nationalgrid

Potential impact of EU Framework Guidelines on GB Charging

Gas Transmission charging review: Stakeholder workshop

4th December 2013

nationalgrid

Overall Aim

- Consider impact of implementation of the EU Tariff Framework Guidelines
- Considered two approaches
  - Minimal approach – just on IPs
  - Impact on all of domestic entry and exit points
- Analysis provides indicative impacts – does not provide any forecasts
- The options presented here are indicative and are not how we propose or suggest the Framework Guidelines be implemented

Overview

- Analysis used formula year 2012/13 to look at what the potential impacts would have been if we applied the EU Framework Guidelines at:
  - Interconnection Points only;
  - All Entry and Exit points of GB
- Assumed no changes in bookings / behaviour / flows
- Uses a number of assumptions due to uncertainties or areas that need consideration

nationalgrid

Key Assumptions (1)

- What we mean by implementing the EU Framework Guidelines:
  - Removal of TO and SO commodity except for fuel costs
    - We have used costs for shrinkage as a proxy for fuel costs
  - Charging regime for the calculation of charges using the LRMC methodology (“Virtual point”) remains
    - No adjustments for NTS Entry Capacity
    - Adjustment to costs for NTS Exit Capacity based on target revenue
  - Any targeted charges or specific charging arrangements (e.g. storage) assumed to remain in place

nationalgrid

Key Assumptions (2)

- Charges set to aim to recover the target allowed revenue for the year including a mechanism to recover any shortfall
- There are a number of options to adjust charges in order to recover any shortfall that could include:
  - Adjusting available commodity charges; and / or
  - Adjusting capacity charges to recover target allowed revenues for the year (“floating prices”)
- We have assumed no change in bookings / behaviours / flows to give a before and after picture for 2012/13
- For the purposes of analysis
  - IPs = Interconnection Points
  - Domestic = All GB points excluding IPs

Scenario 1 Overview: Apply EU FGs at IPs only

- TO Revenues / charges
  - Allowed revenues unchanged
  - Same charging methodology for capacity as now
  - No changes to Capacity charges / revenues
  - Commodity charges recover shortfall
    - Apply to domestic only as exclude IPs under EU FGs
    - Therefore use a smaller charging base to recover commodity
  - Targeted charges / pass through items remain as is

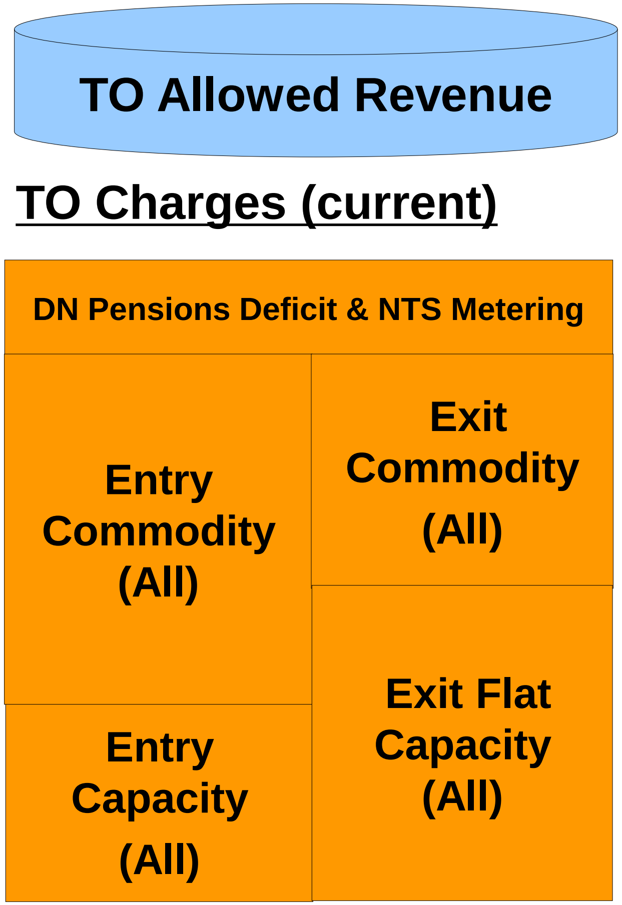
Scenario 1 Overview:
Apply EU FGs at IPs only

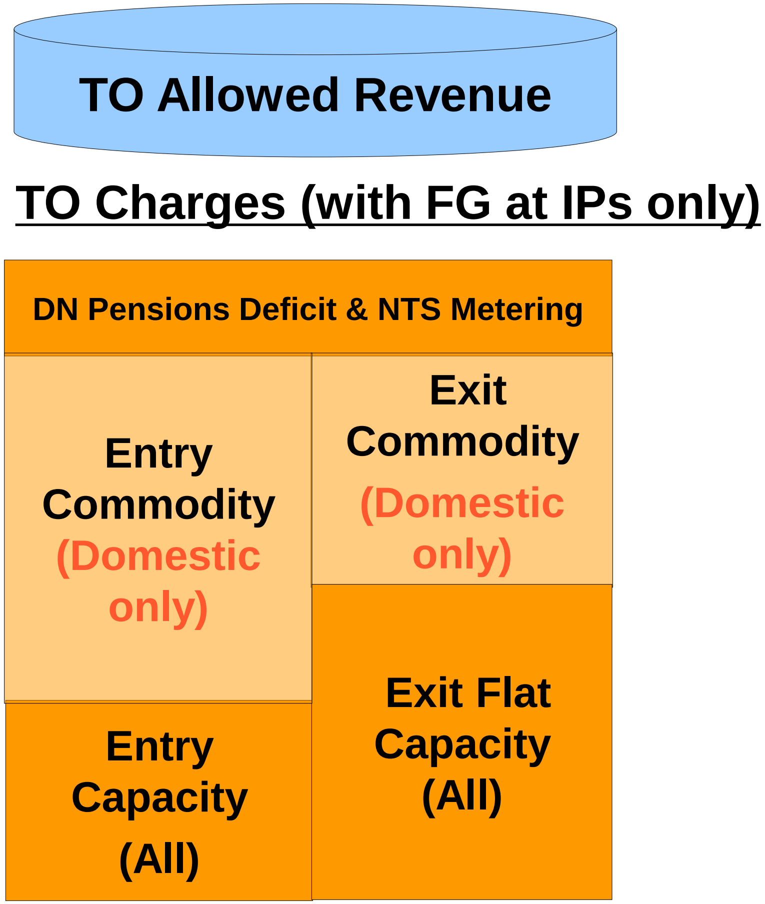
- SO Revenues / charges
  - Allowed revenues unchanged
  - EU FG Commodity charge (shrinkage) for all
  - Assumes domestic commodity charges to recover shortfall
    - Apply to domestic only as exclude IPs under EU FGs
    - Therefore use a smaller charging base to recover commodity
  - Targeted charges / pass through items remain as is

