














UNC Final Modification Report	At what stage is this document in the process?
<h1>UNC 0764 (Urgent):</h1> <h2>UNC TPD Section Y (Part A-I) amendments to K_t to align to RII02 Licence</h2>	<div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div>
<p>Purpose of Modification:</p> <p>This Modification proposes to update the UNC to reflect Licence changes effective 01 April 2021 and to enable price setting consistent with the intent of the current pricing methodology. Specifically, the proposed amendment would ensure that the change in the polarity of the under / over recovery (or “K_t” term in the Licence) is reflected in the UNC pricing provisions and that Transmission Services Entry and Exit revenues are separated appropriately.</p>	
	<p>Panel consideration is due on 13 May 2021.</p>
	<p>High Impact:</p> <p>All NTS Users that pay NTS Transportation Charges as this will impact the calculation of Transmission Services Entry and Exit Capacity Reserve prices</p>
	<p>Medium Impact:</p> <p>None</p>
	<p>Low Impact:</p> <p>None</p>

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Timetable		
Modification timetable:		Contact: Joint Office of Gas Transporters
Modification Proposal sent to Ofgem		 enquiries@gasgovernance.co.uk
Ofgem decision on Urgency		 0121 288 2107
Modification Proposal issued for consultation		Proposer: Laura Johnson
Consultation Close-out for representations		 laura.johnson@nationalgrid.com
Final Modification Report available for Panel		 07970 842400
Modification Panel recommendation		Transporter: Colin Williams
Final Modification Report issued to Ofgem		 colin.williams@nationalgrid.com
Ofgem Determination		 07785 451776
		Systems Provider: Xoserve
		 UKLink@xoserve.com

1 Summary

What

This proposal seeks to align the UNC with the new RII02 Licence (effective 01 April 2021) and therefore prevent the NTS Transmission Charges being set on an incorrect premise, leading to a further significant under recovery of revenue across the Regulatory year April 2021 – March 2022 and Gas Charging Year October 2021 to September 2022.

This Modification is ensuring that the revenue used in the calculation of Allowed FY Transmission Services Entry Revenue (UNC TPD Section Y A-I 1.5.3 (a)) and Allowed FY Transmission Services Exit Revenue (UNC TPD Section Y A-I 1.5.3 (b)) are aligned to the revenue which is produced from the Price Control Financial Model (PCFM) produced by Ofgem.

This includes maintaining an appropriate split of under / over recovery across Entry and Exit Revenues for Transmission Services where the ratio applied is relevant to the year in which the under / over recovery relates.

This Modification proposes to amend the references in UNC TPD Section Y (Part A-I) for the calculation of K_t , such that they correctly align with the new RII02 National Grid Gas ('NGG') Licence applicable from 01 April 2021. K_t refers to the under/over recovery for NTS Transmission Owner Revenue in line with the Licence.

Why

This Modification will ensure that the K_t references in UNC TPD Section Y are correctly aligned to the updated RII02 NGG Licence. This is necessary to ensure both alignment to the Licence and that there are up to date references and no instances where the references are invalid.

K_t

There are updates made as part of the RII02 NGG Licence that change the calculation of the K_t value from 'NTS Transportation Owner Revenue (or TO Recovered Revenue) minus Maximum NTS Transportation Owner Revenue (or Allowed Revenue)' in the previous ("RII01") NGG Licence to 'Maximum NTS Transportation Owner Revenue (or Allowed Revenue) minus NTS Transportation Owner Revenue (or TO Recovered Revenue)' in the current ("RII02") NGG Licence which means the K_t values for Entry and Exit need to be added instead of subtracted in the Allowed FY Transmission Services Entry Revenue (UNC TPD Y A-I 1.5.3 (a)) and Allowed FY Transmission Services Exit Revenue (UNC TPD Y A-I 1.5.3 (b)) calculations to ensure the revenues go into the charge setting calculations are aligned to the revenue which is calculated as per the RII02 NGG Licence.

t-1 approach

There are updates made as part of the RII02 process which amend the Regulatory years that form the under / over recovery term for Allowed Revenues, in turn, these inform the Target Revenues for setting Transportation charges. Under RII01, the under / over recovery related to t-2 which would be the under / over recovery position from two years prior (e.g. for 2020/21 it would be the under / over recovery from 2018/19). With RII02 this moves to a t-1 approach. By itself this would require no changes to the UNC, however there is an apportionment that takes place within the UNC that splits this between Transmission Services Entry and Exit. UNC TPD Section Y 1.5.3 (f) states this apportionment be based on a ratio using t-2 values. This would need to be updated to be t-1 so the most accurate apportionment takes place and uses the data related to the appropriate year.

