UNC Modification	At what stage is this document in the process?

UNC 0857:

Revision to the Determination of Non-Transmission Services Gas Year Target Revenue

01 Modification
02 Workgroup Report
03 Draft Modification Report
04 Final Modification Report

Purpose of Modification:

This Modification would revise the method of the determination of National Gas Transmission's Allowed Non-Transmission Services Revenue for a Gas Year under the NTS Transportation Charging Methodology (TPD Section Y Part A-I). The purpose of this change is to mitigate, not remove, revenue volatility (where there is year to year revenue swings) to achieve a greater degree of year-on-year stability of target revenues in General Non-Transmission Services revenues, and therefore General Non-Transmission Services Charges.

Next Steps:

The Proposer recommends that this Modification should be:

- considered a material change and not subject to Self-Governance
- assessed by a Workgroup

This Modification will be presented by the Proposer to the Panel on 21 September 2023. The Panel will consider the Proposer's recommendation and determine the appropriate route.

Impacted Parties:

High: Shipper Users, National Gas Transmission

Low:

None:

Impacted Codes:

Uniform Network Code (UNC) Transportation Principal Document (TPD) Section Y

Contents

Timetable

Modification timetable:	
Pre-Modification Discussed	05 September 2023
Date Modification Raised	08 September 2023
New Modification to be considered by Panel	21 September 2023
First Workgroup Meeting	03 October 2023
Workgroup Report to be presented to Panel (short notice)	14 December 2023
Draft Modification Report issued for consultation	15 December 2023
Consultation Close-out for representations	09 January 2023
Final Modification Report available for Panel	18 January 2024

Any questions?

Contact:
Joint Office of Gas Transporters

enquiries@gasgovernance.co.uk

0121 288 2107

Proposer:
Ash Adams

Ashley.Adams@nationalgas.com

07813996680

Transporter:
National Gas

Colin.Williams@nationalgas.com

07785 451776

Systems Provider:
Xoserve

UKLink@xoserve.com

Other:
Insert name

email address

telephone

1 Summary

What

In respect of the provision of Non-Transmission Services to Users of the NTS, National Gas Transmission (NGT) is entitled to recover specified Allowed Revenue over the course of a Formula Year (April to the following March inclusive) in accordance with the terms of its Licence. As the tariff year under the Uniform Network Code (UNC) is over the course of a Gas Year (October to the following September inclusive), there is a requirement to determine an amount of revenue to be recovered over the course of a Gas Year from the two 'part' Formula Years that coincide with the relevant Gas Year.

The existing methodology to determine this only considers the Allowed Non-Transmission Services Revenue due to be collected in the Formula Year which ends in the relevant Gas Year, without taking account of the Allowed Revenue for the following Formula Year (the first half of which coincides with the latter half of the relevant Gas Year). The effect of this mechanism is to cause large swings in the General Non-Transmission Services price from year to year, should the revenues change significantly. This Proposal plans to address this issue by revising the method of the determination of Target Revenue by considering the Allowed Revenue for both Formula Years that partially coincide with the Gas Year instead of only the earlier of such Formula Years.

Why

The key aim of this proposal is to reduce, not remove, the level of year-on-year volatility in General Non-Transmission Services Revenues and the subsequent impacts to General Non-Transmission Services Charges. This will present a more methodology-based focus on revenue volatility and avoid the need to have reactive consideration of ad-hoc measures like revenue deferrals which are not always desirable to manage some of the revenue-related volatility in future, were it to happen.

Non-Transmission charges are designed to collect NGT's System Operator (SO) Revenue. A key component of this revenue is the costs associated with the provision of shrinkage gas procured by NGT which has become a dominant element of the revenues and with more volatility from historical levels. The existing mechanism for the determination of Allowed Revenue due to be collected over the course of the Gas Year has worked well historically, with the costs that are passed through into General Non-Transmission Services Charges remaining relatively consistent year on year and within year. However, as with other costs linked to wholesale gas prices, in recent times, shrinkage costs have been both high and unpredictable relative to these historic levels. Consequently, the volatility of Non-Transmission revenues, and therefore charges, is being driven by a combination of the timing of when the Allowed Revenues (and therefore target revenues) are set for any given year and the volatility in costs that underpin them. This includes the timing of when costs are incurred and ultimately when they are permitted to be included in the Allowed Revenues, and therefore charges.

