



2022/23 Gas Incentive Performance

End of Year Report

Introduction

This report is to provide a quarterly overview of the National Gas Transmission (NGT) incentives. It was produced following feedback received through responses to industry events. It should be read in conjunction with the annual RIIO-2 System Operator Incentives supporting information published on our website in October each year which provides a summary of our annual financial performance and further incentive scheme details.

The Gas System Operator (GSO) function of NGT is subject to licence obligations and several financial and reputational incentive arrangements, which are measured in accordance with the licence following consultation¹.

These incentive arrangements are designed to minimise the overall cost of system operation leading to benefit for consumers, they are designed to influence our behaviour to minimise the impact on the market, to consider environmental impacts and to support the efficient operation of the wholesale gas market.

The various incentive schemes provide a focus on key areas where NGT can create value for the industry and consumers, the financial schemes allow NGT to retain a share of any value created or be penalised should targets not be met.

For further details

Further details on each incentive see: <https://www.nationalgas.com/about-us/system-operator-incentives>

Or contact tonderai.munetsi@nationalgas.com, Incentive Development Team.

¹ Special Condition 5.6 System operator external incentives, revenues, and costs (SOIRCT)

Financial Incentives – Performance Scorecard

2022/23 Performance based upon actuals from 1st April 2022 to 31st March 2023.

| Incentive | Purpose | Cap and Collar | 2022/23 Licence Benchmark | What has influenced performance this year |
|--------------------------------|--|-------------------|---|--|
| Capacity Constraint Management | To incentivise the maximum release of capacity (above our obligations) and minimise the costs of constraints against a set financial cost target. | +£5.2m to -£5.2m | A net cost target of £8.5m for entry and exit operational constraint management - incentive revenue or penalty is 39% of the over or under spend respectively with the remaining 61% being passed back to Shippers. NGT retain 14% of non-obligated capacity (entry and exit) sales under the incentive. | Achieved annual incentive revenue of £4.81m which includes £0.17m of incentive revenue from sales of £3.1m of Non-Obligated Entry and £1.33m of incentive revenue from sales of £24.3m of Non-Obligated Exit capacity. In January a constraint occurred at Milford Haven, and this resulted in locational actions to address the constraint. A total of 4.1mcm was sold at MH and a corresponding buy action of 1.8mcm was taken to maintain system balance. |
| Demand Forecasting D-1 | Deliver accurate 13:00 day ahead demand forecast. | +£1.5m to -£1.5m | The scheme has a target forecast error of 8.35mcm per day adjusted up to a further 1mcm dependent upon the extent of additional short cycle storage injection capability connected to the NTS. | The weighted average error on the D-1 incentive was 8.97mcm against a target of 8.48mcm (Fixed target of 8.35mcm + storage adjuster of 0.1283mcm due to level of injection capability seen during the year). The associated incentive revenue for 2022/23 outturned at a loss of £0.192m. |
| Residual Balancing | To balance supply and demand on the gas day minimising the impact our trading has on the market when we do take action to balance the network. | +£1.6m to -£2.8m | Linepack Performance Measure (LPM) Target: 2.8mcm/d change. for non-shoulder months. For the shoulder months (October, November, February and March) there is an increase in the target where there is in effect a neutral position between 2.8 and 5.6 mcm/d. Price Performance Measure (PPM) Target: 1.5% of System Average Price (SAP). | LPM: Achieved a daily average linepack performance of 2.5mcm/d over the year, compared to the 2.8mcm/d incentive target. PPM: The average price spread for residual balancing trades was 4% of SAP compared to the 1.5% target. Average SAP outturned at 6.3p/kWh, with the highest SAP being 19.4p/kWh and the low of 0.4p/kWh This resulted in an overall incentive revenue of -£42k, due to volatile and challenging market experienced throughout the year with a higher-than-average number of trading days. A 29% increase compared to the average previous 3 years. |
| Maintenance | Deliver benchmark performance for summer maintenance outage days, including and excluding Valve Operations (VO). Minimise NGT driven changes to maintenance planning to deliver network access for customers | +£0.5m to -£1.5m. | Maintenance Period covers 1 st Apr – 31 st Oct 1. Changes – minimisation of changes initiated by NGT – Target 7.25% of the total maintenance plan days in the year. 2. Use of Days – (VO) – Target 11 days. 3. Use of Days – (ex VO) – Target align 75% of customer impacting. | The Maintenance Scheme closed at the end of October 2022 with all the scheduled works completed. Achieved maximum incentive revenue of £500k. |

| | | | | |
|--------------------------|--|------------------|---|--|
| | | | | |
| Greenhouse Gas Emissions | To consider the environmental impact of our compressor operations when venting | +£1.5m to -£1.5m | Minimise emissions from compressors with a breakeven target of 2,897 tonnes. Emissions venting reference price for this incentive year is £2,104/tonne. | A total of 2,286 tonnes of natural gas were vented during this incentive year. This represents 79% of the annual venting allowance and resulted in an incentive revenue of £1.28m. |