Entry/Exit split

This Modification also needs to apply a ratio between Transmission Services Entry and Exit Revenues to the year $t-2$ for the first year of RIIO2, otherwise it will default to a 50/50 split by virtue of it being included as part of the “Base Maximum NTS Transportation Owner Revenue” per UNC TPD Section Y 1.5.1 (a).

How

This Modification will:

- Amend the wording within UNC TPD Section Y to link to the applicable conditions for K_t of the RIIO2 NGG Licence.
- Ensure the correct revenue is used as an input into the Transmission Services Entry and Exit charge setting calculations.
- Update Entry Adjustment Proportion and Exit Adjustment Proportion of the Entry Revenue Adjustment and Exit Revenue Adjustment (in UNC TPD Section Y 1.5.3 (f)) to relate to the applicable years.

There will be an opportunity to discuss this proposal at NTSCMF on 12 April to support the UNC change process of this urgent Modification proposal.

2 Governance

Justification for Urgency

Justification for urgency should:

“Be linked to an imminent issue or a current issue that if not urgently addressed may cause:

- a. A significant commercial impact on parties, consumers or other stakeholder(s); or
- b. A significant impact on the safety and security of the electricity and/or gas systems; or
- c. A party to be in breach of any relevant legal requirements.”

National Grid is proposing the justification for urgency is under item (a) commercial impacts on parties, consumers or other stakeholders(s).

Commercial impacts to parties would result from an incorrect application of the polarity of the under / over recovery revenues to be included into the Transmission Services Entry and Exit Charges for the Gas Year 2021/22. Of these charges the first and most significant would be the Transmission Services Entry and Exit Reserve prices that are due to be published not later than one month ahead of the Annual Yearly Interconnection Point Capacity Auction that takes place on 05 July 2021 (i.e. by 05 June 2021).

In terms of materiality, the forecast under recovery for the Regulatory Year 20/21 (year April 20 to March 21) is in excess of £100m. Applying the current UNC rules with the incorrect polarity to determine the target revenue in line with the Licence and intentions of the Charging Methodology would mean this is deducted from the base revenue used to set charges rather than added to it. This would result, without further resolution, a compounding issue and impacts to prices presenting significant uncertainty about its timely resolution and impacts to future years' prices. (e.g. a £100m under recovery in year t would result a £200m understating of revenues to collect for $t+1$. In turn this would then present, all else being equal, a £200m under recovery for year $t+1$. This “K” example of £200m for $t+1$ would then result in a £400m understating of revenues to collect for $t+2$).

Resolving this would mean the appropriate revenues are recovered in the relevant year and do not result in inaccurate target revenues being used for setting Gas Year 21/22 charges with potentially significant roll overs to subsequent years. Thus, the proposal ensures that competition across Users is maintained and not leaving

impacts from one year rolling into a different year and potentially impacting different Users from the years in which the revenues originally relate.

Therefore, this proposal makes the following changes:

1. Changes to the Entry / Exit split for K_t and LK_t to be appropriate to the year they relate; and
2. Ensures the correct polarity is used for determining how K_t and LK_t are applied; and
3. Updates references to the Licence in the UNC relating to K_t .

Further detail:

Within UNC TPD Section Y there are references to the NGG Licence, this relates to the RIIO1 NGG Licence and will need to be updated to reflect the RIIO2 NGG Licence which is applicable from 01 April 2021 (the prevailing Licence). The Licence covering the period for RIIO1 up to 31 March 2021 is referred to as the “previous Licence” in this proposal.

There are updates in the prevailing Licence, in effect from 01 April 2021 that are necessary to reflect in the UNC in relation to the under / over recovery related to Transmission Owner (in the Licence), known as the “ K_t ” term in the Licence, that would impact the total revenue for Transmission Services (related to this under / over recovery). This update would remove the uncertainty for pricing purposes by clarifying and updating ahead of setting Gas Year 21/22 prices (as any mismatch without this change would still need to be resolved over time), in setting the Transmission Services Reserve Prices, by aligning specific elements to the Licence, reflecting the changes from the previous Licence to the prevailing. This proposal makes three distinct changes:

