

An update on non-transmission charges

We will start at 10.02 to allow participants to finish previous meetings and join the call

Slido.com
#charging

Welcome and Opening

Thank you for joining us today

- Market is experiencing volatile and unprecedented costs
- Customer charges are impacted
- We are committed to keeping you informed



Chris Logue – Head of Markets

Who will be speaking?

Colin Williams
Charging and
Revenue Manager



Jennifer Pemberton
Customer Strategy
Manager



Logistics



Should last for approximately about 45 min



Questions and polling via [slido.com](https://www.slido.com) #Charging



All callers will be placed on mute



We will circulate the slides and a recording of this webinar

Agenda

Non-Transmission charges and Revenues

Drivers of changes to costs & charges

Indicative Charges - updates from July 2022

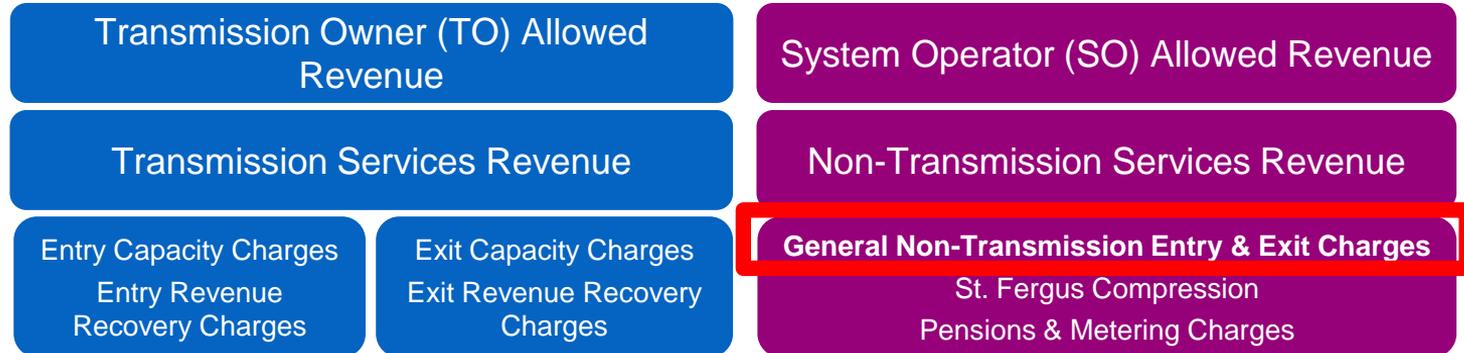
Next Steps and Question and answer session

Non-Transmission charges and Revenues

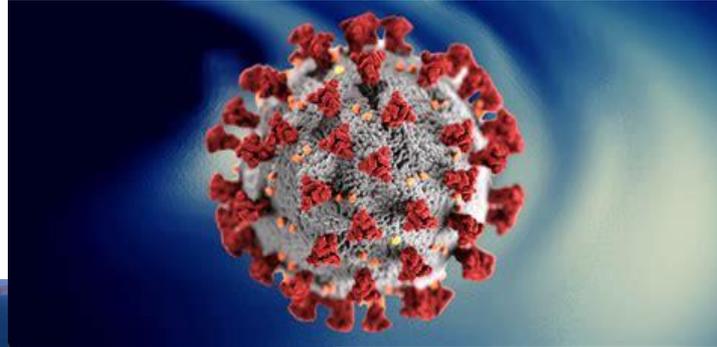


Gas Charging – Which charges are we talking about?

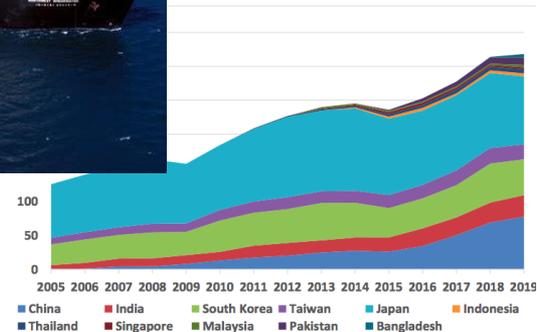
- **Two types of charges:**
 - Transmission Services Revenue, which broadly aligns to the Transmission Owner (TO) Revenue, will be recovered by **Transmission Services Charges**
 - Non-Transmission Services Revenues, which broadly aligns to the System Operator (SO) Revenue, will be recovered by **Non-Transmission Services Charges**
- This session focuses on the **General Non-Transmission Entry & Exit charges**



