

Open Letter to All Stakeholders

28 May 2021

Dear Customer or Stakeholder,

Future of Gas Transmission Charging

Gas transmission charging has been an area of focus for the industry for a number of years and following extensive industry consultations Ofgem directed the implementation of UNC 678A from 01 October 2020. This introduced a series of changes to the way that National Grid Gas sets its Transportation Charges and ensured compliance with the EU Tariff Code. Soon after implementation it became apparent to National Grid Gas, and subsequently other stakeholders, that the regime was not functioning as intended resulting in NGG forecasting a significant under collection of its allowed revenues.

Swift action was taken by NGG to implement necessary, short-term remedies, in consultation with stakeholders; including proposing UNC748 (changes to the capacity neutrality process) which was approved by Ofgem in December, implementing a Revenue Recovery Charge, in order to contain the level of under collection and prevent an even bigger issue for future years, and developing changes (in consultation with stakeholders) to the Forecast of Contracted Capacity (FCC) methodology to apply to the next set of Reserve Prices for October 2021. We are grateful for the positive engagement that we have had with many stakeholders during this process.

Whilst these necessary actions have undoubtedly improved the functioning of the regime, it is evident that there are underlying structural issues arising from UNC 678A which need to be addressed. These manifest principally in regard to predictability and therefore stability of entry tariffs. Also, the revenues collected from entry capacity are very sensitive to small changes in booking behaviour.

Unless addressed these issues create an ongoing risk, specifically with regards to entry charges, of high tariffs and significant and unpredictable price volatility for our customers.

In addition, several stakeholders have also questioned whether a regime can be considered to be fair, when it allows some parties access to capacity at a price many times lower than is paid by others. Indeed, the volumes of gas utilising entry capacity purchased via fixed price existing contracts means that the average cost to bring gas into the NTS is approximately 29% of the capacity reserve price, as illustrated in the table below.

p/kWh/d	Oct 21 Entry Capacity Reserve Prices	Oct 21 Exit Capacity Reserve Prices
Capacity Reserve Price	0.0927	0.0211
Interruptible Capacity Reserve Price	0.0834	0.0190
Storage Capacity Reserve Price	0.0185	0.0042
Storage Interruptible Capacity Reserve Price	0.0167	0.0038
Indicative Shorthaul Average Price	0.0105	0.0050
Existing Contract Average Price	0.0036	n/a
Indicative Average Capacity Price	0.0267	0.0195

National Grid Gas has discussed these issues with several stakeholders including Ofgem. We believe that further change to the charging regime is essential and that there is a need to act swiftly to address the shortcomings. We are therefore seeking to continue to work with Ofgem and stakeholders to develop and implement further UNC changes over the next 12 months and beyond to address the structural instability of

the current regime; whilst maintaining the principles of transparency, stability and predictability. Over the coming weeks we intend to initiate discussions and debate to inform options; this with the aim of implementing some reforms prior to setting tariffs for Gas Year 22/23. In order to achieve this, we will require support and cooperation from all stakeholders and a pragmatic approach towards development and progression of potential changes.

Yours sincerely

Chris Logue
Head of Gas Markets