The revenue changes year to year recently, under the current mechanism, have resulted in large swings from year to year in the General Non-Transmission Services Gas Year target revenue. Gas Year target revenues are used to set General Non-Transmission Services tariffs. Therefore these large swings from year to year in revenues cause large swings from year to year in the General Non-Transmission Services Charges. Without intervention, the consequence of this would be extremely high General Non-Transmission Services prices in one year followed by very low prices the following year, should revenues change significantly. This oscillation in charges would then repeat in subsequent years.

This Proposal forms part of NGT's wider strategy to manage Non-Transmission charge volatility. It is designed to work in a complementary way and in no way inhibit other improvements in this area which have already been implemented or may be implemented in the future. These measures include:

- The decision to defer £100m of revenue from the Formula Year 01 April 2023 to 31 March 2024 inclusive into the following year.
- Raising UNC Modification 0847 (Introduction of a Minimum General Non-Transmission Services Charge), to introduce a minimum General Non-Transmission Services Charge of 0.0001p/kWh.

Whilst revenue deferrals can be effective in helping to manage tariff volatility in the short term, and a minimum price can eliminate the possibility of negative charges, NGT believes that a more enduring, methodology-based solution is required to manage revenue and charge volatility.

How

As the Formula Year Allowed Revenue value will change year-on-year, the solution proposed would revise the determination of the Allowed Non-Transmission Services Revenue for each Gas Year by considering the Allowed Revenue for both Formula Years that partially coincide with the Gas Year instead of only the earlier of such Formula Years (as under the existing methodology).

This proposed solution is very similar to that implemented as part of UNC Modification 0796 (Revision to the Determination of National Grid NTS Target Revenue for Transportation Charging), for Transmission Services Allowed Revenue and would have a smoothing effect on the profile compared to the status quo. If this Proposal is implemented, General Non-Transmission Services prices from October 2024 would be expected (all else being equal) to be higher than the status quo and prices from October 2025 would be expected to be lower.

NGT believes that implementation of a change that delivers more stable General Non-Transmission Services Charges, will increase market confidence relative to the current arrangements and therefore better facilitate the objectives of the Charging Methodology.

2 Governance

Justification for Authority Direction

As the Proposal seeks to adjust the methodology for the determination of Allowed Revenue applicable for a Gas Year (which will consequently impact the level of General Non-Transmission Services Charges Users pay) the Proposer is of the view that there is sufficient materiality to require a decision from the Authority.

Requested Next Steps

This Modification should:

- be considered a material change and not subject to Self-Governance.
- be assessed by a Workgroup.

NGT believes that the changes proposed within this Proposal should be in place in time for the Transmission Service Charge setting at the end of May 2024. Although these changes would not be required until the time of Non-Transmission charge setting in July, a clear view of the whole regime would be desirable when setting Transmission Services Charges. We, therefore, propose that the Proposal returns to the Panel in December 2023 after assessment by the Workgroup in order that we may receive direction from the authority by May 2024.

3 Why Change?

Determination of Allowed Revenues for the Gas Year

In respect of the provision of Non-Transmission Services to Users of the NTS, pursuant to the terms of its Licence NGT is entitled to recover specified Allowed Revenue over a Formula Year (01 April to the following 31 March inclusive). Transportation Charges are currently set to recover Allowed Revenue over a Gas Year (01 October to the following 30 September inclusive) hence there is a requirement to determine an amount of revenue to be recovered over the course of a Gas Year from the two ‘part’ Formula Years that coincide with the relevant Gas Year. This revenue quantity, less the revenue that is recovered by specific Non-Transmission Services Charges in relation to: NTS Meter Maintenance Charges, DN Pensions Deficit Charges, Shared Supply Meter Point Administration Charges and Interconnection Point Allocation Charges is utilised along with the overall quantity of gas which NGT estimates will be delivered and offtaken by Users from the NTS at all Entry and Exit Points in the Gas Year, excluding Excluded Storage Quantities, to determine the General Non-Transmission Services Charge. This charge is therefore set at a level which is intended to recover NGT’s Allowed Revenue for the system operation of the NTS.