1. Impacts the proportions of any under / over recovery from previous years used to inform the target Entry and Exit Transmission Services Revenues when setting charges for October 2021 onwards. Given this is the first year of a new Price Control it is necessary to apply this treatment to the K_t and the LK_t terms from the prevailing Licence;
2. Ensures that the value of K_t is applied correctly such that where, for example, the value of K_t reflects an under recovery, it is **added** on to revenues to collect. Without this change, the UNC as written would **subtract** it rather than **add** this on, potentially materially affecting the revenues that Transmission Services Entry and Exit Reserve Prices are being set to collect. Irrespective of an under or over recovery value for K_t , the impact would be to misalign the required revenue from K by a factor of two (i.e. without the change, an under recovery of £50m would result in understating the required revenue to collect by £100m. Similarly, an over recovery of £50m would result in overstating the required revenue to collect by £100m).
3. This proposal ensures that the reference related to K_t in UNC TPD Section Y is aligned to the prevailing NGG Licence.

For the avoidance of doubt, these changes would not alter the amount of revenue to be recovered by NGG from Transportation Charges, and importantly ensure that the Transportation Charges in total aim to recover the same value set from the prevailing Licence. This proposal also ensures that the NGG Licence references are correct going into setting all Transportation Charges to be effective from 01 October 2021. Once published for the Gas Year, the Transmission Services Entry and Exit Capacity Reserve prices cannot be further amended.

In order to achieve this, it is necessary that this be in place by the time the Transmission Services Reference and Reserve prices applicable for Gas Year 2021/22 are published. This publication requirement is one month before the Annual Yearly Interconnection Point Capacity Auction, which takes place on 05 July 2021.

Should the urgency not be granted this would mean the UNC change process would not be possible to complete in time to calculate and publish the Transmission Services Entry and Exit Capacity Reserve Prices for the Gas Year starting 01 October 2021, which must be published no later than 05 June 2021.

Requested Next Steps

This Modification should:

- be treated as urgent and should proceed as such under a timetable agreed with the Authority.

3 Why Change?

This proposal ensures that the right revenues, in line with the current Licence are included into the Revenues used to calculate Transportation charges in the right timeframe in line with the intended Charging Methodology. This prevents significant impacts being stored up for future charging years and provides certainty in setting charges for Gas Year starting October 2021. This would remove potential competitive distortions that might otherwise occur by not having such carry-over of revenues and having impacts of one year felt in another where it would impact Users differently, as behaviours can change from one year to another.

There are updates made as part of RII02 NGG Licence that changes the calculation of the K value from NTS Transportation Owner Revenue (TO Recovered Revenue) minus Maximum NTS Transportation Owner Revenue (Allowed Revenue) in RII01 NGG Licence to Maximum NTS Transportation Owner Revenue (Allowed Revenue) minus NTS Transportation Owner Revenue (TO Recovered Revenue) in RII02 NGG Licence. This means the K values for Entry and Exit need to be **added** instead of **subtracted** in the Allowed FY Transmission Services Entry Revenue (UNC TPD Section Y A-I 1.5.3 (a)) and Allowed FY Transmission Services Exit Revenue (UNC TPD Section Y A-I 1.5.3 (b)) calculations, to ensure the revenues that go into the charge setting calculations are aligned to the revenue which is calculated as per the NGG Licence. This is the K_t value for Transmission Services as it is apportioned between Transmission Services Entry and Exit but does not change the Allowed Revenue, which is to be collected as based on the Licence calculations.

There are updates made as part of RII02 NGG Licence that change the Regulatory years that form the under / over recovery term of NGG's Allowed Revenues, which in turn inform the Target Revenues for setting future Transportation charges. Under RII01, the under / over recovery related to t-2, which would be the under / over recovery position from two years prior (e.g. for 2020/21 prices it would be the under / over recovery from Regulatory Year 2018/19). With RII02 this moves to a t-1 approach. By itself this would require no change to the UNC, however there is an apportionment that takes place within the UNC that splits this between Transmission Services Entry and Exit. UNC TPD Section Y A-I 1.5.3 (f) states this apportionment be based on a ratio using t-2 values. This would need to be updated to be t-1 so the most accurate apportionment takes place and uses the data related to the appropriate year.

For example, UNC TPD Section Y A-I 1.5.3 (f) refers to the use of t-2 (where t represents a Regulatory Year). Under RII02, 'Special Condition 2.1 Transportation owner revenue restriction (A_{Rt}) Part H' paragraph 2.1.13 now shows the main mechanism is using t-1. In order to ensure alignment, such references in UNC TPD Section Y should be updated to reflect this change from t-2 to t-1.

