Capacity Neutrality Stakeholder Webinar

national gas transmission

The Webinar will begin at 13:03

30.September.2024

Up to 60 minutes including time for questions

Questions via Q&A via in Teams

All attendees on mute and cameras off

Slides and recording will be circulated

Welcome

Thank you for joining us today

Colin Williams
Charging and Revenue Manager

Ash Adams
Commercial Codes Change Lead

Dan Donovan
Service Delivery Ops Manager Correla

What will we be talking about today?

- Overview and Function
- Invoicing
- Materiality
- Revenue Treatment and Charging Interactions
- Questions

The Basics

Capacity Neutrality is the financial mechanism that is used to ensure that certain costs and revenues associated with the provision of Entry transmission capacity do not result in a net gain or loss for National Gas.

It is invoiced monthly, and therefore allows for credits and debits to be processed quickly as they are not delayed by the timings associated to the annual revenue and charge determination processes.

It ensures any costs associated to a constraint, if these costs were to materialise, are spread over a wide customer base and invoiced monthly in a timely manner. With the component parts as they stand, and given constraints are rare, the net position of Capacity Neutrality is generally a credit to Entry shippers.

Neutrality costs and revenues are distributed across shippers based on the proportion of the total Firm Entry Capacity that they hold for the applicable day.

The existing process has been in place for many years and there is an interaction with Transportation charges

Capacity Neutrality Arrangements in UNC

UNC TPD Section B details the relevant capacity **revenues payable to NGT by Users** and relevant capacity **costs payable by NGT to Users**.

Revenues/Costs are credited/debited to Users via the Capacity Revenue Neutrality Charge based on the proportion of Firm Available NTS Entry Capacity held for that day.

Revenues

- Non-Obligated Entry Revenues
- Allocation of Rolling Monthly Surrendered Capacity
- Entry Overrun Charges
- Negative Entry Overrun Charges
- Locational Actions (Sell)
- Physical Renomination Incentive Charges

Costs

- Capacity Management Charges
- Aggregate Entry Constraint Amounts
- Rolling Monthly Surrender Offer Acceptance
- Class A Contingencies
- Locational Actions (Buy)

In practice, some of the items listed in UNC, that flow through the Capacity Neutrality mechanism are rarely, if ever used.

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Non-Obligated Entry Revenues	Allocation of Rolling Monthly Surrendered Capacity
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Capacity Management Charges	Aggregate Entry Constraint Amounts
Rolling Monthly Surrender Offer Acceptance	Class A Contingencies
Locational Actions (Buy)	

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Invoicing

Invoicing

Capacity Neutrality Invoicing is managed through the NTE Invoice

NTE Neutrality is made up of 3 different Neutrality Pots in Gemini that manage how various costs and revenues are fed into the Neutrality mechanism.

Neutrality Pot NP052 – Costs - This Pot relates to certain costs incurred by NGT that it is allowed to recover from Entry shippers via the neutrality mechanism.
Neutrality Pot NP053 – Revenue - This Pot relates to revenue generated via certain charge types incurred by Shippers that are deemed to be non NGT revenue.
Neutrality Pot NP054 – Adhoc - This Pot relates to revenue or costs resulting from Locational Trades.

Neutrality revenues and costs appear on Shipper invoices as either REV (Revenue) or ARS (Adjustment to Revenue Share) charge types.

*Although Shorthaul **does not** form part of Capacity Neutrality, from an invoicing perspective Shorthaul discounts are also returned through the ARS charge type.

Invoice Reason Types

Reason Type	
ARS Charge Type	**Detail**
I	This reason type relates to locational trades
J	This relates to physical renomination
M	This relates to adjustments required as a result of a Modification or correction, these adjustments are usually directed by the NGT Capacity team
S	This reason type relates to the return of revenues associated with Entry Overruns
U	This reason type relates to the return of Shorthaul revenues
REV Charge Type	
C	This reason type relates to Capacity Surrender costs
M	This relates to adjustments required as a result of a Modification or correction, these adjustments are usually directed by the NGT Capacity team
S	This reason type relates to Non-Obligated Capacity and Capacity Surrender revenues

