UNC Final Modification Report	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 Panel recommends implementation.

Impacted Parties:

High: Shipper Users, National Gas Transmission.

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	14 December 2023
Consultation Close-out for representations	26 January 2024
Final Modification Report available for Panel	29 January 2024
Modification Panel decision	15 February 2024

Any questions?

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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.

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.

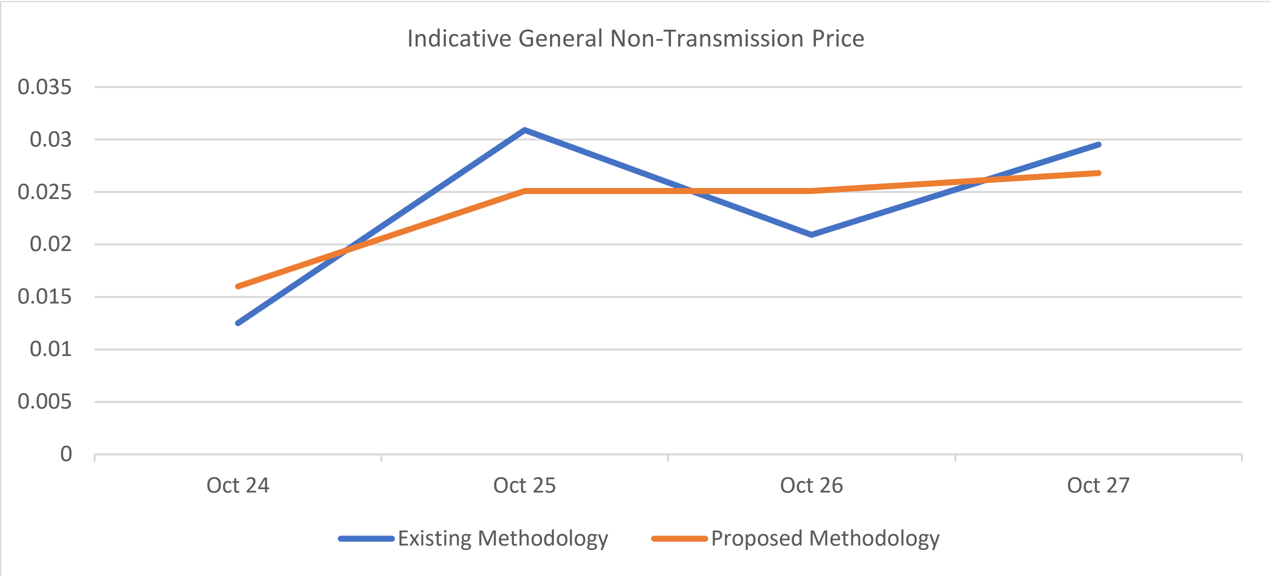
Analysis

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;