An unpredictable and unprecedented energy landscape

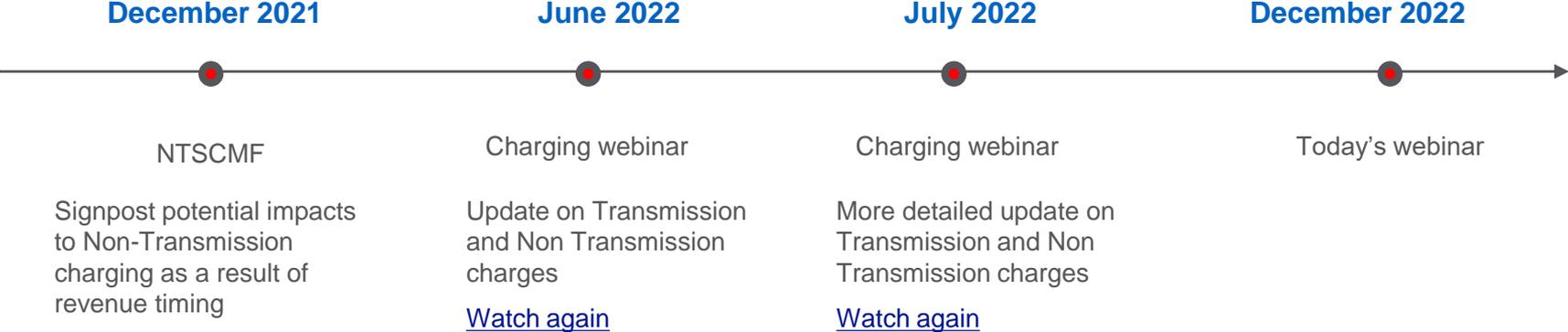


Nord Stream pipeline



Source: IEA, Platts LNG Service

Timeline of engagement to date



Revenues / charges over time

NTS Shrinkage

Energy used in operating the system and energy that can't be charged to consumers

- Dominating changes to the System Operator Revenues driven by:
 - Increased Gas price rise
 - Increased throughput
- These changes will impact customer charges
- Create visibility and clarity



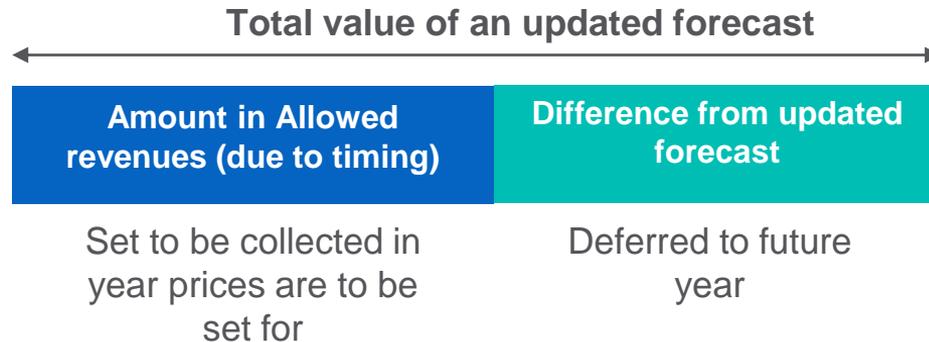
- **For Oct 23:** set prices to recover revenues output from the PCFM*, as part of AIP*
- **Future years** (i.e. for indicatives): best view of costs/revenues) to provide useful information to Stakeholders

*PCFM – Price Control Financial Model,
<https://www.ofgem.gov.uk/publications/gt2-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 – simplified view on cost changes impacting revenues

