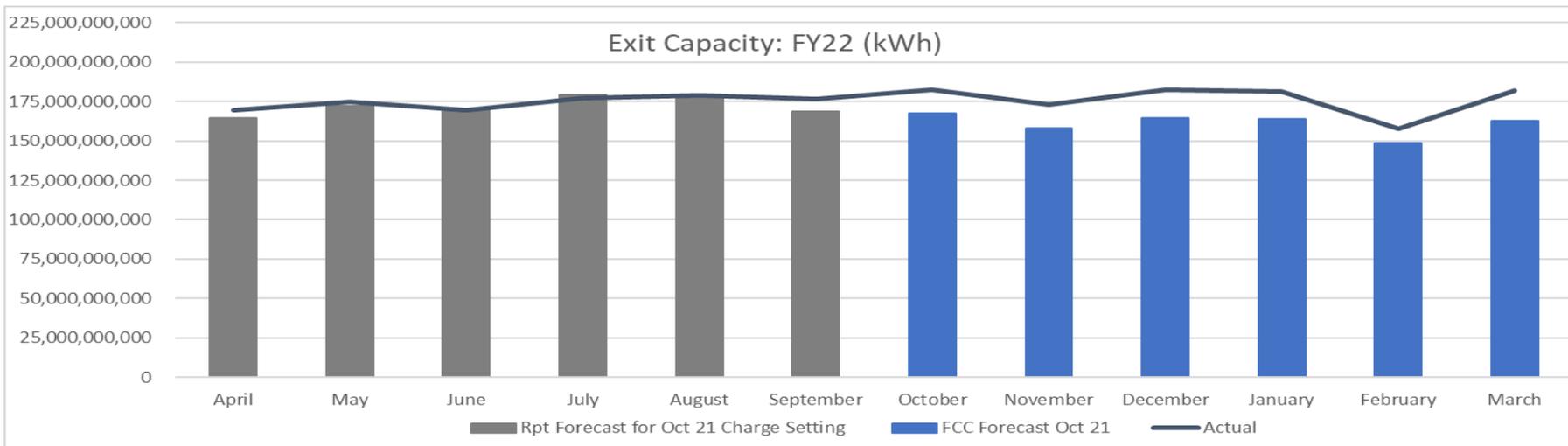
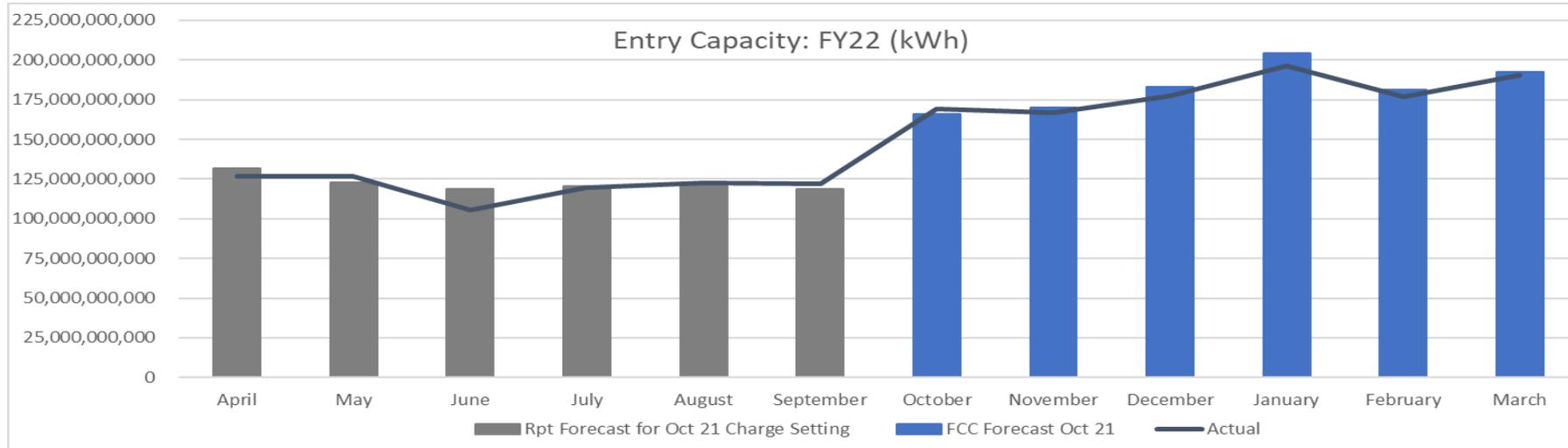
Sum of 'Revenue to be collected (FY)' covering the 1st 6 months of the Gas Year and '6 monthly target revenue (Apr – Sep F+1)' covering the 2nd 6 months of the Gas Year.