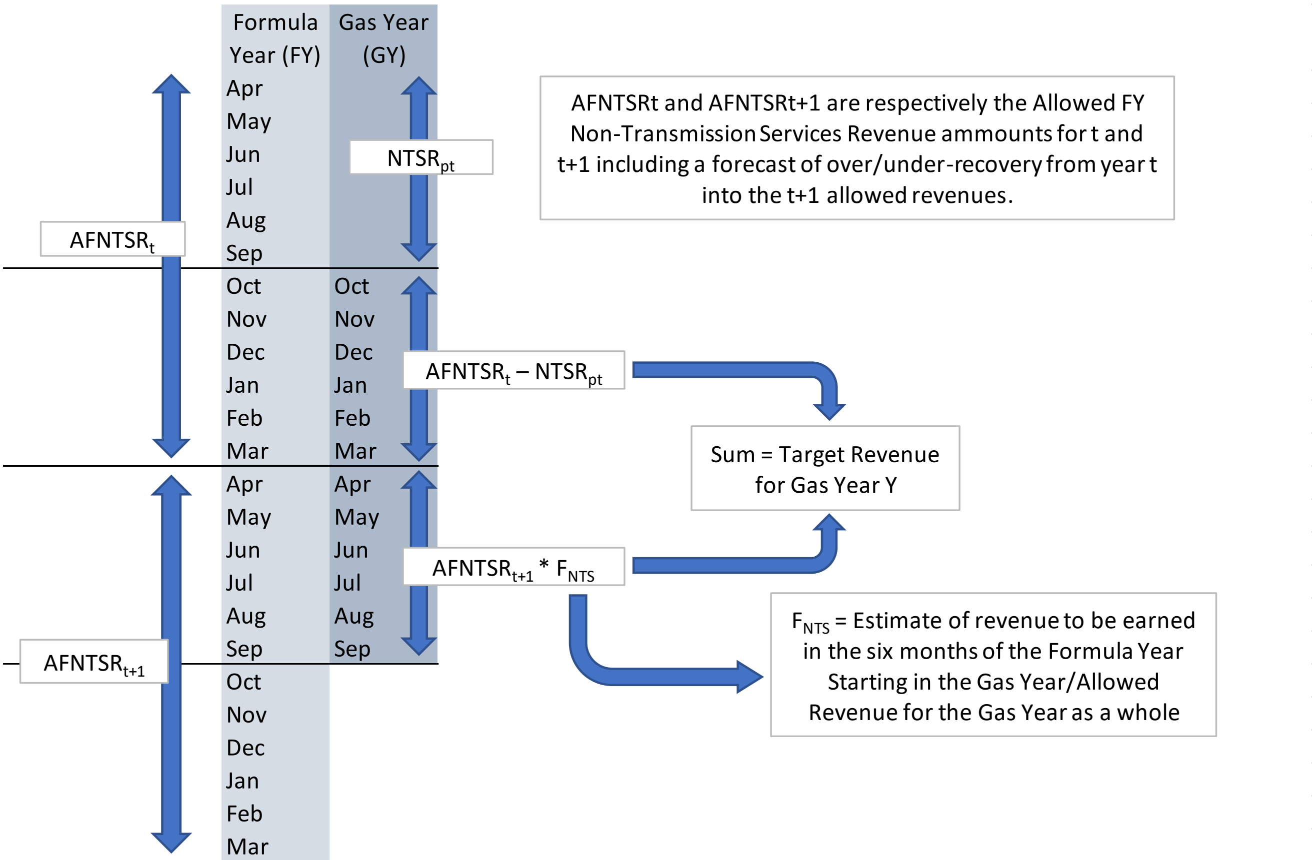
(b) $AFNTSR_t$ is the Allowed Formula Year Non-Transmission Services Revenue for Formula Year t;

(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.

Rough Order of Magnitude (ROM) Assessment

Not applicable

Performance Assurance Considerations

No concerns were identified.