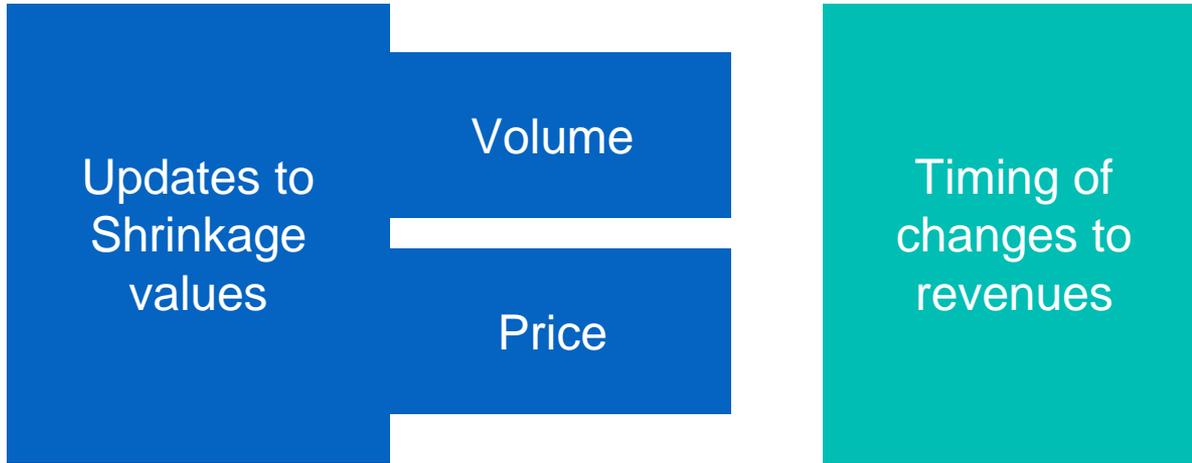
- **Implications of shrinkage costs / revenues**
- We pay all the shrinkage costs and only recover in line with our obligations - this **protects consumers**
- Where shrinkage costs are higher than the value allowed to be recovered, collection is deferred to a future year
- Shrinkage costs and impacts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



Drivers of changes to costs / Charges



Drivers of changes to costs / Charges



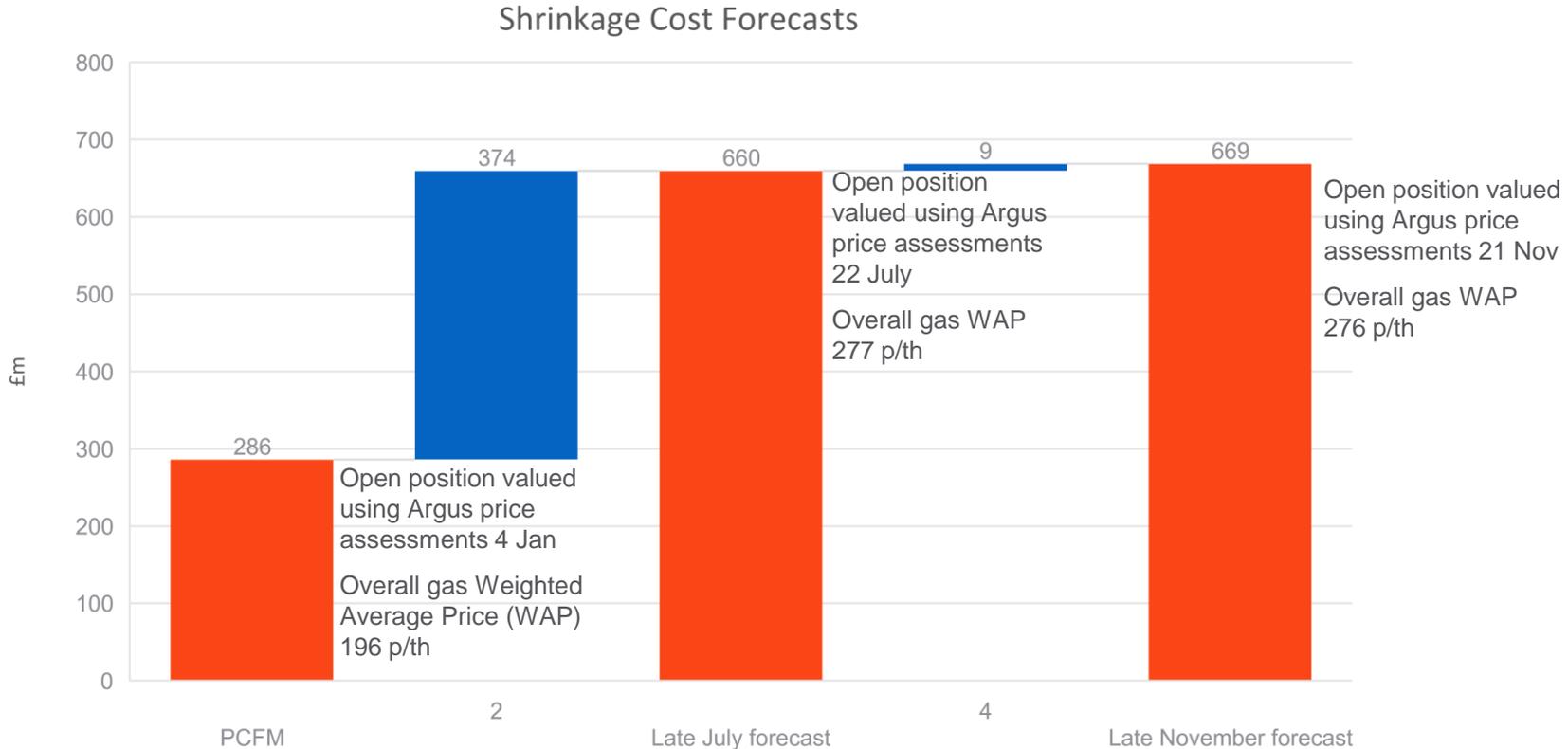
The following slides show how shrinkage forecast costs have changed this year and how they would impact allowed revenues and charges over time