Implementation of UNC Mod 0796 – impact on Revenues and Prices



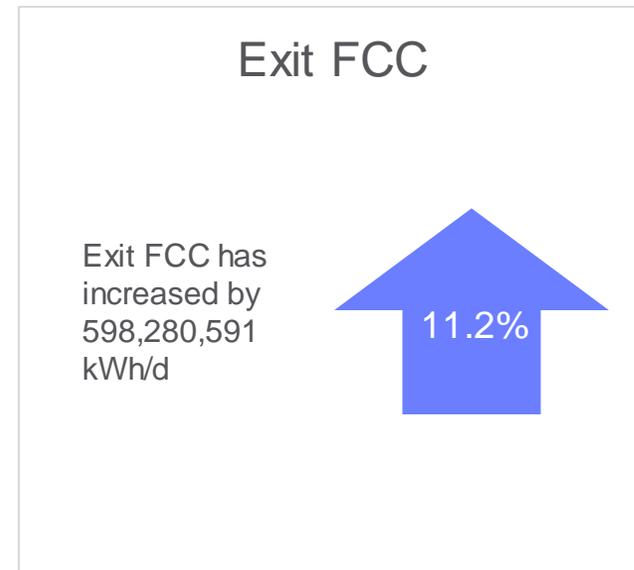
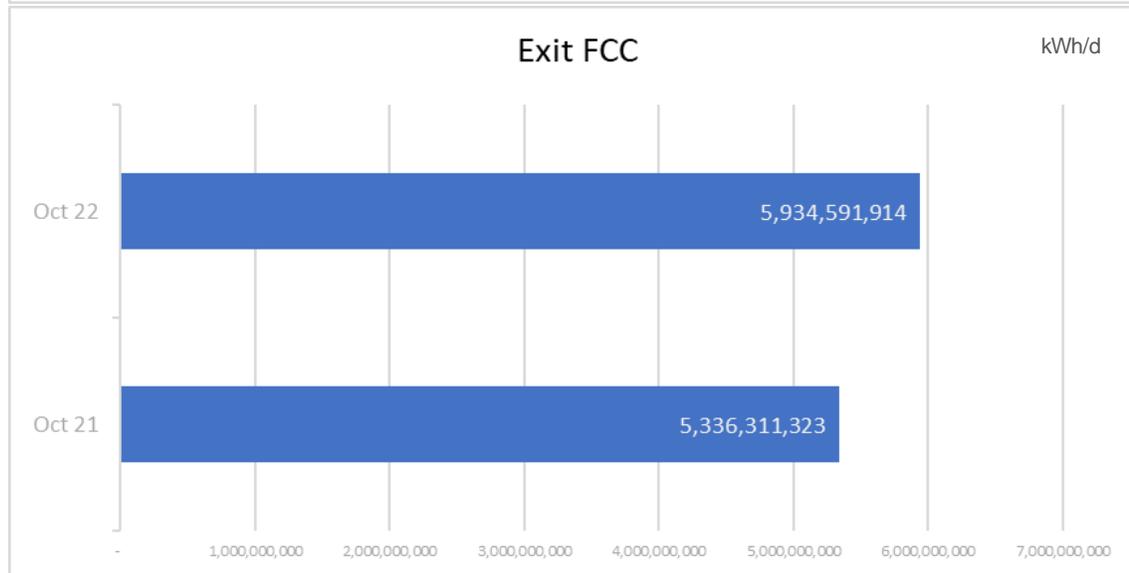
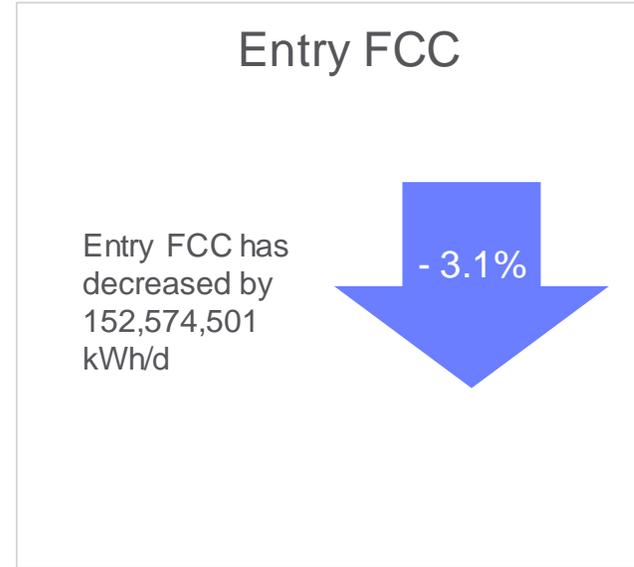
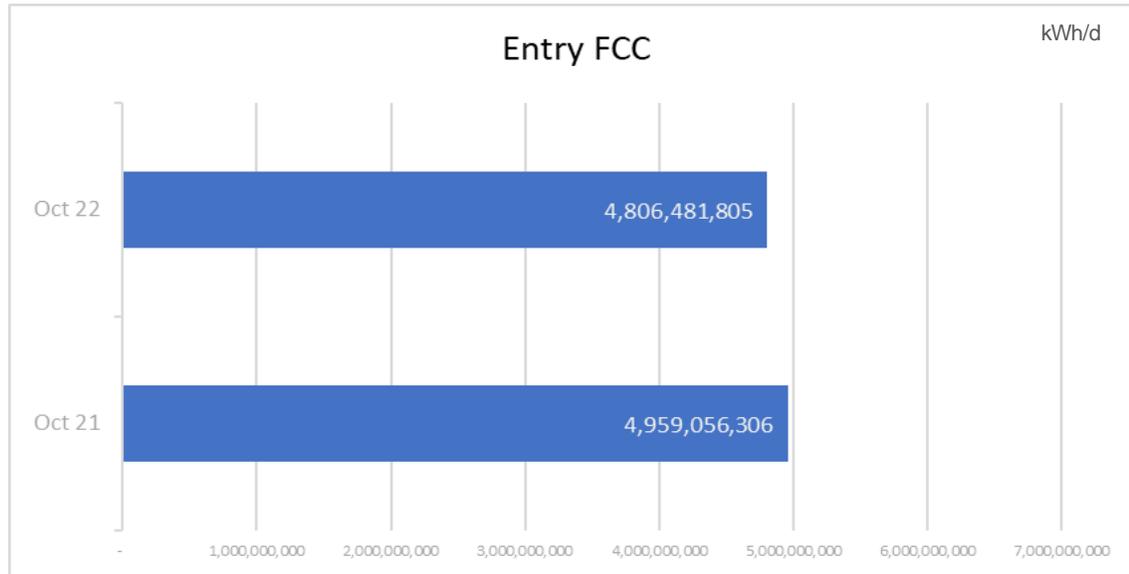
Forecasted Contracted Capacity (FCC)