Materiality

Materiality of Capacity Neutrality Costs/Revenues

Charge Type					
ARS	**Detail**	**2022**	**2023**	**2024***	**Total**
I	Locational Actions	-£3,625,500	£0.00	£0.00	-£3,625,500
J	Physical Renomination	£0.00	-£733	£0.00	-£733
M	Adjustments	£0.00	£1,024	£0.00	£1,024
S	Entry Overruns	-£8,995,484	-£9,107,101	-£3,733,525	-£21,836,111
REV					
Net C & S	Entry Non-Ob	-£2,226,491	-£3,319,909	-£1,790,995	-£7,337,395
M	Adjustments	£0.00	£0.00	£0.00	£0.00
Total		**-£14,847,475**	**-£12,426,719**	**-£5,524,520**	**-£32,798,715**

In the invoicing data that we have been provided, Capacity Surrender Revenues under the C reason type and Capacity Surrender Costs under the REV S reason type are equal and opposite and therefore net to zero.

These Capacity Surrender Revenues and Costs are as a result of UNC Modifications 0817, 0846 and 0878 which outline how the surrender mechanism is used to facilitate how Entry Capacity holdings at the Easington ASEP can be utilised at the Rough Storage ASEP.

*2024 Data from 01 Jan- 31 May

Simplified Single Day Worked Example

Shipper A and Shipper B hold Firm Entry Capacity on 30/09/2024. The total Firm Entry Capacity Holdings across all Shippers is 3TWh

	Firm Capacity Holdings on 30/09/24 GWh	% of Total Firm Capacity Holdings
Shipper A	150	5%
Shipper B	480	16%

Capacity Revenues and Costs applicable for 30/09/2024		
Reason Type		**Total**
ARS		
I	Locational Actions	£0
J	Physical Renomination	£0
M	Adjustments	£0
S	Entry Overruns	-£24,500
REV		
C	Capacity Surrender Costs	£2,000
M	Locational Actions	£0
S	Entry Non-Ob and Surrender Revenues	-£9,500
Total Neutrality Amount for 30/09/24		**-£32,000**

Non-Obligated	-£7,500
Surrender	-£2,000

Shipper A would receive £1,600 and Shipper B would receive £5,120 for the applicable day.

Each Shipper is invoiced monthly for the aggregate of the daily totals in the applicable month.

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Revenue Treatment and Interactions with the Transportation Charges

Overview of Revenue / Charging arrangements

There are two categories of network access and utilization charges for Transportation:

- Transmission Services Revenue, which broadly aligns to the Transmission Owner (TO) Revenue, will be recovered by **Transmission Services Charges**, recovered from Entry and Exit Capacity charges
- Non-Transmission Services Revenues, which broadly aligns to the System Operator (SO) Revenue, will be recovered by **Non-Transmission Services Charges**, recovered mostly through the General Non-Transmission Services charges

- ***This is a high-level overview of the revenue and charging configuration***
- ***There is an interaction for elements of Capacity Neutrality as part of revenue recovery/charge setting***

Transmission Owner (TO) Allowed Revenue		System Operator (SO) Allowed Revenue
Transmission Services Revenue		Non-Transmission Services Revenue
Entry Capacity Charges Entry Revenue Recovery Charges	Exit Capacity Charges Exit Revenue Recovery Charges	General Non-Transmission Entry & Exit Charges St. Fergus Compression Metering Charges

Revenue Treatment and Entry/Exit differences

There are two components of Capacity Neutrality by virtue of there being a revenue ‘return’ mechanism means there are some interactions with Transportation Charges.

We’ll give an overview of each of these and highlight where there are differences of treatment between Entry and Exit

1. **Overruns**

2. **Non-Obligated Capacity**

Revenue Treatment and Entry/Exit differences

There is a difference in treatment between Entry and Exit in respect of the treatment of Overruns and Non-Obligated Capacity.

Overruns:

No forecasts are made for overruns, these initially form part of recovered revenues and then there is a difference of treatment:

- Any Entry Overruns are returned on a monthly basis through the Capacity Neutrality process.
- Exit Overruns do not form part of Capacity Neutrality and therefore remain net contributing towards SO Recovered Revenue.

