Gas Transmission Charging

Policy Update Open Letter

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Why do we believe the policy update is needed:

- Our GTCR policy view, published in November 2015, considered entry charges only
- Our updated policy view incorporates requirements from the EU Network Code on Tariffs (TAR NC) covers both entry and exit charges

What we are providing today:

- Our existing policy view (GTCR)
- The requirements of TAR NC
- Our updated policy view

Gas transmission charging key dates

- 2013 to 2015 - Gas Transmission Charging Review (GTCR)
- 2012 to 2016 - TAR NC comitology
- 2016 to (ongoing) - Methodology development in the Industry Gas Charging Review (GCR)
- 2017 to 2018 - Multiple UNC modifications expected, plus changes to the NGG licence
- Dec 2018 – Target date for implementation of all changes to ensure TAR NC compliance (deadline date May 2019)

Recap - NGG NTS allowed revenue recovery

LICENCE	Transmission Owner (TO)					System Operator (SO)		
UNC	TO Entry		TO Exit		Other charges	SO Commodity		Other charges
UNC	TO Entry Capacity	TO Entry Commodity	TO Exit Capacity	TO Exit Commodity	DN Pensions / Metering	SO Entry Commodity	SO Exit Commodity	St Fergus / Shorthaul / Legacy Capacity

Scope of GTCR

Indicative Values

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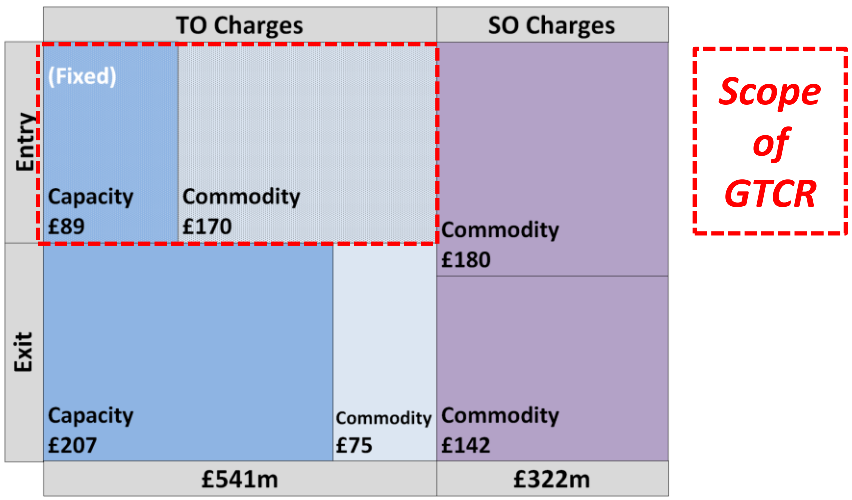
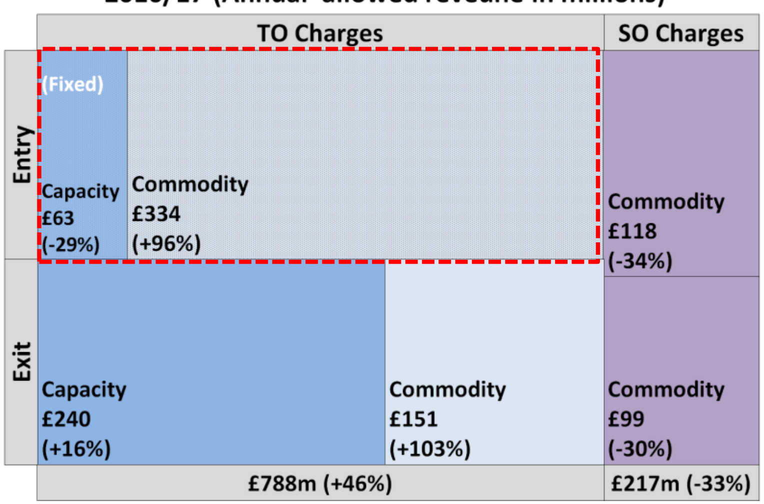
What’s the issue?

2013/14 (Annual allowed reveune in millions)



2016/17 (Annual allowed reveune in millions)



What has changed?

- Relative revenues from TO capacity charges are decreasing (thanks partly to partly to discounts and partly how they are calculated including changes to demand, partly changes in supply pattern)
- TO entry commodity charges (intended to address over- and/or under-recovery) are as a result increasing

Rate of change?

- By 2013/14 the commodity charge represented 66% of total TO entry revenues
- By 2016/17 the commodity charge is forecast by NGGT to reach 84%

Why is it an issue?

- Commodity charges may not be a fair and equitable way of recovering allowed revenue / managing over- and/or under-recovery ofgem Making a positive difference for energy consumers

GTCR conclusions

GTCR policy position promotes:

- The introduction of ‘**floating’ capacity** charges for TO **entry** capacity at all entry points
- Discontinuing **commodity charges** for under or over-recovery of TO **entry** revenues
- Reducing the reserve price **discounts** for short-term **entry** capacity products (day-ahead and within day)
- Maintaining the principle of avoiding double charging at storage facilities

However, we did not commit to an immediate change to floating charges (and discontinuance of commodity charges) at all **entry** points because of:

- uncertainty about TAR NC; and
- the potential to implement at Interconnection Points (IPs) only

TAR NC overview

TAR NC expanded the scope of changes required: Key implications are:

- Establishes principals for the tariff methodology:
    - Fixed capacity tariffs not allowed at **entry and exit** IP points (must float) for a non-price cap regime
    - Commodity-based tariffs for allowed revenue under-/over-recovery not allowed at IPs and only allowed by exception at other **entry and exit** points
    - Same price methodology to be applied at all **entry and exit** points
    - No double charging at storage but specifies a minimum discount of 50% on capacity tariffs (currently 100% commodity discount)
- Has implications for discounts:
    - **Short term capacity discounts** must be **"duly-justified"** at IPs (no reference to non-IPs)
    - **Interruptible discounts** must be based on **probability of interruption** at IPs (no reference to non-IPs)
- No specific tariff methodology specified, but must be assessed against Capacity Weighted Distance (CWD) methodology

Policy view update

In addition to the TAR NC requirements, and subject to the UNC consultation process, we support the following:

1. Introduction of ‘floating payable prices’ for at all entry and exit points (both IPs and non-IPs)
2. The cessation of commodity charges for the purpose of managing under- and over-recovery of transmission services revenue at all entry and exit points (both IPs and non-IPs)
3. Setting the price of interruptible capacity (including off peak capacity) at all entry and exit points to reflect the probability of interruption.
4. Reduction of reserve price discounts for short-term capacity products at all NTS entry and exit points.

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