nationalgrid

Scenario 1 – Implementing EU FGs at IPs only - TO

- TO allowed revenue recovered from capacity charges and commodity charges
- Effective 50:50 split between Entry and Exit charges





•2012/13 was the year in which the NTS Exit Commodity charge was introduced, effective from 1 October 2012

nationalgrid

Scenario 1 – Implementing EU FGs at IPs only - SO

- **SO allowed revenue recovered mainly from commodity charges**
- **Effective 50:50 split between Entry and Exit charges**

SO Allowed Revenue

SO Charges

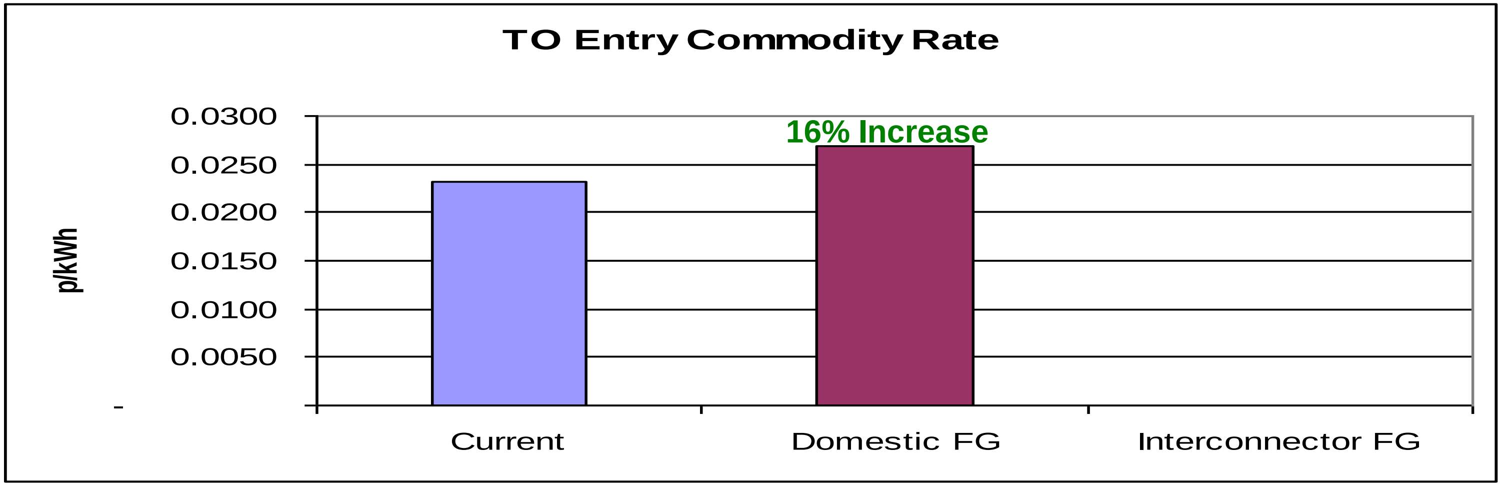
St Fergus Compression + Shorthaul +Legacy Incremental Entry/Exit* + Neutrality	
Entry Commodity (All)	Exit Commodity (All)