The FCC methodology was revised for October 2021 – more reflective of actuals

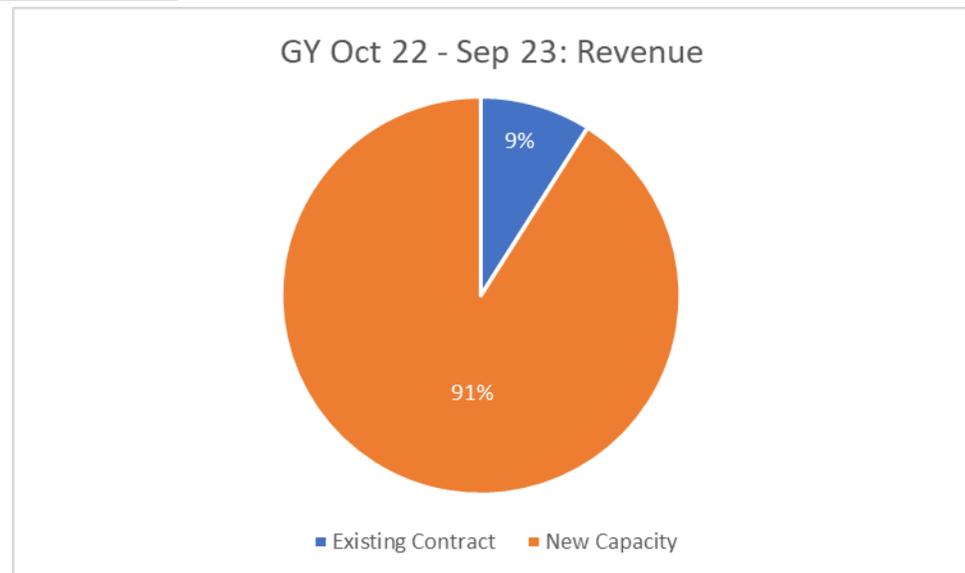
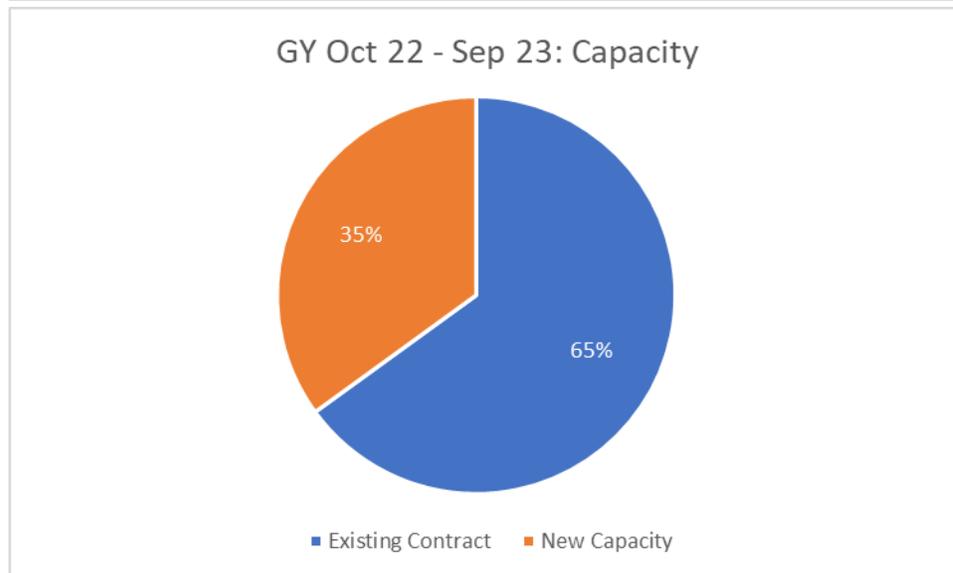
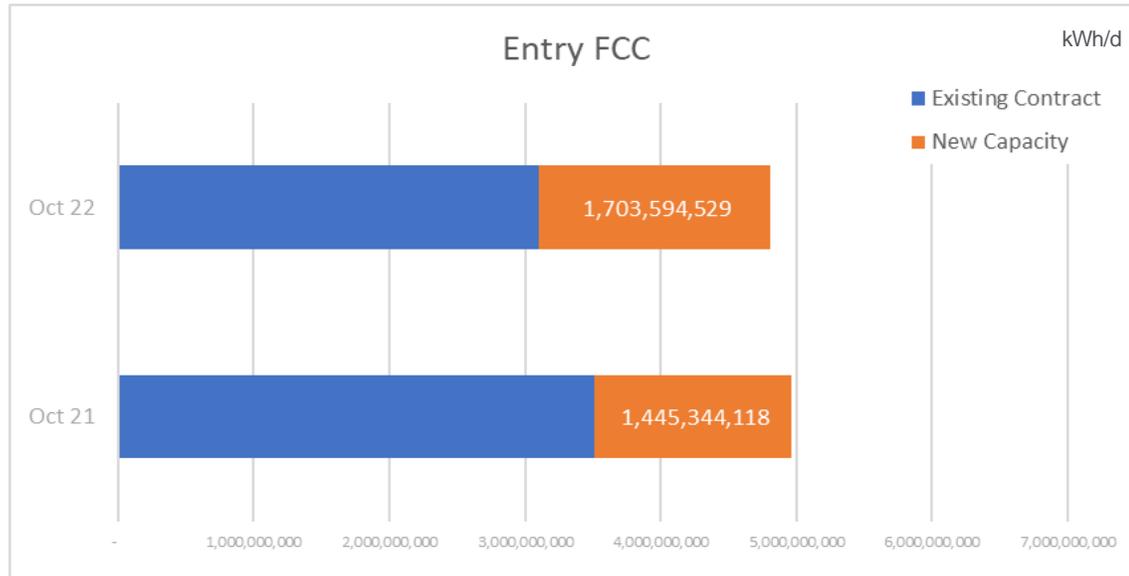


Variance in Exit since October, predominantly due to DN booking profiles. FCC methodology revised for October 2022 charge setting, to utilise the DN LTDS Peak 1 in 20 values for charge setting.