Current Methodology

UNC TPD Section Y Part A-I (The NTS Transportation Charging Methodology) sets out how Formula Year Allowed Revenue is used to derive an Allowed Revenue for each Gas Year. The Allowed Non-Transmission Services Revenue for a Gas Year ($ANTSR_y$) is determined as follows:

$ANTSR_y = (AFNTSR_t – NTSR_{pt}) * (1/F_{NTS})$

where

$AFNTSR_t$ is the Allowed Formula Year Non-Transmission Services Revenue for Formula Year t;

$NTSR_{pt}$ is the amount of Non-Transmission Services Revenue that NGT estimates will be earned in respect of the part of Formula Year t which falls prior to Gas Year y

F_{NTS} is a factor which represents NGT's estimate for Gas Year y, of the proportion of the Non-Transmission Services Revenue which will be earned in respect of the part of Formula Year t which falls within Gas Year y.

In the above formula:

- $AFNTSR_t – NTSR_{pt}$ determines the remaining Formula Year revenue to be collected over the second half of the Formula Year t which coincides with the first half of the Gas Year y;
- A factor (F_{NTS}) is applied to this remaining revenue due for collection over six months, this factor being based on the Entry and Exit Commodity revenue to be collected in the first six months of the Gas Year y (October to March inclusive) divided by the Entry and Exit Commodity revenue forecast to be collected over the course of the Gas Year y (October to September inclusive).
- The reciprocal of this factor ($1/F_{NTS}$) is then multiplied by the remaining Formula Year t revenue to be collected over the second half of the Formula Year t which coincides with Gas Year y ($AFNTSR_t – NTSR_{pt}$) to give the Allowed Non-Transmission Services Revenue for a Gas Year ($ANTSR_y$)

This mechanism to determine the Allowed Revenues has worked well historically with Shrinkage costs, and therefore Allowed Revenues, remaining relatively consistent. However, given the volatility in Shrinkage costs, significant year-on-year changes in General Non-Transmission Services prices have materialised, with fluctuations from very high to very low (and potentially negative) prices expected to continue for the foreseeable future should no intervention be made.

This is in part due to the above formula only taking account of the Allowed Revenue due to be collected in the Formula Year which ends in the relevant Gas Year without taking account of the Allowed Revenue for the following Formula Year (the first half of which coincides with the latter half of the relevant Gas Year). As the Formula Year Allowed Revenue value will change year-on-year, we have concluded that it would be beneficial for the calculation of revenue to be collected over the course of a Gas Year to take account of the Formula Year revenue in both Formula Years that coincide with the relevant Gas Year instead of the existing approach.

Material variations in General Non-Transmission Services Charges year-on-year are detrimental to market confidence.

NGT has already taken steps to bring forward improvements in this area including:

- **A deferral of £100m of Allowed Revenue from the Formula Year 01 April 2023 to 31 March 2024 inclusive into the following Formula Year.** This deferral of revenue applies a downward pressure on the price applicable from October 2023 and an upward pressure on the price applicable from October 2024. This both has a smoothing effect on the tariff volatility and reduces the probability of the methodology producing a negative charge in October 2024.
- **Raising UNC Modification 0847 to introduce a minimum General Non-Transmission Services Charge of 0.0001p/kWh**. If implemented, this Modification will provide certainty that negative, or zero charges cannot happen.

However, in addition to these measures, we believe that a more enduring solution is required and that the implementation of the proposed changes will deliver more stable General Non-Transmission Services Charges, and significantly reduce the likelihood of the need for further deferrals in future. This would, in turn, increase market confidence relative to the current arrangements and better facilitate the objectives of the Charging Methodology.