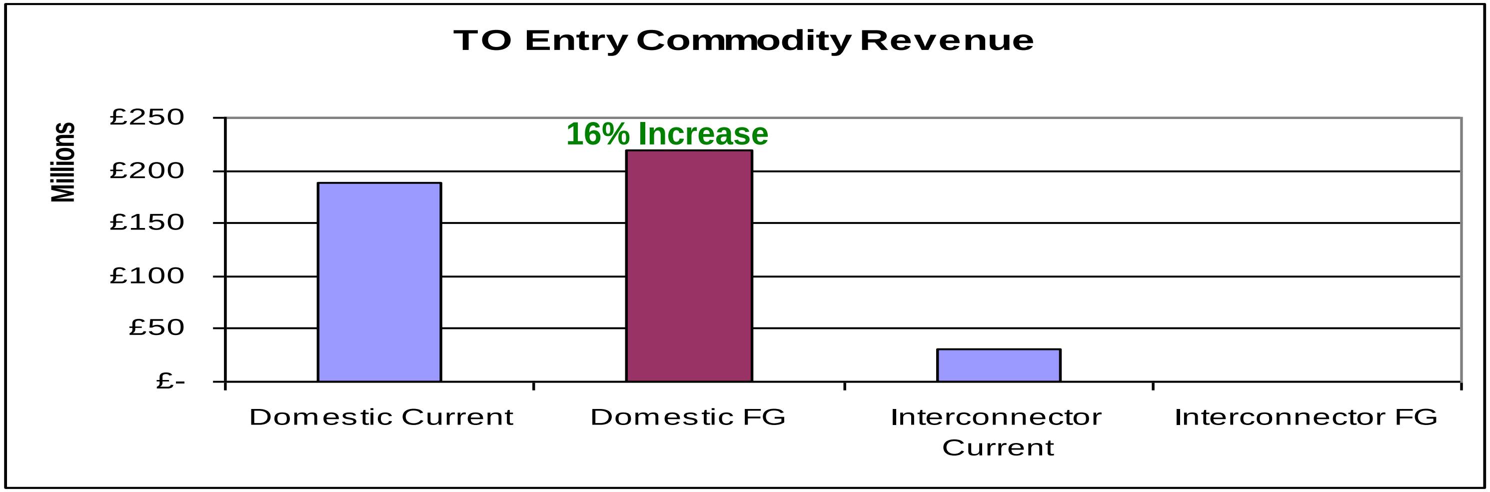
SO Allowed Revenue

SO Charges

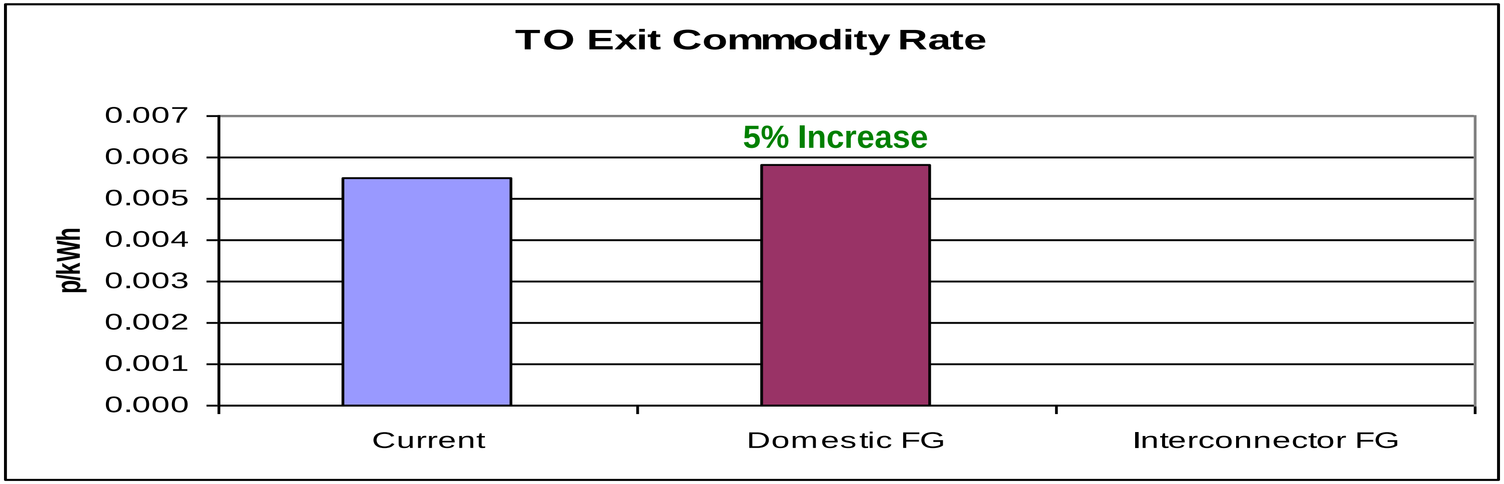
St Fergus Compression + Shorthaul + Legacy Incremental Entry/Exit* + Neutrality	
Entry Commodity (Domestic)	Exit Commodity (Domestic)
Shrinkage (All)	

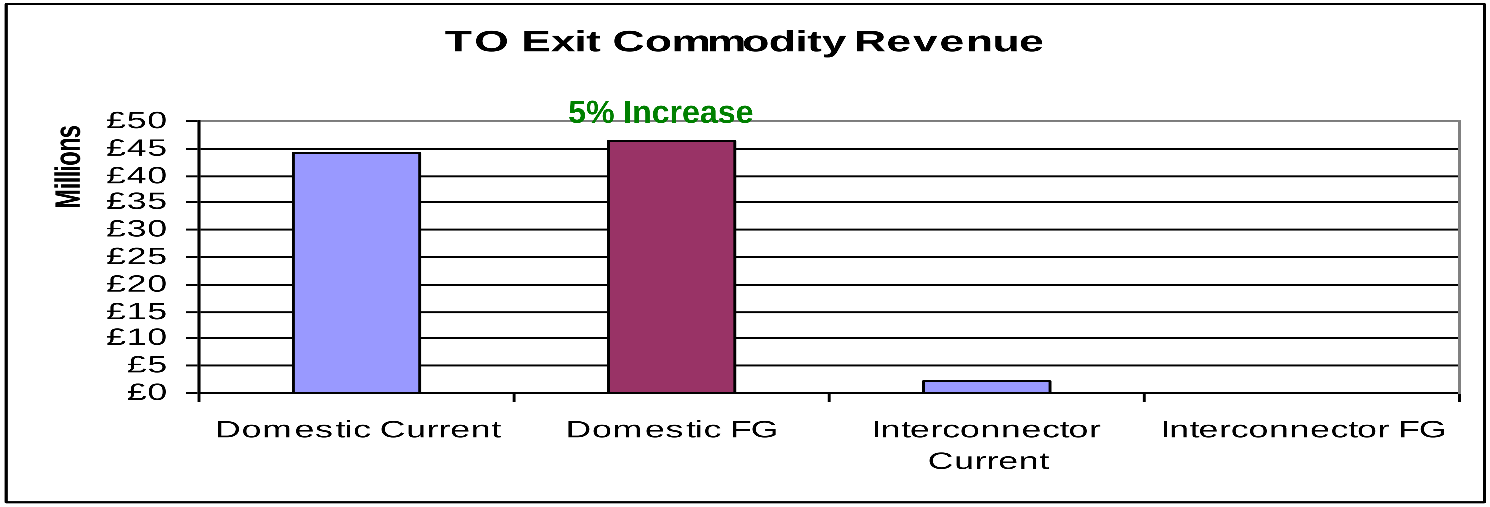
Scenario 1: TO Analysis (Entry Commodity) - 2012/13