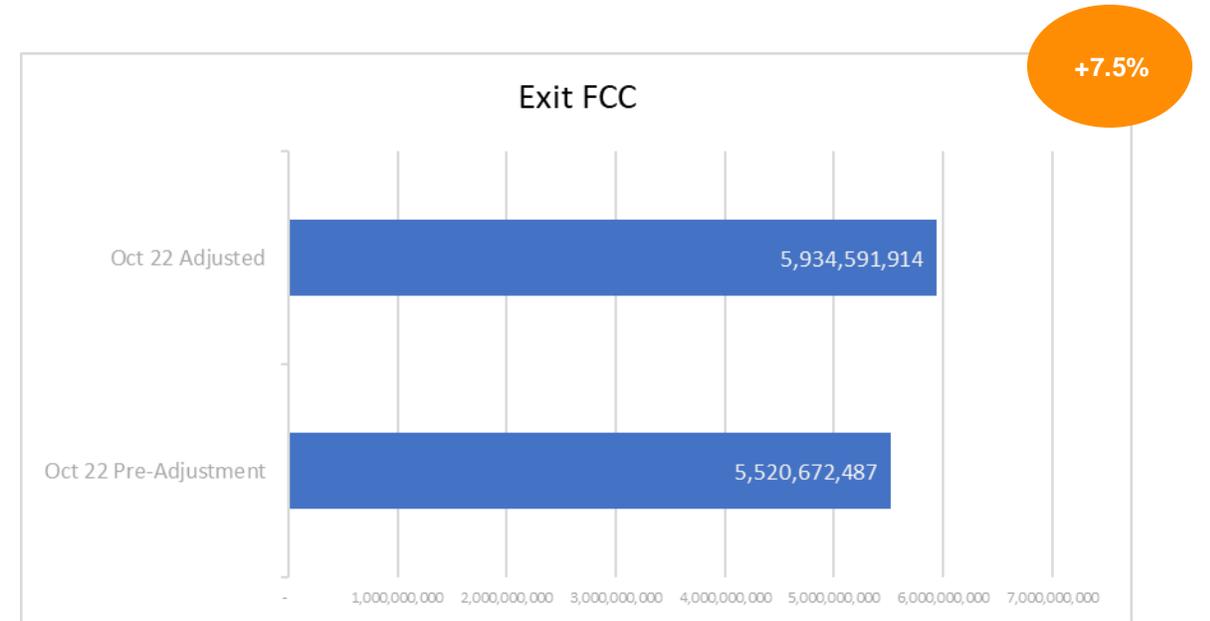
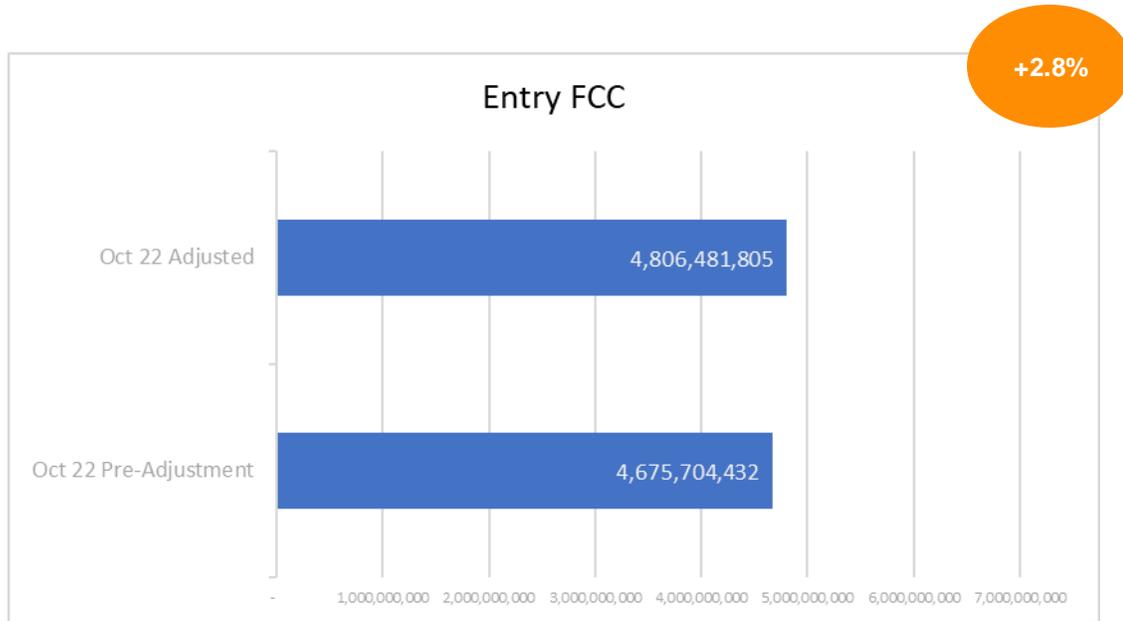
Forecasted Contracted Capacity (FCC)



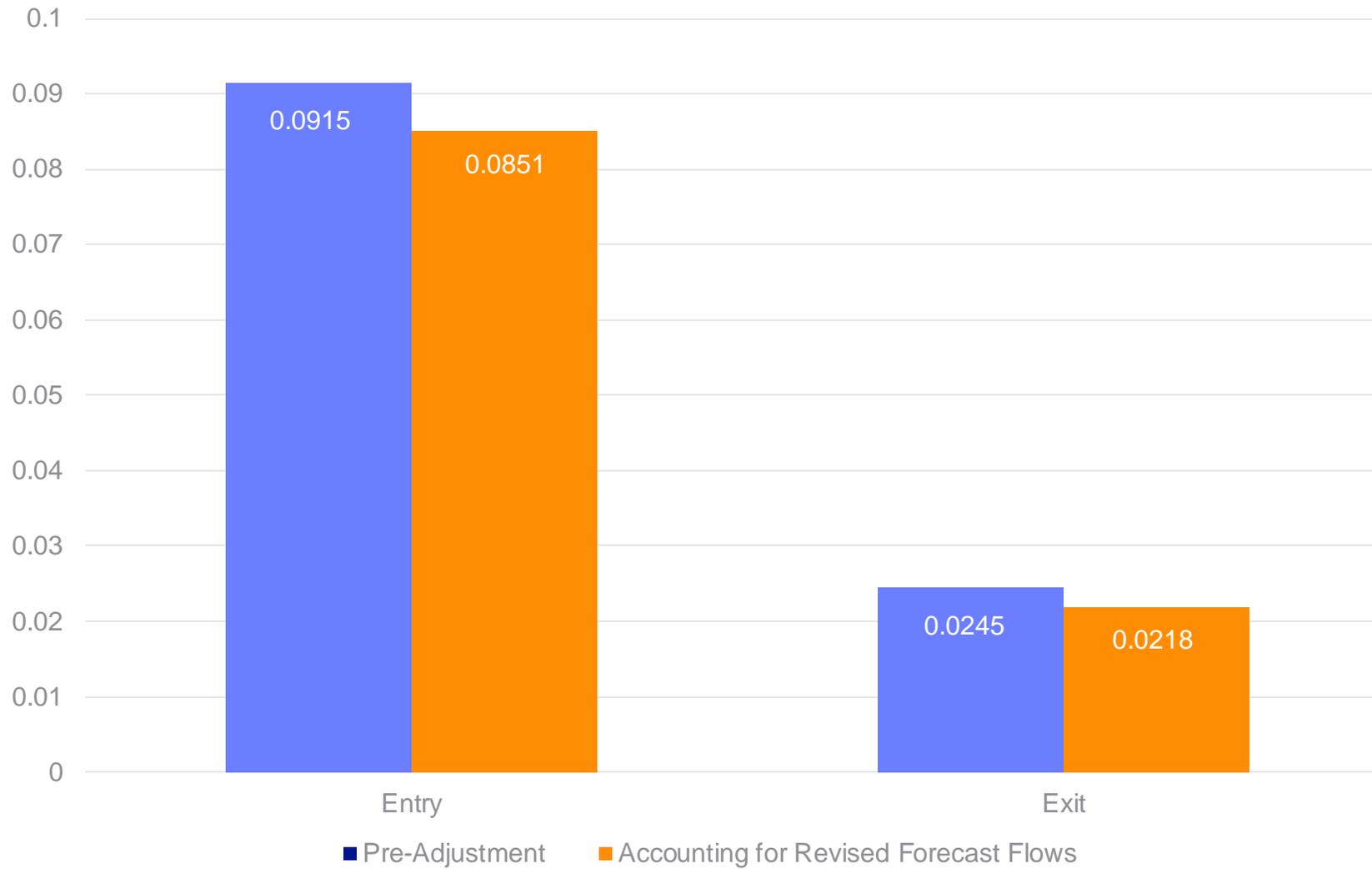
FCC – Entry Adjusted for Existing Contracts