This Modification also needs to apply a ratio between Transmission Services Entry and Exit to the year t-2 for the first year of RII02 otherwise it will default to a 50/50 split. Recognising that Regulatory Year 2021/22 is the first year of the new RII02 Price Control, this also bridges the old regime to the new for managing under / over recovery. As such there is the apportionment between Transmission Services Entry and Exit for the under / over recovery for Regulatory Year 2019/20 that also needs to be accommodated to be consistent with the Charging Methodology that was implemented in October 2020. This value to be apportioned is accounted for under 'Special Condition 7.4 Transportation owner legacy K correction (LK_t)'. In order to maintain consistency of treatment, this value would need to be split between Transmission Services Entry and Exit in the same manner as the K_t term using data from the relevant year (i.e. t-2).

This Modification will ensure that the references in UNC TPD Section Y for K_t are aligned to the NGG Licence which takes account of RIIO2 outcomes. This is necessary to ensure alignment to the NGG Licence so there are up to date references and no instances where the references are invalid.

4 Code Specific Matters

Reference Documents

UNC TPD Section Y - <https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2020-12/24%20TPD%20Section%20Y%20-%20Charging%20Methodologies.pdf>

RIIO2 NGG Licence - <https://www.ofgem.gov.uk/publications-and-updates/decision-proposed-modifications-riio-2-transmission-gas-distribution-and-electricity-system-operator-licences>

Knowledge/Skills

UNC TPD Section Y and the Gas Transmission Licence.

5 Solution

K value which feeds into revenues in RIIO2 Licence

This Modification changes the sign in the Allowed FY Transmission Services Entry Revenue (UNC TPD Section Y A-I 1.5.3 (a)) and Allowed FY Transmission Services Exit Revenue (UNC TPD Section Y A-I 1.5.3 (b)) calculations before the K values for Entry and Exit, as K_t needs to be added instead of subtracted. This is as a result of the updates which were made as part of RIIO2 NGG Licence, which changed the calculation of the K value from NTS Transportation Owner Revenue (TO Recovered Revenue) minus Maximum NTS Transportation Owner Revenue (Allowed Revenue) in RIIO1 NGG Licence to Maximum NTS Transportation Owner Revenue (Allowed Revenue) minus NTS Transportation Owner Revenue (TO Recovered Revenue) in RIIO2 NGG Licence.

For the avoidance of doubt, this ensures the revenues which go into the charge setting calculations are aligned to the revenue which is calculated as per the RIIO2 NGG Licence and Price Control Financial Model (PCFM). This is because the K_t value for Transmission Services is apportioned between Transmission Services Entry and Exit. The K_t value is removed from the calculation of Base Maximum NTS Transportation Owner Revenue (UNC TPD Y A-I 1.5.1 (a)) and then gets apportioned between Entry and Exit and then included back in to the Allowed FY Transmission Services Entry Revenue (UNC TPD Y A-I 1.5.3 (a)) and Allowed FY Transmission Services Exit Revenue (UNC TPD Y A-I 1.5.3 (b)) to ensure that the correct revenue is used to calculate the Entry and Exit Reserve Prices.

Description of the change	Current UNC wording	Changes needed – changed marked	New UNC wording
Update UNC TPD Y A-I 1.5.3 to reflect how K_t is included in the calculation in 1.5.3 (a) and (b)	1.5.3 For the purposes of this Part A-I, in relation to a Formula Year (t): (a) “Allowed FY Transmission Services	1.5.3 For the purposes of this Part A-I, in relation to a Formula Year (t):	1.5.3 For the purposes of this Part A-I, in relation to a Formula Year (t): (a) “Allowed FY Transmission Services