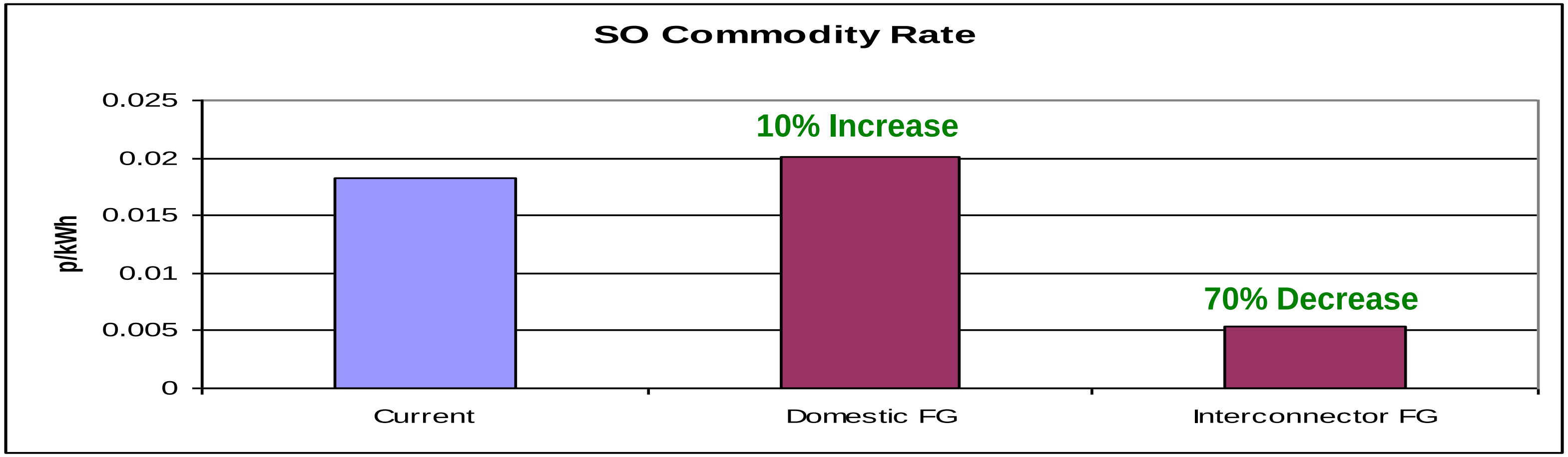
Scenario 1: TO Analysis (Exit Commodity) - 2012/13

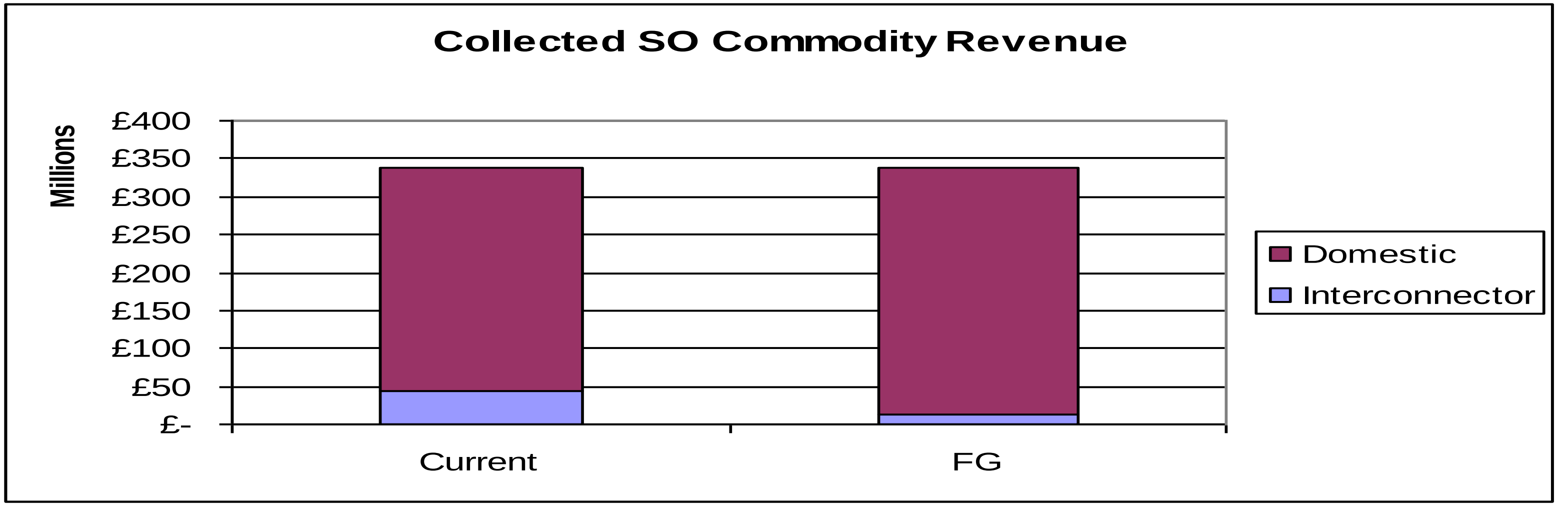




Scenario 1: SO Commodity Analysis (Entry and Exit) - 2012/13

nationalgrid





Scenario 1 – Percentage Changes to Commodity Rates

nationalgrid

TO/SO	Description	% Increase / Decrease (FG applied at IPs only)
TO	TO Entry Commodity Revenue - Domestic	16%
	TO Entry Commodity Revenue - Interconnector	-100%
	TO Exit Commodity Revenue - Domestic	5%
	TO Exit Commodity Revenue - Interconnector	-100%
SO	SO Commodity Revenue - Domestic	10%
	SO Commodity Revenue - Interconnector	-70%