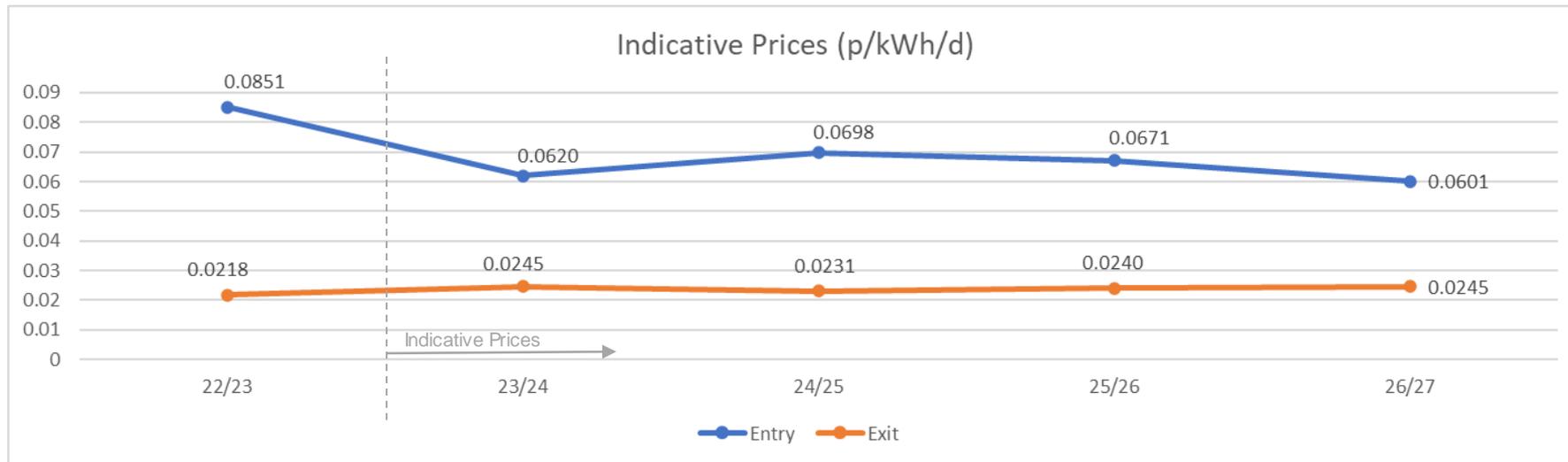
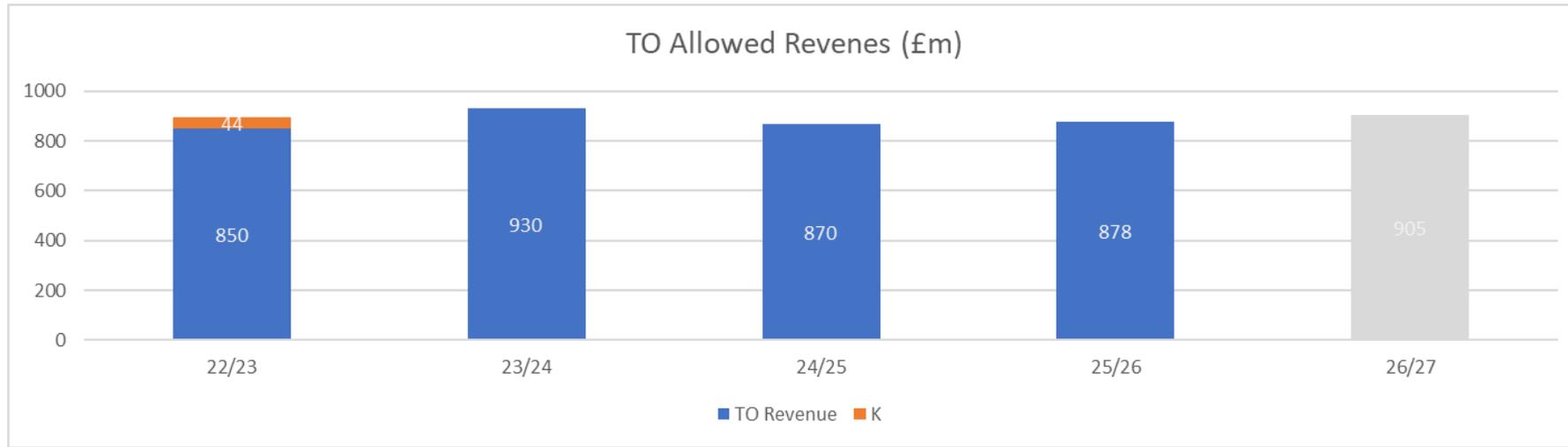
Revisions made to FCC – Impact on FCC