<p>based on the different calculation of K_t in the Licence</p>	<p>Entry Revenue" (AFTSEnRt, in £) is determined as follows:</p> $AFTSEnRt = (0.5 * BMTOExcNTRt) + ATSSOEnRt - KEn,t$ <p>where for the Formula Year:</p> <p>BMTOExcNTRt is Base Maximum NTS TO (Excluding Non-TS) Revenue;</p> <p>ATSSOEnRt is Allowed TS-Related NTS System Operation Entry Revenue;</p> <p>KEn,t is the Entry Revenue Adjustment;</p> <p>(b) "Allowed FY Transmission Services Exit Revenue" (AFTSExRt, in £) is determined as follows:</p> $AFTSExRt = (0.5 * BMTOExcNTRt) + ATSSOExRt - KEx,t$ <p>where for the Formula Year:</p> <p>BMTOExcNTRt is Base Maximum NTS TO (Excluding Non-TS) Revenue;</p> <p>ATSSOExRt is Allowed TS-Related NTS System Operation Exit Revenue;</p> <p>KEx,t is the Exit Revenue Adjustment;</p>	<p>(a) "Allowed FY Transmission Services Entry Revenue" (AFTSEnRt, in £) is determined as follows:</p> $AFTSEnRt = (0.5 * BMTOExcNTRt) + ATSSOEnRt - + KEn,t$ <p>where for the Formula Year:</p> <p>BMTOExcNTRt is Base Maximum NTS TO (Excluding Non-TS) Revenue;</p> <p>ATSSOEnRt is Allowed TS-Related NTS System Operation Entry Revenue;</p> <p>KEn,t is the Entry Revenue Adjustment;</p> <p>(b) "Allowed FY Transmission Services Exit Revenue" (AFTSExRt, in £) is determined as follows:</p> $AFTSExRt = (0.5 * BMTOExcNTRt) + ATSSOExRt - + KEx,t$ <p>where for the Formula Year:</p> <p>BMTOExcNTRt is Base Maximum NTS TO (Excluding Non-TS) Revenue;</p> <p>ATSSOExRt is Allowed TS-Related NTS System Operation Exit Revenue;</p> <p>KEx,t is the Exit Revenue Adjustment;</p>	<p>Entry Revenue" (AFTSEnRt, in £) is determined as follows:</p> $AFTSEnRt = (0.5 * BMTOExcNTRt) + ATSSOEnRt + KEn,t$ <p>where for the Formula Year:</p> <p>BMTOExcNTRt is Base Maximum NTS TO (Excluding Non-TS) Revenue;</p> <p>ATSSOEnRt is Allowed TS-Related NTS System Operation Entry Revenue;</p> <p>KEn,t is the Entry Revenue Adjustment;</p> <p>(b) "Allowed FY Transmission Services Exit Revenue" (AFTSExRt, in £) is determined as follows:</p> $AFTSExRt = (0.5 * BMTOExcNTRt) + ATSSOExRt + KEx,t$ <p>where for the Formula Year:</p> <p>BMTOExcNTRt is Base Maximum NTS TO (Excluding Non-TS) Revenue;</p> <p>ATSSOExRt is Allowed TS-Related NTS System Operation Exit Revenue;</p> <p>KEx,t is the Exit Revenue Adjustment;</p>
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K value which feeds into revenues in RII02 NGG Licence and K_t references to the RII02 NGG Licence

This Modification changes the reference from t-2 to t-1 for the proportion split between Transmission Services Entry and Exit under UNC TPD Section Y A-I 1.5.3 (f) as part of the methodology to calculate the Transmission Services Entry and Exit Revenues for setting Transmission Services prices. This does not amend any of the mechanics of how the overall under / over recovery values are calculated in the RII02 NGG Licence. It also ensures that the references within UNC TPD Section Y A-I 1.5.3 (f) are linked to the condition specified in the RII02 NGG Licence.

For awareness, the K_t value which is included in the Allowed Revenue under the RII02 NGG Licence (which is applicable from 01 April 2021) is a forecast of the under/over recovery at the time when the PCFM is run by Ofgem. The PCFM sets the overall Revenues to be collected in any given Regulatory Year. This value therefore (as t-1 would not be complete at the time of running the PCFM) is a forecast and will be adjusted in accordance with the RII02 NGG Licence with any differences between the forecast and actual under / over recovery feeding into the allowed revenue calculation (i.e. PCFM) in future years.