Initial Representations

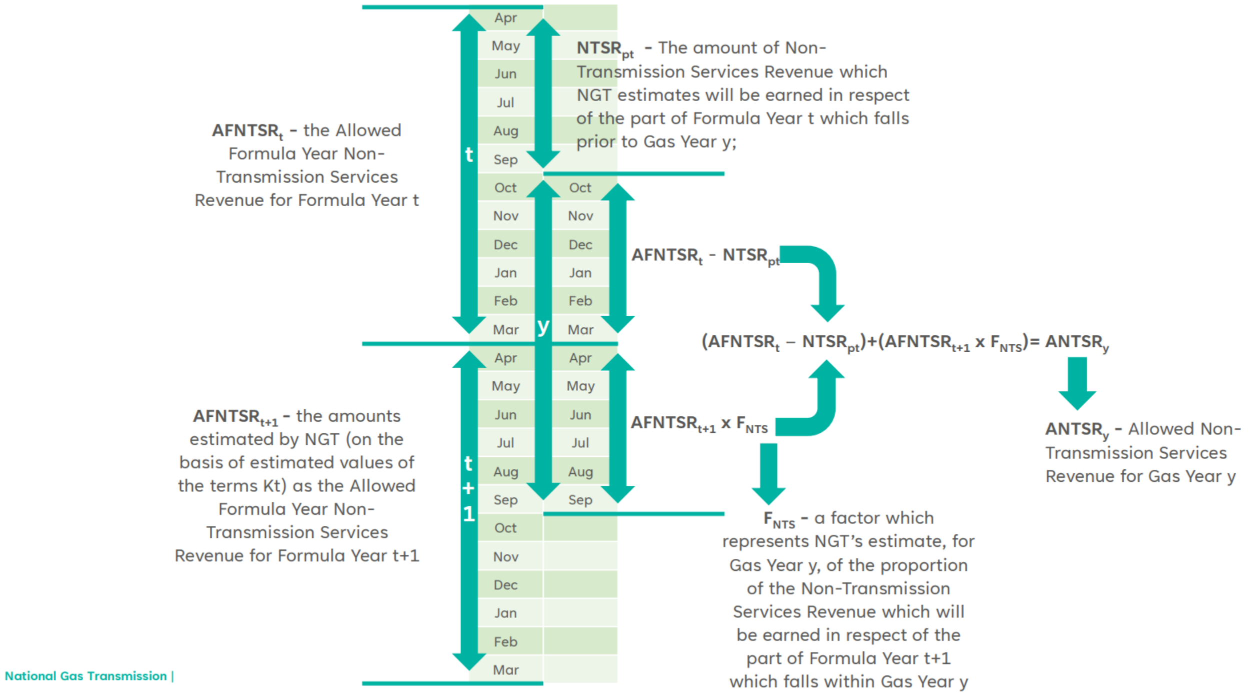
None Received.

Panel Questions

None

Workgroup Impact Assessment

The Proposer provided a graphic with additional detail on the proposed mechanism for the October meeting.



The Proposer also provided scenario examples to illustrate the effect of the Proposal on future charges. Workgroup Participants agreed that mechanisms to reduce the volatility of charges are welcomed.

A Workgroup Participant noted that there are similarities in this Proposal to Modification 0796 - Revision to the Determination of National Grid NTS Target Revenue for Transportation Charging. As with that Modification there are many places where the words 'NGT estimates' are written and so requested that NGT provide more information to the Workgroup on how the estimations are performed.

In response, further clarification on the mechanism was provided by NGT at the November workgroup meeting.

Solution - Clarifications and Assumptions

Existing Methodology:
$ANTSR_y = (AFNTSR_t - NTSR_{pt}) * (1/F_{NTS*})$

Proposed Methodology:
$ANTSR_y = (AFNTSR_t - NTSR_{pt}) + (AFNTSR_{t+1} * F_{NTS*})$

$AFNTSR_t$ - *Allowed Formula Year Non-Transmission Services Revenue for FY t.*

- This is made up of the SO Adjusted Revenue term for FY t including K.
- These values are obtained from the PCFM and are already known at the time of charge setting for Gas Year y.

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

- Non-Tx charges are set in the July to come into effect from October. A combination of actual revenues (for the months of April May and June) and forecast revenues (for the months of July August and September) are therefore used to determine a forecast recovered revenue value for the period April-September.

- Forecast revenues for the period July-September are based on multiplying the General Non-Tx Price by the forecast volume of flows. These volumes are taken from FES but may be adjusted by National Gas based on the best information available at the time to account for any market developments.

** F_{NTS} in the existing methodology is the proportion of the Non-Tx Revenue earned in the part of **FY t** which falls within GY y. In the proposed methodology it is the proportion of the Non-Tx Revenue earned in the part of **FY t+1** which falls within GY y*

Solution - Clarifications and Assumptions

$AFNTSR_{t+1}$ -*The amount estimated (on the basis of estimated value of K) by National Gas Transmission as the Allowed FY Non-Transmission Services Revenue for Formula Year t+1*

- This is made up of the SO Allowed Revenue term for FY t+1 which is taken from the PCFM plus a value for K which must be derived to account for the under or over-recovery from FY t.