Revenue Treatment and Entry/Exit differences

Non-Obligated Capacity:

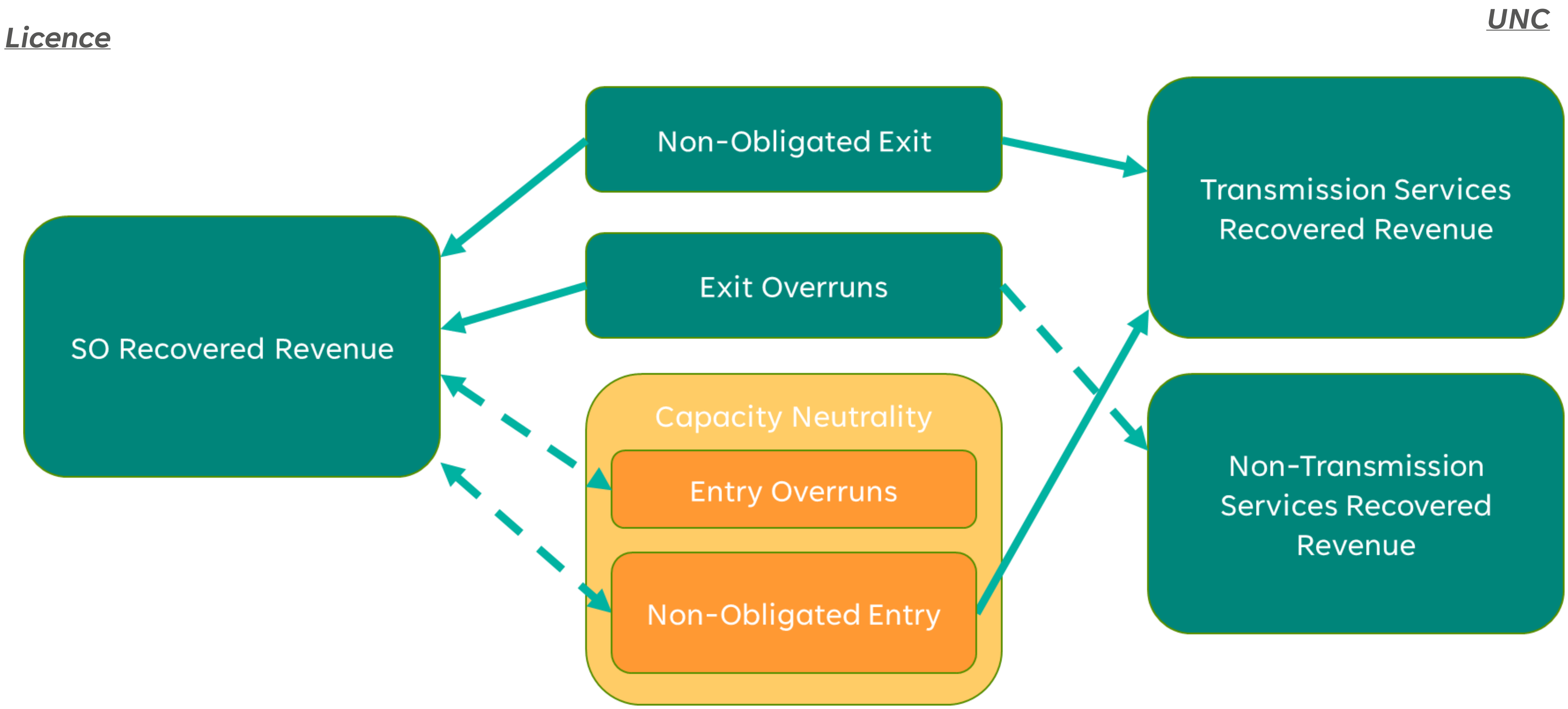
Non-Obligated Capacity is defined in the Licence as an NTS System Operation (SO) Activity. Both Entry and Exit Non-Obligated Capacity contribute to SO Revenue Recovery.

Non-Obligated Entry forms part of Capacity Neutrality and these revenues are therefore returned monthly through the Capacity Neutrality process.

There is no Neutrality on Exit, there is therefore no return mechanism for Exit Non-Obligated Capacity.

Although Non-Obligated Capacity is an SO activity, as a Capacity product, it is included as part of Transmission Services Revenues and is forecasted as part of Entry and Exit Capacity Reserve Price calculations

Revenue Treatment



Overview of Revenue / Charging arrangements

- ***This is a high-level overview of the revenue and charging configuration***
- ***There is an interaction for elements of Capacity Neutrality as part of revenue recovery/charge setting***

Transmission Owner (TO) Allowed Revenue		System Operator (SO) Allowed Revenue
Transmission Services Revenue		Non-Transmission Services Revenue
Entry Capacity Charges Entry Revenue Recovery Charges	Exit Capacity Charges Exit Revenue Recovery Charges	General Non-Transmission Entry & Exit Charges St. Fergus Compression Metering Charges

Summary of impacts:

- The net return of monies from Non-Obligated Entry Capacity has a small impact on the General Non-Transmission Services (GNTS) Entry & Exit charges (i.e. the return via Capacity Neutrality nets a slightly higher rate than it would otherwise be)
- The impacts of overruns only impact from an Exit perspective and only as part of the overall reconciliation of recovered revenues. (i.e. all else being equal if all revenue recovered was in line with expectations and there were Exit overruns, future GNTS charges would be lower as this reconciliation played through.