Revisions made to FCC – Impact on Prices



Revenue & Prices: 2022/23 – 2026/27

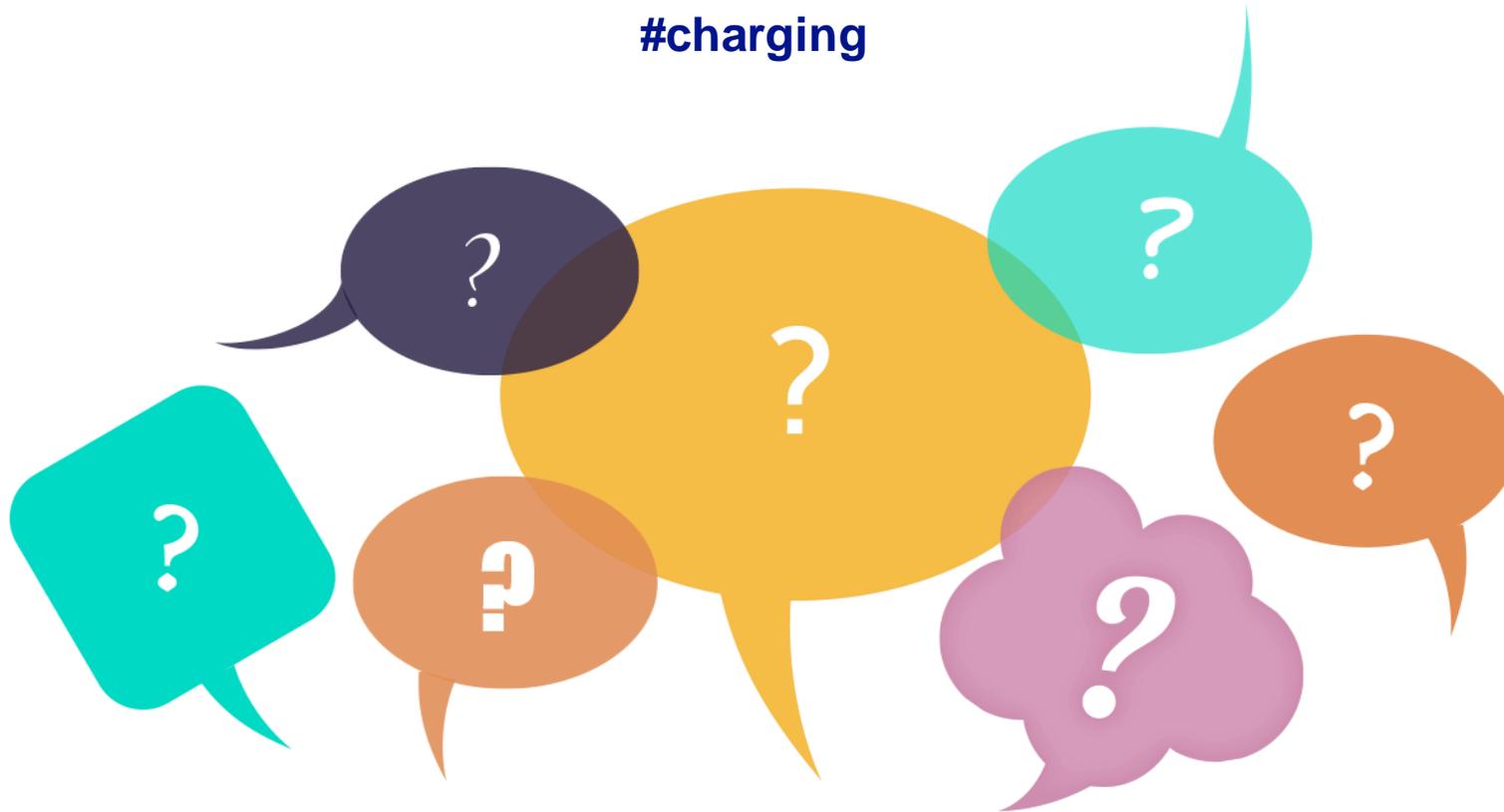


Summary

- Transmission Services Entry and Exit Capacity Reserve Prices will be effective from October 2022 for one year
- They've been updated using the established methodology including available opportunities to use up to date data and patterns
- Next update of these prices will be in May 2023 to apply for October 2023

Questions

Slido.com
#charging



Gas Transportation Charges October 2022

29th June 2022

Update on Non-Transmission Charges for October 2022

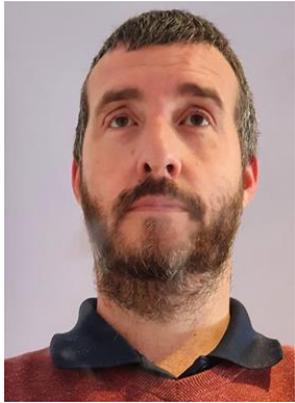


Slido.com
#charging

We will start at 14.00



Agenda



Dave Bayliss

13.00 – 14.00

Transmission Charges

Understanding published October 2022 Transmission Services Entry and Exit Reserve Prices



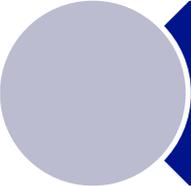
Colin Williams

14.00 – 14.30

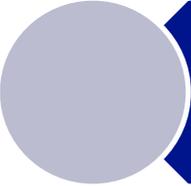
Non Transmission Charges

Update on Non-Transmission Charges for October 2022

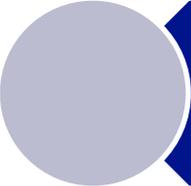
Logistics



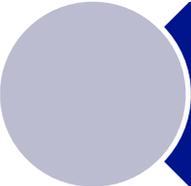
This session scheduled for 30 min



Questions via [slido.com](https://www.slido.com) #charging



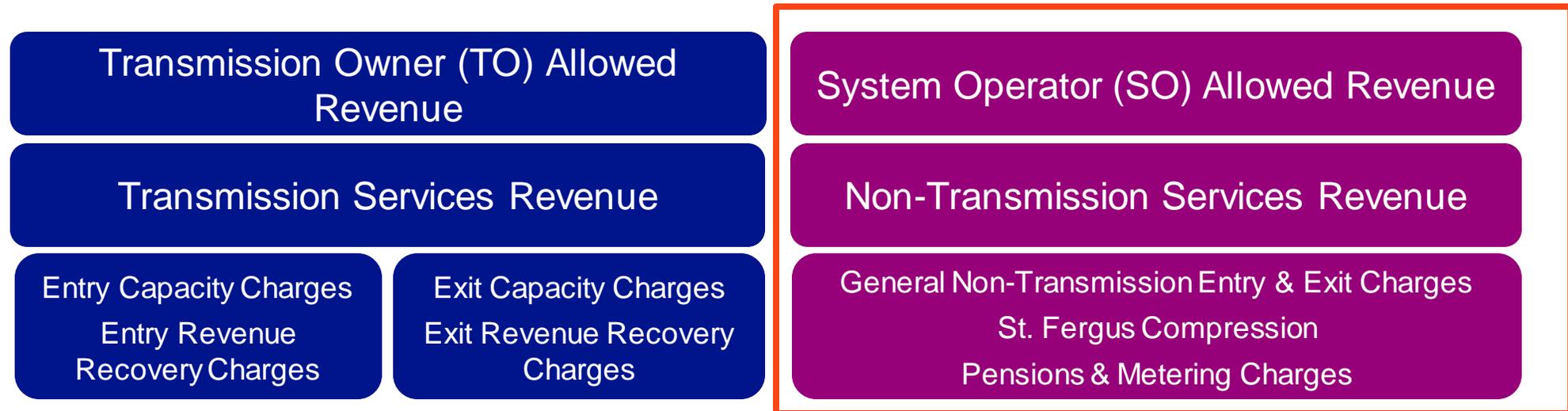
All callers will be placed on mute. Please switch off videos / microphones.