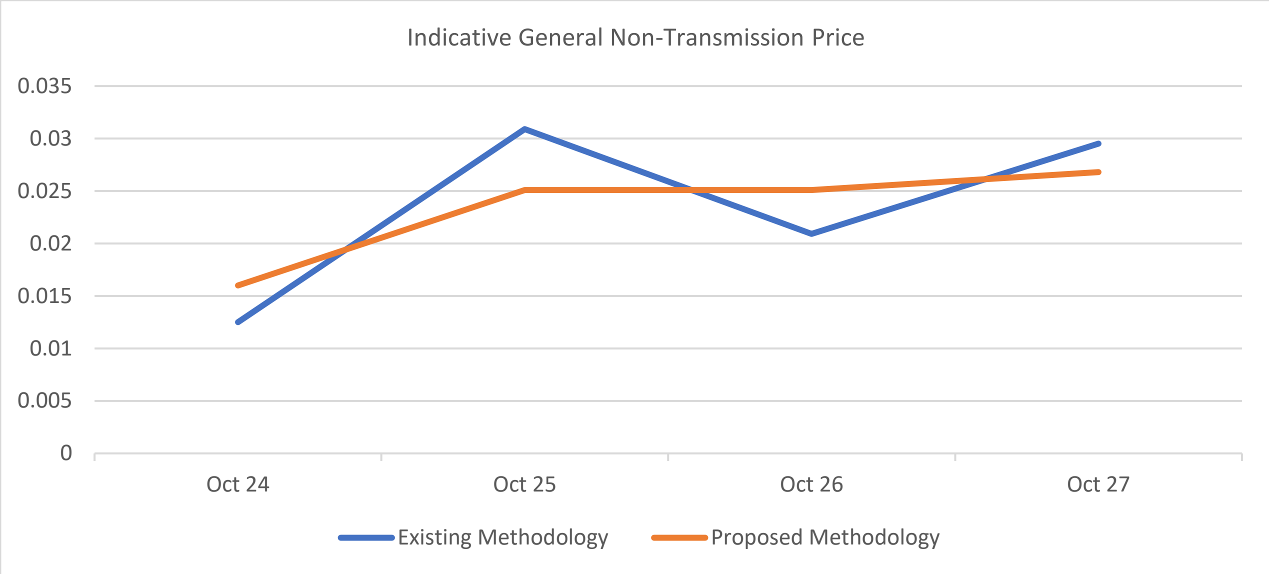
Analysis

The following table compares the forecast outcome in terms of General Non-Transmission Services prices for both the existing methodology and the approach within this proposal. The decision to defer £100m of Allowed revenue from FY24 (Formula Year 01 April 2023 to 31 March 2024 inclusive) results in a Formula Year under-recovery of allowed revenues in FY24 followed by an over-recovery of a similar magnitude in FY25 (Formula Year 01 April 2024 to 31 March 2025 inclusive). The effect of the Proposal and revised methodology would be to effectively force a larger over-recovery of revenues in FY25 which would bring the price from October 2024 to a higher level than it would be under the status quo. This would then be accounted for by a subsequent under-recovery in FY26 (Formula Year 01 April 2025 to 31 March 2026 inclusive) of a similar magnitude and a lower price applicable from October 2025.

		Oct 23	Oct 24	Oct 25	Oct 26	Oct 27	5 Year Total
Existing Methodology*	GnTx Price (p/kWh)	0.0533	0.0125	0.0309	0.0209	0.0295	
	FY Revenue Collected (£m)	826.729	493.106	408.579	420.401	433.684	2582.499
	FY Under-Over Collection (£m)	-99.738	100.213	0.043	-0.391	0.267	0.394
Proposed Methodology	GnTx Price (p/kWh)	0.0533	0.0159	0.0251	0.0251	0.0267	
	FY Revenue Collected (£m)	826.729	526.084	373.423	426.284	431.267	2583.786
	FY Under-Over Collection (£m)	-99.738	133.191	-35.114	5.491	-2.150	1.680

**Existing Methodology based on prices published as per October 2023 Transportation Statement (these values include a decision by NGT to defer £100m of Allowed Revenue from 2023-24 to 2024-25)*

The comparative extent of year-on-year General Non-Transmission Charge Price volatility is illustrated in the following chart:



As mentioned previously, the method of Target Revenue determination described in this Proposal is very similar to that which had been implemented through UNC 0796 to address a similar issue in Transmission Services. UNC 0796 has had the desired effect of reducing the level of year-on-year volatility in the Capacity Reserve Price rate. The development of UNC 0796 was driven mostly through sensitivities associated with existing contracts and subsequent effects of under recovery of revenues causing fluctuations in Entry prices year to year, although the methodology was also carried across to Exit. The increased shrinkage costs have the potential to cause volatility in General Non-Transmission Services Revenues on a much greater scale than those witnessed in Transmission Services and will impact both Entry and Exit. This solution is therefore at least equally suited to General Non-Transmission Services Revenues and we would therefore expect a similar positive outcome.

4 Code Specific Matters

Reference Documents

UNC TPD Section Y

Knowledge/Skills

Prior knowledge of the NTS Transportation Charging Methodology would be advantageous.