Revenue Treatment and Entry/Exit differences

Impact/interaction with charges:

Non-Obligated Capacity is defined in the Licence as an SO activity. Both Entry and Exit Non-Obligated Capacity contribute to SO Revenue Recovery.

Non-Obligated Entry forms part of Capacity Neutrality and these revenues are therefore returned monthly through the Capacity Neutrality process.

There is no Neutrality on Exit, there is therefore no return mechanism for Exit Non-Obligated Capacity.

Although Non-Obligated Capacity is an SO activity, as a Capacity product, it is included as part of Transmission Services Revenues and is forecasted as part of Entry and Exit Capacity Reserve Price calculations

Relationships with Transportation Charges

There are interactions with Transportation charges for some component parts of Capacity Neutrality, particularly Entry Non-Obligated and Entry Overruns

Overruns:

No forecasts are made for overruns when charge setting, an inherent assumption is that flows are optimised to capacity bookings and there is no purposed overruns.

As Entry Overruns are not forecast, only collected and returned, there is no impact to charges.

Any collection of Exit overruns, all else being equal, results in an over recovery of SO Allowed Revenues. This is accounted for as part of the “k” correction term which feeds into the Non-Transmission charges for the subsequent year.

If Entry Overruns did not form part of Capacity Neutrality, the same effect would be seen.

Relationships with Transportation Charges

Non-Obligated Entry

Forecasted Non-Obligated Capacity forms part of overall FCC for Entry and Exit Capacity Reserve Price setting.

On Entry, Capacity Neutrality allows for an additional process which returns this money to NTS Entry Users as per UNC.

Monies obtained through the sale on Non-Obligated Entry Capacity therefore do not count towards revenue collection as the net position (due to the return) is zero

All else being equal, if Entry Non-Obligated did not form part of Capacity Neutrality and instead contributed to SO Revenue collection, there would be a very small (0.0001-0.0002p/kWh) decrease in the General Non-Transmission Services price.

Summary and Future Discussions

Summary

Capacity Neutrality ensures no net gain or loss for National Gas in relation to specific Capacity based costs and revenues. These are distributed back to shippers based on their Firm Entry Capacity holdings.

Historically, the most material contributors to Capacity Neutrality are **revenues** in the form of Entry Overruns and Non-Obligated Entry Capacity, however these values are still low in the broader context.

Entry Capacity constraint **costs** have the potential to be material, should there be a significant Entry constraint

- The mechanism to return some revenues has the potential to offset some of these costs however there are some interactions with Transportation charges as a result

There is difference in treatment between Entry and Exit for Non-Obligated and Overruns. For Non-Obligated, the main difference is that **Entry is not part of revenue collection and Exit is**. For overruns the main difference is that **Entry is neutral for revenue impact and Exit contributes towards revenue collection**.

Further Discussions

If any stakeholders would like to discuss any aspect of Capacity Neutrality in more detail with NGT please contact us via box.ntsgascharges@nationalgas.com

The main industry forum to discuss any potential change and development to the charging and revenue aspects of Capacity Neutrality is the NTS Charging Methodology Forum, any Capacity Neutrality discussions not related to charging and revenue aspects may take place through Transmission Workgroup.

For awareness, a Modification has been raised by a shipper for Pre-Mod discussion at NTSCMF tomorrow (01 Oct 24). This Modification is seeking to remove the Non-Obligated Entry Capacity Revenues from Capacity Neutrality.

Q&A

Please use the Q&A feature in MS Teams

Any further questions can be e-mailed to:
box.ntsgascharges@nationalgas.com

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What's Next

A recording of today's session and slidepack will be uploaded to the Charging page of the National Gas Transmission website

A link to access these material will be sent directly to all e-mail addresses that signed up

If you wish to discuss anything further in relation to today's session, please e-mail box.ntsgascharges@nationalgas.com

Thank You

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