Scenario 1 – Percentage collection from Domestic and IPs

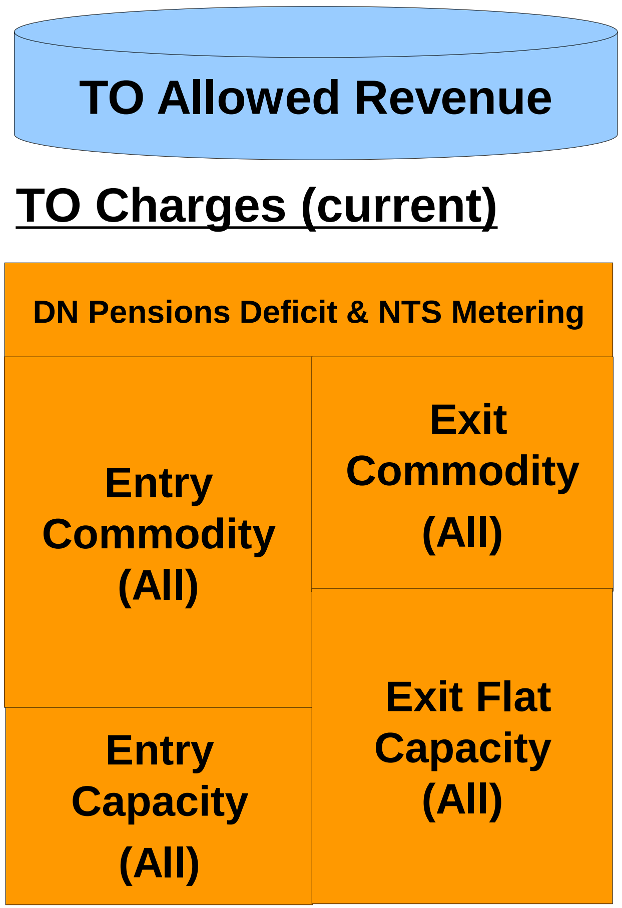
nationalgrid

TO/SO	Description	Current	FG applied at IPs only
TO	TO Entry Commodity Revenue - Domestic	86%	100%
	TO Entry Commodity Revenue - Interconnector	14%	0%
	TO Exit Commodity Revenue - Domestic	95%	100%
	TO Exit Commodity Revenue - Interconnector	5%	0%
SO	SO Commodity Revenue - Domestic	87%	96%
	SO Commodity Revenue - Interconnector	13%	4%

Scenario 2 Assumptions: Apply EU FGs across all GB

- Total allowed revenues unchanged (combined TO+SO)
- SO Commodity charge only recovers shrinkage
  - Apply to all points with any under recovery on what we have as remaining SO Commodity would move onto TO Capacity charges
- Same charging methodology for capacity as now
  - Capacity charges (Entry and Exit) would need to be adjusted on top of those calculated using the Transportation Model to collect allowed revenue (TO+SO)
    - There are a number of options that could be applied to achieve this
- Targeted charges / pass through items remain as is

Reminder of Current Allowed Revenue



- TO allowed revenue recovered from capacity and commodity charges
- SO allowed revenue recovered mainly from commodity charges
- Effective 50:50 split between Entry and Exit charges

nationalgrid

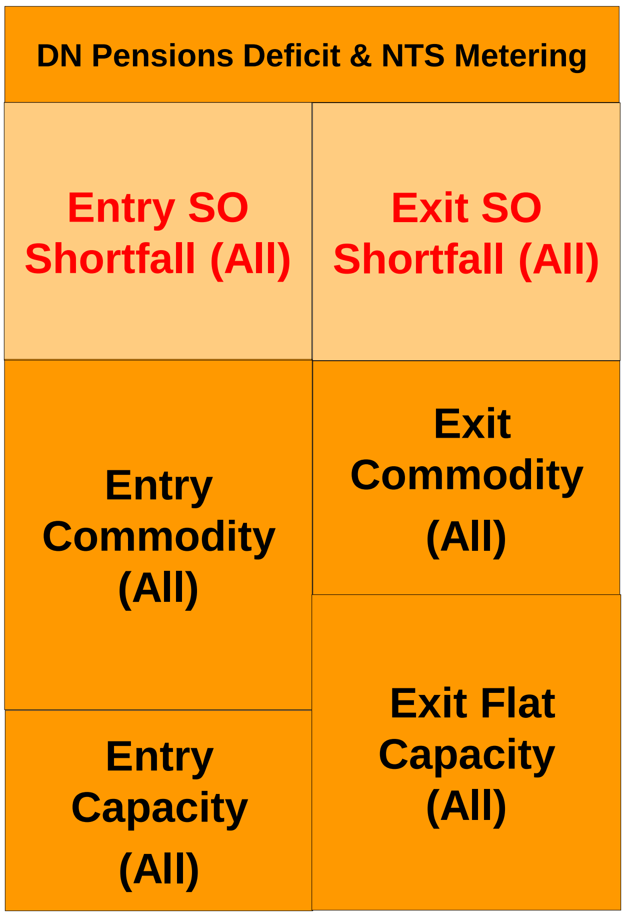
Scenario 2 – Implementing EU FGs - SO

SO Allowed Revenue	SO Allowed Revenue
SO Charges	**SO Charges**
St Fergus Compression + Shorthaul +Legacy Incremental Entry/Exit* + Neutrality	St Fergus Compression + Shorthaul + Legacy Incremental Entry/Exit* + Neutrality
Entry Commodity (All) / Exit Commodity (All)	Entry Shortfall / Exit Shortfall
	Shrinkage (All)