- The derived K is determined by subtracting the Allowed Revenue for FY t from the Recovered Revenue for FY t.

- As the Recovered Revenue for FY t is not known at the time of charge setting, there is a requirement to forecast this value. This forecast aggregates the actual (where available) and forecasted monthly Entry Commodity Revenues, Exit Commodity Revenues, St Fergus Revenues and SO Capacity Revenues (Non Ob) for FY t.

- Forecast Revenues are based on multiplying the GNTS Price by the forecast volume of flows. These volumes are taken from FES but may be adjusted by National Gas based on best information available at the time, to account for gas market developments.

- The FY Target Revenue for FY t is then subtracted from the Recovered Revenue value to give the derived K.

National Gas Transmission |

Solution - Clarifications and Assumptions

F_{NTS} -A factor which represents National Gas Transmission'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 seasonal allocation factor is calculated using Gas Year revenue values. The aggregate forecast G Non-Tx, St Fergus and Metering Maintenance and SO Non-Obligated Revenues for the period Oct-Mar are divided by the aggregate forecast G Non-Tx, St Fergus and Metering Maintenance and SO Non-Obligated Revenues for the whole Gas Year.
- Forecast Revenues are based on multiplying the GNTS Price by the forecast volume of flows. These volumes are taken from FES but may be adjusted by National Gas based on best information available at the time, to account for gas market developments.
- Gas Year revenues are used to calculate the seasonal allocation factor (rather than Formula Year revenues) in order for the proposal to meet it's objective of smoothing tariff volatility due to price changes mid Formula Year.
- This approach is consistent with the approach employed for Transmission Services.

National Gas Transmission |

In respect of transparency the Proposer made the following comments;

NGT publishes models for both Transmission Services and Non-Transmission Services annually, ahead of charges coming into effect in accordance with Article 30 of TAR NC.

These models provide additional information on the inputs that contribute to the determination of target revenues and charges. They are available under the NTS Charging Supporting Information tab on the Transmission system charges page of the NGT Website.

Non-Transmission Services Model[1]

Transmission Services Revenue Model[2]

Should this Modification be approved, the Non-Transmission Services model will be updated to bring it in line with what is provided for Transmission Services via the Transmission Services Revenue Model. This model would include all the information that has been provided in the example in this presentation.

Workgroup Participants welcomed this additional clarification. A Workgroup Participant commented that the process is complex and may be difficult for interested parties to replicate for themselves. The Proposer acknowledged that the calculations are complex and agreed to provide a worksheet model that users could manipulate for themselves.

At the December workgroup meeting the Proposer demonstrated the use of an Excel[3] model to further explain the working of the mechanism. The Proposer also clarified that some of the figures in the Excel model differed

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[1] https://www.nationalgas.com/document/144306/download

[2] https://www.nationalgas.com/document/144311/download

[3] Excel model for December workgroup 0857

from those shown in the November workgroup because further refinements have been made to ensure that the items in the Excel illustration closely represent actuals for the relevant periods.

The Proposer demonstrated how different values could be input so that users might better understand the sensitivity of the various components. Workgroup Participants did not seek further demonstration of the model.

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.

Workgroup Assessment of Relevant Objectives

Workgroup Participants noted that this Proposal is justified against one relevant Objective. A Workgroup Participant observed that it is unclear whether this Proposal would reduce uncertainty in the way articulated by the Proposer.

The Proposer responded that the Modification would reduce volatility between years. A Workgroup Participant agreed that a reduction in volatility would be helpful. A Workgroup Participant observed that the timing of visibility of the figures in July means that Shippers would still have uncertainty at the time they are seeking to set charges for customers but that having a smaller range of volatility might be helpful.