NTS Shrinkage forecast costs 2022/23

Inputs	PCFM submission in Jan-22	Late July forecast	Late November forecast
Volume – how much gas is needed	Forecast volumes for year ahead	<ul style="list-style-type: none"> Actual volumes to date and latest forecast for balance of year Actual/forecast gas volumes higher than PCFM*, due to compression required for supply/demand, and Unaccounted for Gas due to increased throughput 	<ul style="list-style-type: none"> Actual volumes to date and latest forecast for balance of year Overall forecast gas volume similar to late July
Forward price	Argus price assessments 4 Jan	Argus price assessments 22 Jul	Argus price assessments 21 Nov
Total shrinkage costs	£286m	£660m	£669m

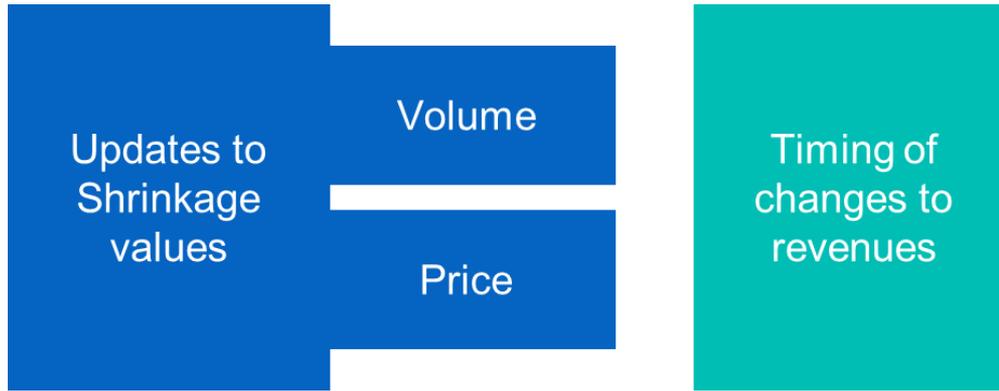
*PCFM – Price Control Financial Model, <https://www.ofgem.gov.uk/publications/gt2-price-control-financial-model>

Drivers of changes to costs / Charges



These represent snapshots of the forecast for Shrinkage at these points in time. For awareness between July and November values had increased before coming down to the levels of the November forecast.

...to summarise



- Latest update is based on a **full forecast of revenues** in addition to shrinkage
- The total revenue values shown include:
 - An update to **shrinkage**
 - An updated view of **revenues** for 2023 and beyond to the end of RIIO2, ending March 2026

Indicative Prices



General Non-Transmission Services Charges – indicative views (Copy of Slide shown in July 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 – Updated view (PCFM* Feb 2022) – updated for recovered revenues from April 21 – Mar 22	£198m	£514m	£249m	£236m	£224m
Allowed Revenues – Updated view (June webinar)	-	£514m	£574m	£392m	£341m
Allowed Revenues – Updated view (July webinar)		£514m	£1,058m	£481m	£359m
Estimated Consumer bill contribution from SO Revenues / Total TO & SO Revenues		£2.96 / £8.15	£6.20 / £12.28	£2.57 / £8.64	£1.80 / £7.87

- Due to increases and timings of updates the biggest revenue impact is in April 23 – March 24 dominated by Shrinkage
- Rates are set to recover revenues within a Regulatory Year. Using the revenues above, this triggers new volatility and potential for ranges in prices we believe **should not be allowed to materialise** due to impacts on Customer charges.