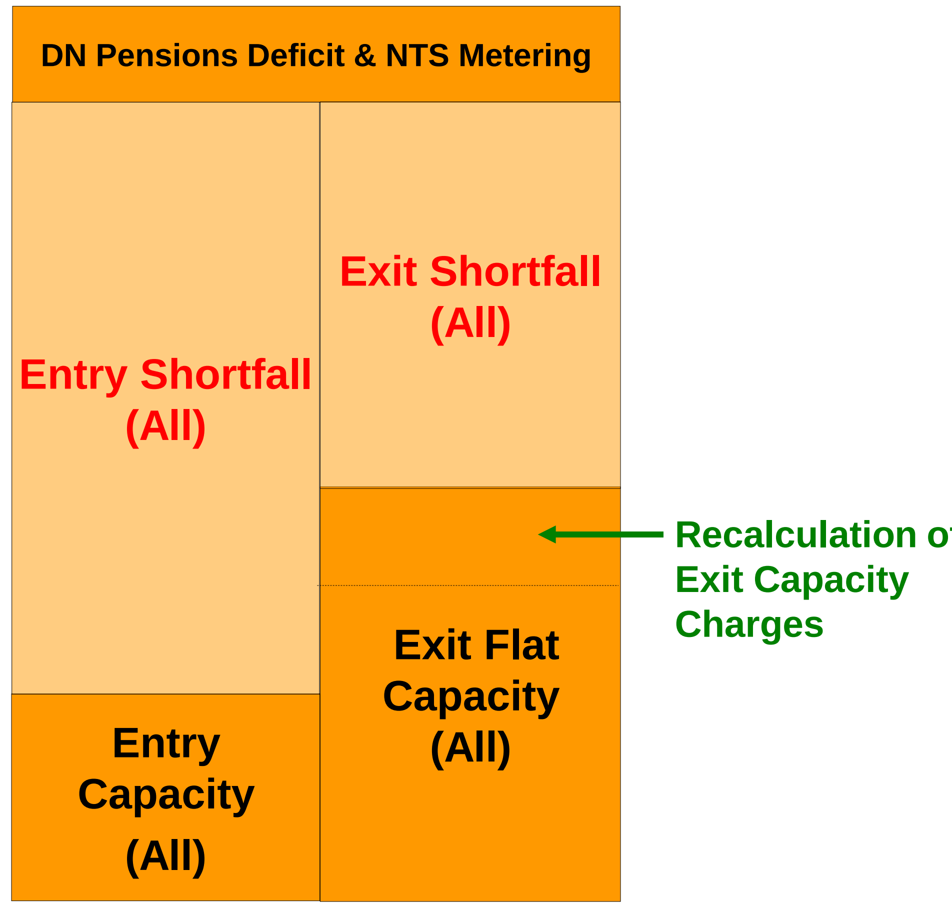
nationalgrid

Scenario 2 – Implementing EU FGs

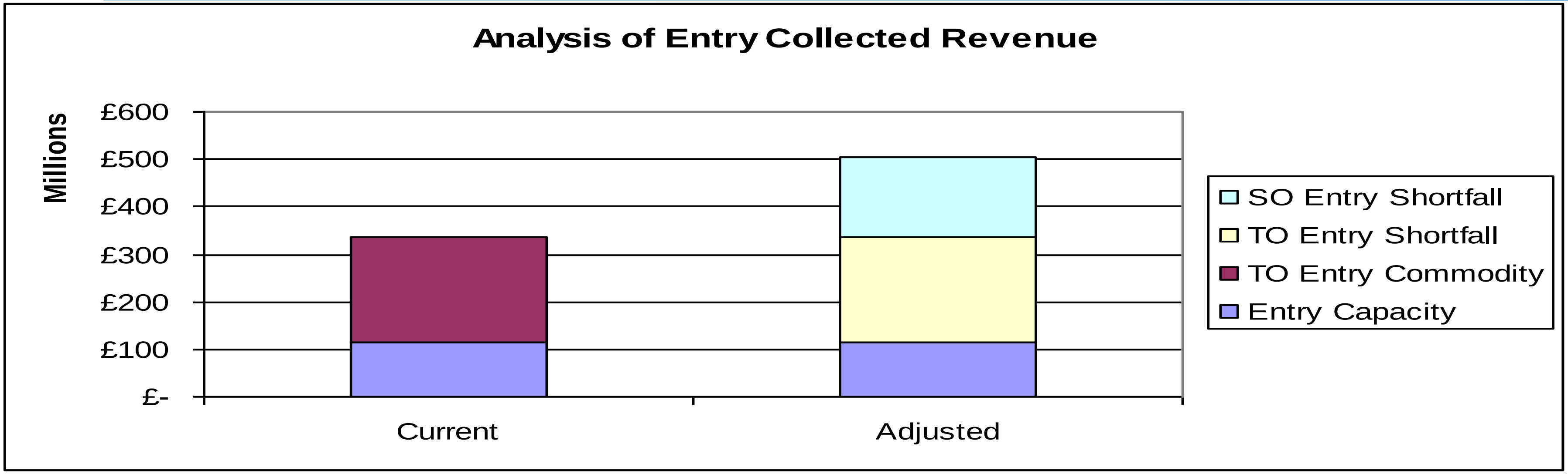
TO Charges (FG) – Step 1

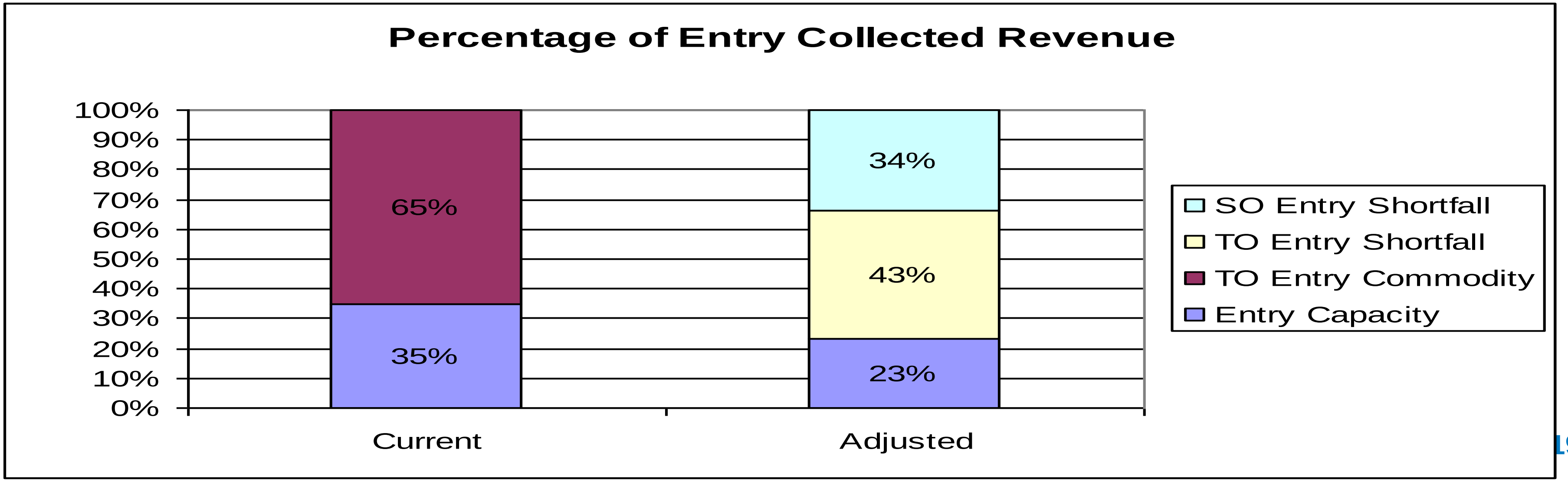


TO Charges (FG) – Step 2

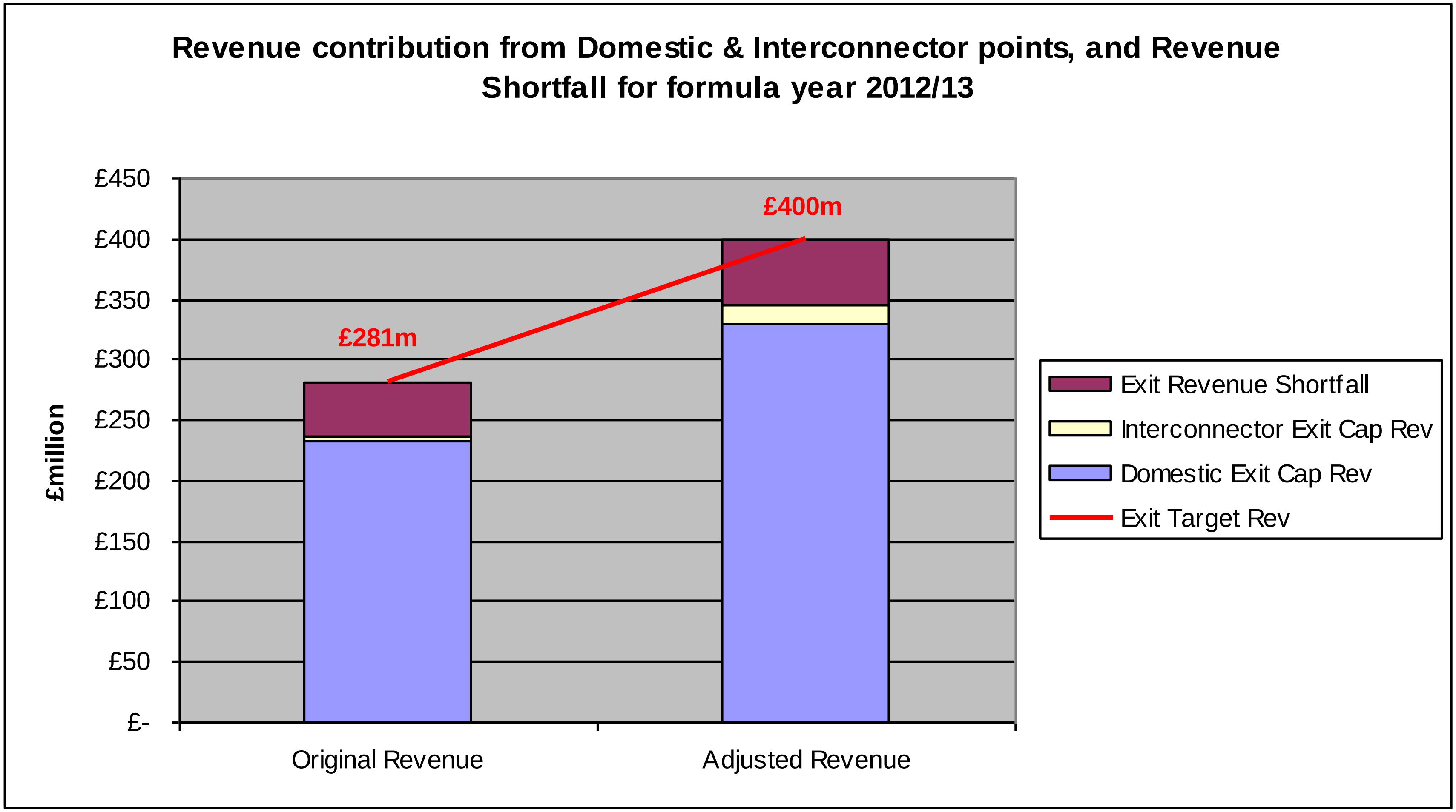


Scenario 2 – Potential Impact on Entry Revenues – 2012/13

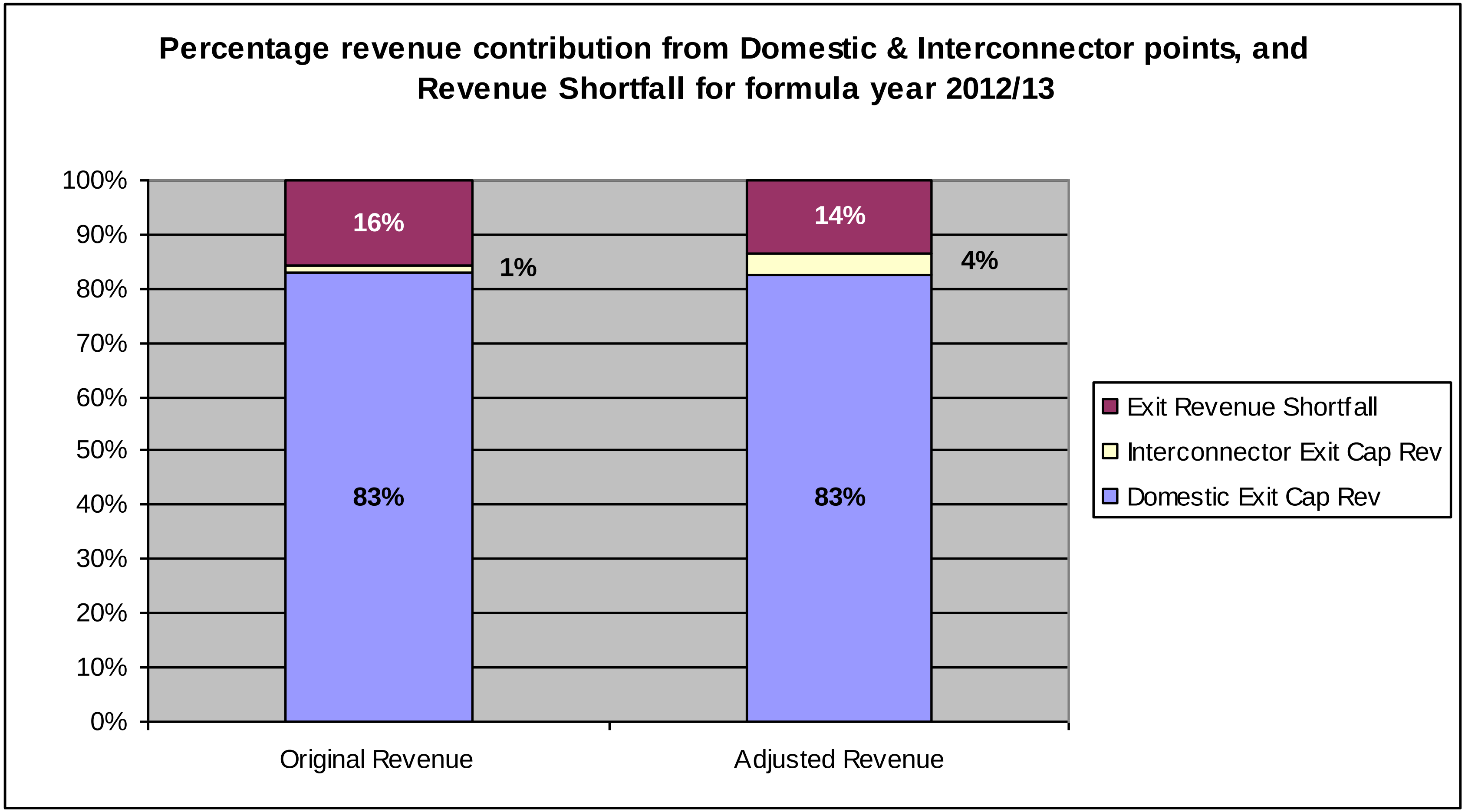




Scenario 2 – Potential Impact on Exit Revenues – 2012/13



Scenario 2 – Potential Impact on Exit Revenues – 2012/13



Potential Options for the recovery of revenue shortfall

nationalgrid

- Capacity charges could be subject to an additional adjustment to aim to recover target allowed revenues for the year (e.g. on top of any existing adjustments).
- Options include taking revenue shortfall recovering based upon:
  - Adjusting using baselines or obligated levels
  - Adjusting using forecast bookings
- Issues to consider would be:
  - Application of any uplift considering (amongst other items):
    - The methodology to be applied in the Transportation Model
    - The application of discounts for short term capacity
    - How to apportion any uplift or adjustment

Contact

- For any questions on the material shown in this presentation please contact:

Colin Williams

Tel: 01926 65 5916

Email: colin.williams@nationalgrid.com

Or

Malcolm Arthur

Tel: 01926 65 4909

Email: malcolm.arthur@nationalgrid.com