5 Solution

It is proposed that the existing method of determining Allowed Non-Transmission Services Revenue for a Gas Year ($ANTSR_y$) as set out in paragraph 1.6.1b of TPD Section Y Part A-I (The NTS Transportation Charging Methodology) is amended to the method below which mirrors the solution that was implemented for Transmission

Services through UNC 0796, across to Non-Transmission Services. For the avoidance of doubt, there are no changes to the methodology used to determine the Transmission Services Entry and Exit Revenues implemented with UNC 0796 and this will not be impacted by this proposal.

Allowed Non-Transmission Services Revenue" (ANTSRy) shall be determined, on the basis of the Allowed FY Non-Transmission Services Revenue for the Formula Year t which ends in Gas Year y, as follows:

$$\mathbf{ANTSR_y = (AFNTSR_t - NTSR_{pt}) + (AFNTSR_{t+1} * F_{NTS})}$$

Where:

(a) Formula Year t is the Formula Year which ends in Gas Year y;

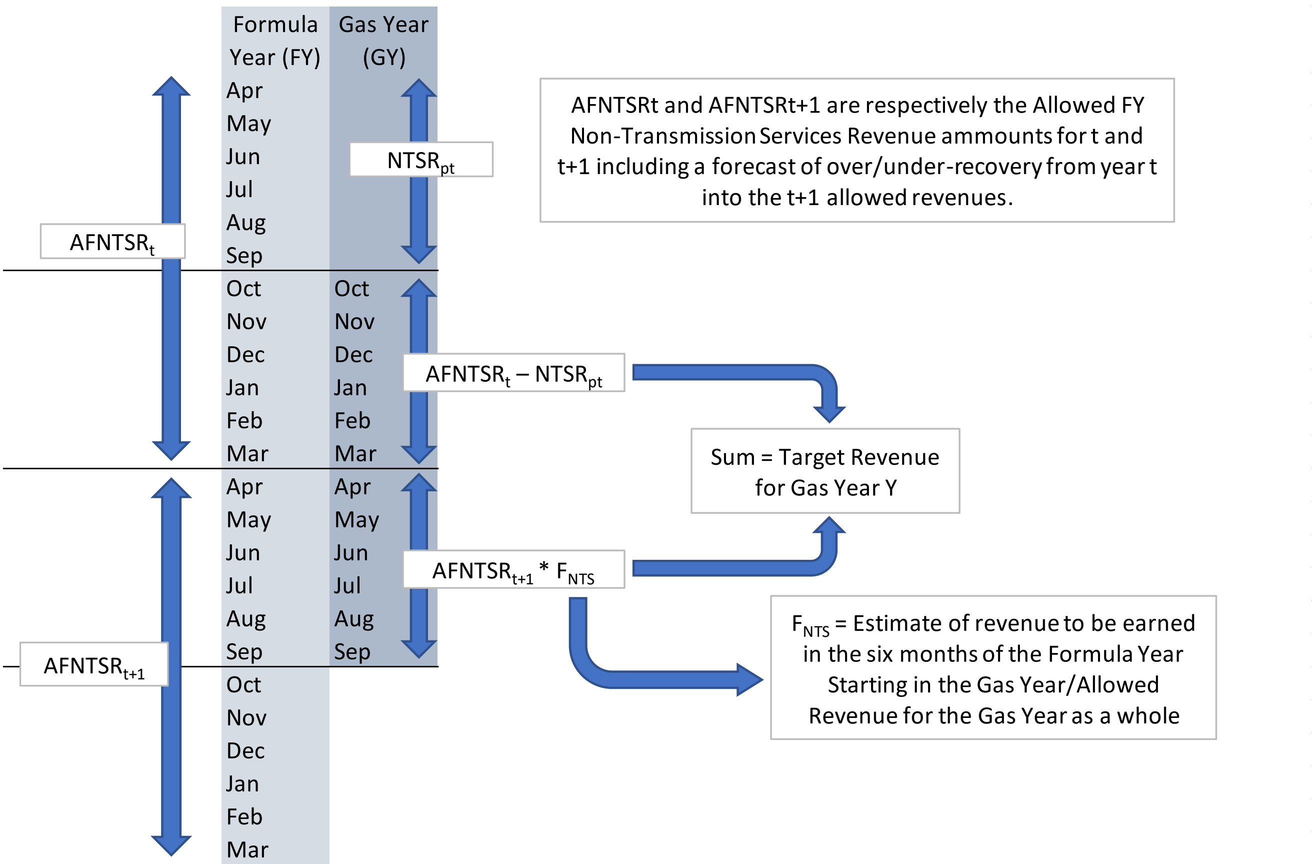
(b) $AFNTSR_t$ is the Allowed Formula Year Non-Transmission Services Revenue for Formula Year t;