A Workgroup Participant observed that it may be difficult to demonstrate that this Modification is positive in respect of competition between shippers and therefore the justification against Relevant Objective d) may be weak.

A Workgroup Participant referred to a post implementation review of the similarly structured Modification 0796 that showed a positive impact and that the change had smoothed volatility in line with its intention.

No Workgroup Participant argued that this Proposal is negative in respect of Relevant Objective d).

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.

Workgroup Assessment of Relevant Charging Methodology Objectives

Workgroup Participants observed that this justification matches that for Relevant Objective d) - Refer to discussion above.

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.

Workgroup Participants did not submit any opinion on this timetable beyond a general observation that earlier sight of any changes would be preferable.

9 Legal Text

Text Commentary

REVISION TO THE DETERMINATION OF NATIONAL GAS TRANSMISSION TARGET REVENUE FOR TRANSPORTATION CHARGING

EXPLANATORY TABLE

Reference	Explanation
TRANSPORTATION PRINCIPAL DOCUMENT	
SECTION Y – CHARGING METHODOLOGIES	
Amended paragraph 1.5.1(c)	Amending typographical error so Maximum NTS System Operator Revenue now reads as Maximum NTS System Operation Revenue which is consistent with the relevant defined term.
New paragraph 1.6.1	Replaces the original generic rule for determining Allowed Non-Transmission Services Revenue for a Gas Year from Formula Year allowed revenue. Introduces new rules for determining Allowed Non-Transmission Services Revenue, based on estimates of the balance of allowed revenue for the Formula Year ending in the Gas Year, and a profiled proportion of an estimate of allowed revenue for the Formula Year starting in the Gas Year.
New paragraph 1.6.2	Describes the terms used in the Formulas in paragraph 1.6.1.

Text

Legal text published (in draft) [0857 draft Legal Text]

Workgroup Participants have reviewed the Legal Text and did not dispute that it meets the intent of the solution.

10 Consultation

Representations were invited from interested parties on 14 December 2024. All representations are encompassed within the Appended Representations section, including any initial representations.

The following table provides a high-level summary of the representations.

Implementation was unanimously supported in the 2 representations received.

Representations were received from the following parties:			
Organisation	**Response**	**Relevant Objectives**	**Relevant Charging Methodology Objectives**
National Gas Transmission	Support	d) Positive	c) Positive
Uniper	Support	d) Positive	c) Positive

Please note that late submitted representations may not be included or referred to in this Final Modification Report. However, all representations received in response to this consultation (including late submissions) are published in full alongside this Report and will be taken into account when the UNC Modification Panel makes its assessment and recommendation.

11 Panel Discussions

Discussion

The Panel Chair summarised that Modification 0857 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). This will 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.

Panel Members noted that no initial representations had been submitted and there were no Panel Questions raised to be assessed by the Workgroup.

Panel Members considered the representations made noting that implementation was unanimously supported in the 2 representations received.

No late representations were received.

Panel Members agreed with respondents and the Proposer that this Modification would 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.

Because the Formula Year (which runs from April to March) and the Tariff Period (that aligns to the Gas Year, from October to September) cross each other, the methodology to determine the target Allowed Revenue to be collected across the Gas Year must take into account two 'part' Formula Years. The existing methodology to determine this target revenue does not currently consider both of the part Formula Years. This proposal will address the issue and work to mitigate swings in Non-Transmission Services Revenue (caused mainly by swings in shrinkage gas costs).

Some Panel Members agreed with the observation of the Workgroup that the calculations are very complex and difficult for Shippers to replicate for themselves. For this reason, a reduction in volatility may be helpful.

Panel Members clarified that the Modification is designed to increase Financial Year volatility for National Gas Transmission but decreases Tariff Year (Gas Year) volatility for Shippers.

Implementation

In order to utilise this revised calculation from the beginning of the October 2024 Gas Year, a decision would be required by May 2024. If this is not possible, implementation should be focussed on the Gas Year beginning October 2025.