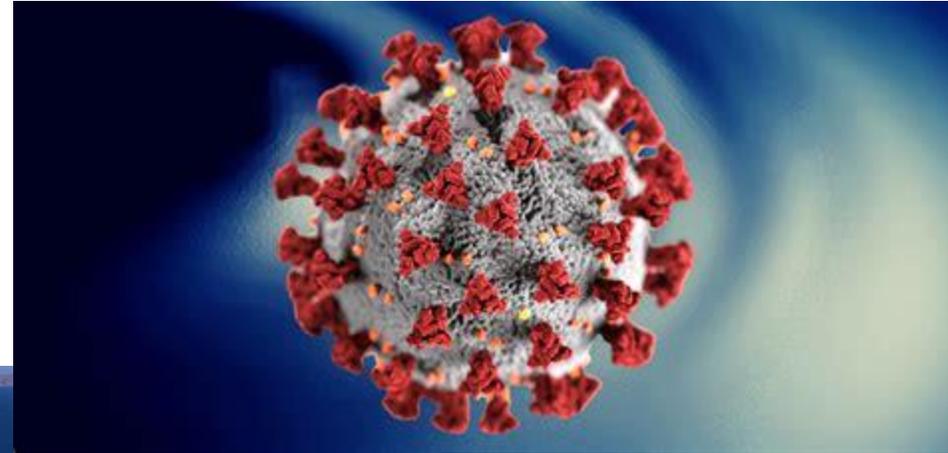
We will circulate the slides and a recording of this webinar

Gas Charging – Which charges are we talking about?

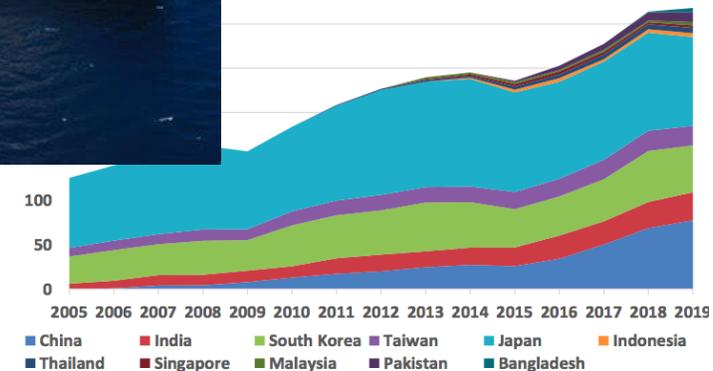
- **Two types of charges** will be effective from 1 October, that will therefore be visible in all invoices issued from November with the ex-post invoicing that takes place.
 - Transmission Services Revenue, which broadly aligns to the Transmission Owner (TO) Revenue, will be recovered by **Transmission Services Charges**
 - Non-Transmission Services Revenues, which broadly aligns to the System Operator (SO) Revenue, will be recovered by **Non-Transmission Services Charges**
- This session focuses on the **General Non-Transmission Entry & Exit charges**



An unpredictable and unprecedented energy landscape



Nord Stream pipeline



Source: IEA, Platts LNG Service

Indicative revenues and charges for October 2022 and beyond

- Shrinkage costs are the costs of running the compressors on the NTS. They are dominating changes to the System Operator Revenues
- Gas prices have had a significant impact on shrinkage costs
- Keen to provide clarity and transparency of the overall impact to revenues & charges
- Discuss how this impacts the prices, notably the General Non-Transmission Services Entry and Exit Charges

For the immediate year (i.e. from next October), we must set prices to recover revenues output from the PCFM*, a process each year as part of AIP*.

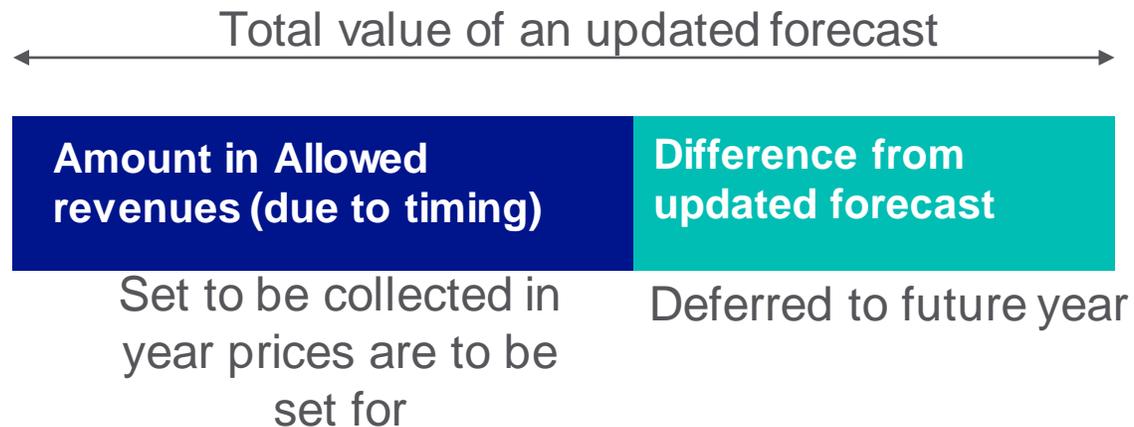
For years beyond this year (i.e. for indicatives) we are updating using our best view of costs/revenues) to provide useful information to Stakeholders

*PCFM – Price Control Financial Model

*AIP – Annual Iteration Process – the process whereby revenues are produced following the PCFM and PCFM Handbook processes per the Licence

General Non-Transmission Services Charges – indicative view on October 2022

- **Implications of shrinkage costs / revenues**
- We pay all the shrinkage costs and only recover in line with our obligations - this protects consumers
- Where shrinkage costs are higher than the value allowed to be recovered, collection is deferred to a future year
- Shrinkage costs and impacts to revenues have risen significantly and are forecasted to remain at high levels for some time



What we shared back in December 2021 (via NTSCMF)

Copy of slide shared at
December 2021

- Table below shows indicative view of October 2022 using latest PCFM* (AIP*) outputs