(c) $NTSRP_t$ is the amount of Non-Transmission Services Revenue which NGT estimates will be earned in respect of the part of Formula Year t which falls prior to Gas Year y;

(d) $AFNTSR_{t+1}$ is the amounts estimated by NGT (on the basis of estimated values of the terms K_t) as the Allowed Formula Year Non-Transmission Services Revenue for Formula Year t+1;

(e) F_{NTS} is a factor which represents NGT's estimate, for Gas Year y, of the proportion of the Non-Transmission Services Revenue which will be earned in respect of the part of Formula Year t+1 which falls within Gas Year y.

The diagram below provides a pictorial representation of determination of Non-Transmission Allowed Revenues for the Gas Year under the Proposed methodology.



6 Impacts & Other Considerations

Does this Modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

None

Consumer Impacts

There will potentially be an impact on different consumer groups but the Formula Year Allowed Revenue (determined in line with NGT's Licence) which is collected by NGT will not change if this Proposal is implemented. This Proposal will essentially revise the determination of Allowed Revenue to be collected over the course of a Gas Year in order to reduce the level of volatility in the General Non-Transmission Services charges. Implementation of the methodology (all else being equal) would likely see an increase in General Non-Transmission Services Charges applicable from October 2024 and a reduction in the price applicable from October 2025. NGT believes this change would deliver a methodology that is better aligned with the objectives of the NTS Transportation Charging Methodology than the current arrangements.

What is the current consumer experience and what would the new consumer experience be?

The nature and extent of any change in consumer experience is not clear for the reason explained above.

Impact of the change on Consumer Benefit Areas:	
Area	Identified impact
Improved safety and reliability No Impact	None
Lower bills than would otherwise be the case The same amount of money is charged over time, this proposal would effectively alter this profile.	None
Reduced environmental damage No impact	None
Improved quality of service No impact	None
Benefits for society as a whole No impact	None

Cross-Code Impacts

None

EU Code Impacts

None

Central Systems Impacts

No impacts. The implications are limited to the charges setting processes which to a large extent utilises 'noncentral' systems.

7 Relevant Objectives

Impact of the Modification on the Transporters' Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards… are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

Demonstration of how the standard Relevant Objectives are furthered:

d) Securing of effective competition between relevant shippers;

The proposed changes in this Modification are expected to provide more stable and predictable General Non-Transmission Services Charges compared to the status quo, hence Users will have a greater level of confidence in their forecasts of prospective use of network costs and therefore set their own service costs more accurately (potentially with a lower risk margin), thereby enhancing effective competition.

AND/OR, for Section Y (Charging Methodology) Modifications

Impact of the Modification on the Transporters' Relevant Charging Methodology Objectives:	
Relevant Objective	Identified impact
a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;	None
aa) That, in so far as prices in respect of transportation arrangements are established by auction, either: (i) no reserve price is applied, or (ii) that reserve price is set at a level - (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and (II) best calculated to promote competition between gas suppliers and between gas shippers;	None
b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;	None
c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and	Positive
d) That the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).	None
e) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

Demonstration of how the charging Relevant Objectives are furthered:

c) facilitates effective competition between gas shippers and between gas suppliers

The proposed changes in this Modification are expected to provide a more stable and predictable General Non-Transmission Service Charge. Users will therefore have a greater level of confidence in their forecasts of prospective use of network costs and be able to set their own service costs more accurately (potentially with a lower risk margin), thereby enhancing effective competition.

8 Implementation

Implementation of this Proposal should take effect in time to be reflected in the Transportation Charges which will apply from 01 October 2024. Capacity Charges need to be published by the end of May 2024 and Non-Transmission Services Charges need to be published by the end of July 2024. In order to achieve this we believe a decision would be needed by May 2024 so that a full view of the regime is known at the time of

Transmission Services Charge setting but required By July 2024 in order to allow the revised methodology to be used in the setting of Non-Transmission Charges.

9 Legal Text

Text Commentary

Legal text to follow.

Text

Legal text to follow.

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

- Agree that Authority Direction should apply.
- Refer this proposal to a Workgroup for assessment.