Panel Members noted that there are no central systems impacts associated with this Modification and as such any changes to Gemini will not affect the implementation of this Modification.

Consideration of the Relevant Objectives

Panel Members considered Relevant Objective *d) Securing of effective competition between Shippers and/or Suppliers*, agreeing that implementation would have a positive impact, because the proposed changes 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 allow them to set their own service costs more accurately (potentially with a lower risk margin), thereby enhancing effective competition.

Some Panel Members observed that the beneficial effect may only be marginal.

Some Panel Members observed a theoretical risk of windfall gains and/or losses for those who have already entered into longer-term contracts, depending on when implementation is.

A Panel Member noted however, there were no consultation responses raised querying this element.

Panel Members considered the Transporters' Relevant Charging Methodology Objectives *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*, agreeing that implementation would have a positive impact because the Modification will 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 will be able to set their own service costs more accurately (potentially with a lower risk margin), thereby enhancing effective competition.

Determinations

Panel Members voted unanimously that no new issues were identified as part of consultation.

Panel Members voted unanimously that there are no Cross Code Changes for this Modification.

Panel Members voted unanimously to recommend implementation of this Modification.

12 Recommendations

Panel Recommendation

Panel Members recommended that Modification 0857 should be implemented.

13 Appended Representations

Initial Representations – None

Representation - National Gas Transmission

Representation - Uniper

Representation - Draft Modification Report UNC 0857

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

Responses invited by: 5pm on 26 January 2024

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Ashley Adams
Organisation:	National Gas Transmission
Date of Representation:	26/01/2024
Support or oppose implementation?	Support
Relevant Objective:	**d)** Positive
Relevant Charging Methodology Objective:	**c)** Positive

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

As proposer of this UNC Modification, which seeks to revise the method of the determination of NGT's Non-Transmission Services Gas Year target revenue for a Gas Year in order to achieve a greater degree of year-on-year stability of Non-Transmission target revenues, and therefore Non-Transmission Services Charges, NGT supports its implementation.

As the Formula Year runs from April to March and the Tariff Period (that aligns to the Gas Year) runs from October to September. 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 target revenue 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, where revenue related volatility is the driver, can result in large swings in the General Non-Transmission Services price should the Formula Year Allowed Revenues changes significantly from year to year.

Non-Transmission charges are designed predominantly to collect NGT's System Operator (SO) Revenue. A key component of this revenue are the costs associated with the provision of shrinkage gas procured by NGT which has become a dominant and volatile element of the revenues in recent years that is challenging to predict, causing significant swings in Formula Year Allowed Revenues from year to year.

These year to year step changes in Allowed Revenues, coupled with the misalignment between the Formula Year and the tariff year have resulted in large swings in Gas Year target revenues and subsequently the General Non-Transmission Services charge that they are used to set.

The changes proposed under this Modification would revise the method of determination of Non-Transmission Gas Year target revenue such that the Formula Year revenue in both the Formula Years that span part of the relevant Gas Year are used to determine it. This change, similar to that introduced and working successfully for Transmission Services through UNC 796, would reduce the level of year-on-year volatility in the General Non-Transmission Services charge. This would be positive for standard Relevant Objective (d) and charging Relevant Objective (c) as more stable and predictable charges facilitate effective competition in the market.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

Implementation of this Proposal should take effect in time to be reflected in the Transportation Charges which will apply from 01 October 2024. To achieve this NGT believes 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.

If a decision to implement is not received in time for the proposed changes to be reflected in the Transportation Charges which will apply from 01 October 2024, the benefit of the proposed changes would not be realised until the Gas Year beginning 01 October 2025.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

There are no additional costs or impacts associated to this UNC Modification Proposal.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

Yes

Modification Panel Members have requested that the following questions are addressed:

Q1: Can you comment on the distributional consumer impacts of the Modification?