	Oct 21	Oct 22	Oct 23	Oct 24	Oct 25
Allowed Revenues – FY: Indicatives published Oct 21	£204.1m	£170.2m	£206.3m	£199.5m	£190.8m
Indicative Oct 22 Gnon-Tx Price: as published Oct 21	0.0092	0.0080			
Allowed Revenues – FY: based on Nov 21 PCFM Submission (including Shrinkage revised forecasts)	-	£466.3m	£249.4m	£236.4m	£224.7m
Indicative Oct 22 Gnon-Tx Prices: based on Nov 21 PCFM Submission	-	<u>0.0362</u>			

- Conscious of the impact of this on both revenues and the resulting volatility we are working with Ofgem, to look at options to manage this before the rates for Non-Transmission are to be published for October 2022.
- Final Rates are due to be published by the **end of July 2022**

Indicative as of December 2021 projected a rate of 0.0362 p/kWh

*PCFM – Price Control Financial Model

**<https://www.gasgovernance.co.uk/ntscmf/071221>

National Grid

General Non-Transmission Services Charges – indicative view on October 2022

- Indicative view of October 2022 using the updated information outputs

Regulatory Year Revenues	Apr 21 – Mar 22	Apr 22 – Mar 23	Apr 23 – Mar 24	Apr 24 – Mar 25	Apr 25 – Mar 26
Allowed Revenues – used as when publishing October 2021 prices	£204.1m	£170.2m	£206.3m	£199.5m	£190.8m
Allowed Revenues – Updated view (PCFM* Feb 2022) – updated for recovered revenues from previous year for (Apr 22 – Mar 23)	£198m	£514m	£249m	£236m	£224m
Allowed Revenues – Updated view	-	£514m	£574m	£392m	£341m

- Using the updated revenues above the resulting indicative General Non-Transmission Charges below
- Rates are set to recover revenues within a Regulatory Year

	October 2021	October 2022	October 2023	October 2024	October 2025
Prices as published for October 2021	0.0092	0.0080	0.0121	0.0089	0.0105
Non Transmission Unit Cost (p/kWh) – using an updated Shrinkage forecast and calculated over 2021 FES volume assumptions	0.0092	<u>0.0399</u>	0.0253	0.0180	0.0190

- These values **will** change as we update the inputs.
- Charges due to be published at the end of July 2022

Summary

- Unforeseen and unpredictable events have had impacts on gas prices that are being felt across the board
- The General Non-Transmission Service charge is increasing as a result and is expected to continue to do so in line with gas prices
- New prices will be published at end July to apply from October 2022

Quick poll

Would it be useful to have a more regular update on forecasting of costs including tariff implications?

Yes

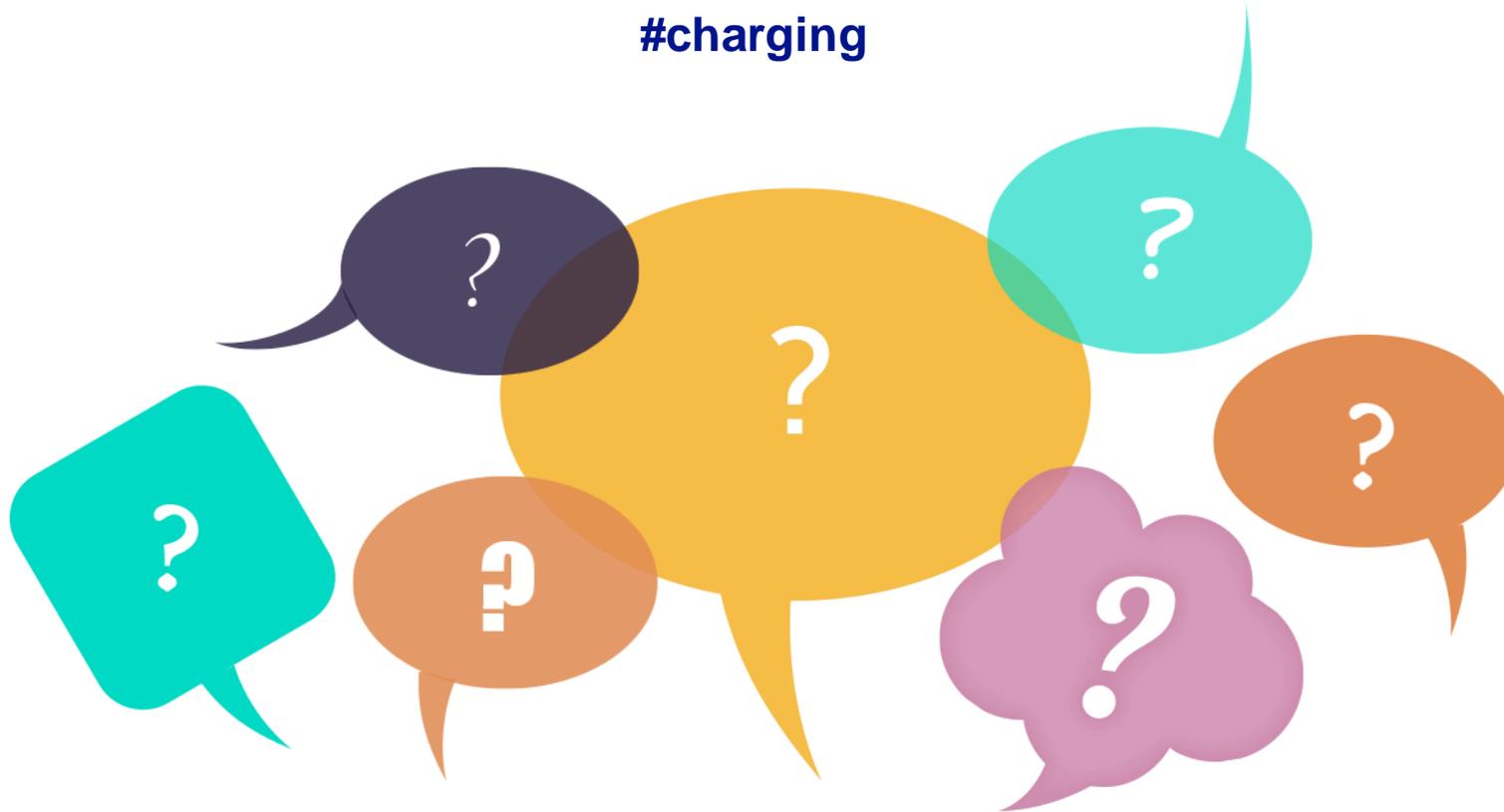
Somewhat

No

- Please explain your answer

Questions

Slido.com
#charging



Contact

Colin Williams
Charging & Revenue 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

nationalgrid