Indicative Non-Transmission Charges	Oct 21	Oct 22	Oct 23	Oct 24	Oct 25
Prices as published for October 2021	0.0092^	0.0080	0.0121	0.0089	0.0105
General Non Transmission Services Charge Unit rate (p/kWh)	0.0092^	0.0343^	0.0638	-0.0123	0.0368
St Fergus Compression Charge (p/kWh)	0.0169^	0.0514^			

These values **may still** change as we finalise the inputs ahead of publication on 29th July.

General Non-Transmission Services Charges – Shrinkage Costs and SO Allowed Revenues impacts

Example of how and when Shrinkage Costs for this year impact SO Allowed Revenues

- For October 2022 charges, the revenues for the Regulatory Year April 2022 – March 2023 were published in **February 2022**...meaning changes from the inputs to those revenues will **not be included until a subsequent year**.

	21/22	22/23	23/24	24/25	25/26
Shrinkage actuals & forecast (December 2022)	£206m	£669m	£587m	£478m	£368m
Values in PCFM* Feb 2022 (locked in)	£190m	£286m			
Actuals less previous forecast	£16m				
Forecast in December compared to PCFM Feb		£383m			
Amount reconciling into Apr 23 - Mar 24		£399m			

Therefore the Shrinkage costs included into April 23 – Mar 24

$$\textcircled{1} \text{ £399m} + \textcircled{2} \text{ £587m} = \text{£986m}$$

The limitations on updating revenues is storing up sizeable impacts to future years

General Non-Transmission Services Charges – looking towards October 2023 – updated indicative views

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 – Updated view (PCFM* Feb 2022) – updated for recovered revenues from April 21 – Mar 22	£198m	£514m	£249m	£236m	£224m
Allowed Revenues – Updated view (July webinar)	-	£514m	£1,058m	£481m	£359m
Allowed Revenues – Updated view (December 2022)		£514m	£1,215m	£646m	£519m
Estimated Consumer bill contribution from SO Revenues / Total TO & SO Revenues		£2.96 / £8.15	£7.31 / £13.38	£3.78 / £9.74	£3.04 / £9.26

- Rates are set to recover revenues within a Regulatory Year
- This triggers new volatility and potential for negative charges, which **should not be allowed to materialise**.

Indicative Non-Transmission Charges	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
General Non Transmission Services Charge Unit rate (p/kWh)	0.0092^	<u>0.0343^</u>	0.0788	-0.0080	0.0497
St Fergus Compression Charge (p/kWh)	0.0169^	<u>0.0514^</u>			

^Actual prices published for applicable period

Licence changes

Ofgem have proposed changes to the Licence on Allowed Revenue republication timelines

- Enabling revenues to be set closer to the time of publishing Transportation charges will allow a more up to date forecast of costs than status quo
- This will help reduce 'carry over' revenue adjustments

Consultation on modifications to National Grid Gas's Transporter Licence

Consultation

Notify me +



Upcoming

Open

Closed (awaiting decision)

Closed (with decision)

Publication date

2 December 2022

Closing date

9 January 2023

Company

Today, we are publishing a Statutory Consultation on a proposal to modify the Gas Transporter Licence held by National Grid Gas Plc (NGG), as well as the GT2 Price Control Financial Handbook.

The proposed modifications, along with our rationale for making them, are outlined in the cover letter and consultation notice below.

Please send any views on the issues raised in this letter and the notice on or before 9 January 2023 to Joseph Glews via Gas.TransmissionResponse@ofgem.gov.uk.

Next Steps



Next Steps

Managing volatility and mitigations for negative prices

- We know there is still volatility and unpredictability in some areas
 - Changes to flow volumes
 - Market costs for Gas (Shrinkage)
- We:
 - Will work with stakeholders to identify and implement options
 - Will be transparent throughout

Further updates / publications

We are committed to engage and will provide updates in:

- June
- December

Quick poll

Are these sessions useful?

24 

Yes



100%

Somewhat



0%

No



0%

Questions



What next?



You will receive the recording and material from today's session



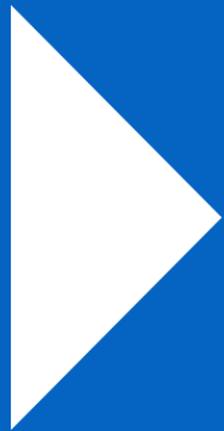
If you have any further questions or would like to discuss anything specific please get in touch with Jennifer.Pemberton@nationalgrid.com



Feedback is important to us, therefore if you have not already taken part, we would like to put you forward for a survey

Thank you for joining us





Gas Transmission