The Proposal aims to smooth the charge profile over time by revising the determination of Allowed Revenue to be collected over the course of a Gas Year to reduce the level of revenue related volatility that can impact the General Non-Transmission Services charges. The method introduced through the proposal would result, all else being equal, in a higher charge than would be the case under the status quo in one year and a lower charge than would be the case under the status quo in the following year, with this process then continuing from year to year. Whether a charge might be higher or lower than the status quo would depend on the size and direction of the revenue changes year to year. Over time, the overall amount charged out to Shippers would be the same, albeit with some timing differences to the current arrangements. When assessing consumer impacts, we must assume that any costs or savings are eventually passed on to consumers and when considering any impacts, the overall amount charged is the key. In this event, there is no difference over time as to the total amount charged, with smaller changes year to year in charges as a result compared to the status quo. This would mean that the cost to consumer in any given year could be slightly higher or lower than under the status quo although neutral over time. The net position of costs and savings passed through to consumers would balance out over time and remain unchanged compared to the status quo as Formula Year Allowed Revenues (determined in line with NGT's Licence) and used to set Gas Year target revenues, will not change if this Proposal is implemented.

Additionally, for avoidance of doubt there will be no impact across different consumer groups within a year. There will remain a single General Non-Transmission Services tariff to be paid on all eligible flows as is under the current methodology, with no change in treatment for any particular type of consumer.

Q2: Do you think there are any license issues associated with this Modification?

NGT does not believe that there are any license issues associated with this Modification. The proposed methodology will, by design, mean that when setting charges, they will be set to either under or over recover against the Regulatory Year's Revenues. This is due to the smoothing effect of merging two Regulatory Years revenues to create a Tariff Year Revenue. Assuming revenue is recovered perfectly in line with forecasts, the over or under recovery generated would naturally flow through into a subsequent years revenues and charges. As part of the Licence change implemented by Ofgem to accommodate fully the outcome of UNC UNC0796 that works on a similar foundation to UNC0857, changes were made to conditions on using revenues for charge setting to both the TO and SO Revenues. Therefore, both the TO and the SO Revenues, for the purposes of charging their recovery can be purposefully over recovering and under recovering (the two scenarios needed for the method of UNC0796 and UNC0857 to work). In the over recovery scenario, this can only be with Ofgem's explicit consent and criteria must be met to allow this to happen.

This Licence change to Special Conditions 2.1 and 2.3 took effect as of 10 April 2023, with more detail available in the decision letter published by Ofgem on 10 February 2023

In summary, the Licence already caters for the full range of outcomes UNC0857 could deliver. Specifically, these changes allow NGT to set charges to over-recover against allowed revenues providing charges are set in accordance with the UNC and with the explicit consent from Ofgem. Therefore, no further changes to the Licence are needed in order to accommodate UNC0857.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

We have not identified any errors or omissions.

Please provide below any additional analysis or information to support your representation

None.

Representation - Draft Modification Report UNC 0857

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

Responses invited by: 5pm on 26 January 2024

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Richard Fairholme
Organisation:	Uniper
Date of Representation:	26/01/2024
Support or oppose implementation?	Support
Relevant Objective:	**d)** Positive
Relevant Charging Methodology Objective:	**c)** Positive

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

We support this proposal, which is helping to address a well known problem, which is the lack of alignment between the gas charging year and financial / price control year. The resultant volatile prices has significant impacts for Shippers, who have to manage this risk. We expect that implementation of this proposal will reduce the volatility and lead to more stable and predictable Non-Transmission Services charges for Shippers and ultimately, customers.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

As soon as reasonably practicable

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

None expected

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

Yes

Modification Panel Members have requested that the following questions are addressed:

Q1: Can you comment on the distributional consumer impacts of the Modification?

This analysis is for the proposer to undertake.

Q1: Do you think there are any license issues associated with this Modification?

It is for National Gas to satisfy itself and Ofgem that it is compliant with its licence obligations.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

No.

Please provide below any additional analysis or information to support your representation

Nothing to add.