Description of the change	Current UNC wording	Changes needed – changed marked	New UNC wording
Transmission Services K - UNC TPD Y A-I 1.5.3 (f) Exit Adjustment Proportion – link to Special Condition amended	(f) the “Exit Adjustment Proportion” for Formula Year t is determined as: $KTS_{Ex,t} / (KTS_{En,t} + KTS_{Ex,t})$ where KTS En,t is determined by applying the formula in Special Condition 2A.19 substituting: KTS Ex,t is determined by applying the formula in Special Condition 2A.19 substituting:	(f) the “Exit Adjustment Proportion” for Formula Year t is determined as: $KTS_{Ex,t} / (KTS_{En,t} + KTS_{Ex,t})$ where KTS En,t is determined by applying the formula in Special Condition 2A.19 2.1.13 substituting: KTS Ex,t is determined by applying the formula in Special Condition 2A.19 2.1.13 substituting:	(f) the “Exit Adjustment Proportion” for Formula Year t is determined as: $KTS_{Ex,t} / (KTS_{En,t} + KTS_{Ex,t})$ where KTS En,t is determined by applying the formula in Special Condition 2.1.13 substituting: KTS Ex,t is determined by applying the formula in Special Condition 2.1.13 substituting:
Transmission Services K - UNC TPD Y A-I 1.5.3 (f) - change from t-2 to t-1	(f) the “Exit Adjustment Proportion” for Formula Year t is determined as: $KTS_{Ex,t} / (KTS_{En,t} + KTS_{Ex,t})$ where KTS En,t is determined by applying the formula in Special Condition 2A.19 substituting: (A) Transmission Services Entry	(f) the “Exit Adjustment Proportion” for Formula Year t is determined as: $KTS_{Ex,t} / (KTS_{En,t} + KTS_{Ex,t})$ where KTS En,t is determined by applying the formula in Special Condition 2A.19 2.1.13 substituting: (A) Transmission Services Entry	(f) the “Exit Adjustment Proportion” for Formula Year t is determined as: $KTS_{Ex,t} / (KTS_{En,t} + KTS_{Ex,t})$ where KTS En,t is determined by applying the formula in Special Condition 2.1.13 substituting: (A) Transmission Services Entry

	<p>Revenue in respect of Formula Year t-2 for NTS Transportation Owner Revenue in respect of Formula Year t-2; and</p> <p>(B) Allowed FY Transmission Services Entry Revenue in respect of Formula Year t-2 for Maximum NTS Transportation Owner Revenue in respect of Formula Year t-2;</p> <p>KTS Ex,t is determined by applying the formula in Special Condition 2A.19 substituting:</p> <p>(A) Transmission Services Exit Revenue in respect of Formula Year t-2 for NTS Transportation Owner Revenue in respect of Formula Year t-2; and</p> <p>(B) Allowed FY Transmission Services Exit Revenue in respect of Formula Year t-2 for Maximum NTS Transportation Owner Revenue in respect of Formula Year t-2.</p>	<p>Revenue in respect of Formula Year t-2¹ for NTS Transportation Owner Revenue in respect of Formula Year t-2¹; and</p> <p>(B) Allowed FY Transmission Services Entry Revenue in respect of Formula Year t-2¹ for Maximum NTS Transportation Owner Revenue in respect of Formula Year t-2¹;</p> <p>KTS Ex,t is determined by applying the formula in Special Condition 2A.19 2.1.13 substituting:</p> <p>(A) Transmission Services Exit Revenue in respect of Formula Year t-2¹ for NTS Transportation Owner Revenue in respect of Formula Year t-2¹; and</p> <p>(B) Allowed FY Transmission Services Exit Revenue in respect of Formula Year t-2¹ for Maximum NTS Transportation Owner Revenue in respect of Formula Year t-2¹;</p>	<p>Revenue in respect of Formula Year t-1 for NTS Transportation Owner Revenue in respect of Formula Year t-1; and</p> <p>(B) Allowed FY Transmission Services Entry Revenue in respect of Formula Year t-1 for Maximum NTS Transportation Owner Revenue in respect of Formula Year t-1;</p> <p>KTS Ex,t is determined by applying the formula in Special Condition 2.1.13 substituting:</p> <p>(A) Transmission Services Exit Revenue in respect of Formula Year t-1 for NTS Transportation Owner Revenue in respect of Formula Year t-1; and</p> <p>(B) Allowed FY Transmission Services Exit Revenue in respect of Formula Year t-1 for Maximum NTS Transportation Owner Revenue in respect of Formula Year t-1.</p>
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		Transportation Owner Revenue in respect of Formula Year t- 21 .	
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First year of RIIO2 proposal – Transitional Text

This Modification also ensures the same method of apportioning under / over recovery to Transmission Services for Entry and Exit is applied to the under / over recovery from Regulatory Year 2019/20 which is specified in the RIIO2 NGG Licence by the LK_t term rather than K_t . These will need to be written into the UNC Transitional Text as it is only needed as a one off for the setting of Transmission Services charges for the Gas Year 2021/22 (01 October 2021 – 30 September 2022).

In the RIIO2 NGG Licence in Chapter 7 Legacy, Special Condition 7.4, the 2019/20 under/over recovery LK_t value goes into Regulatory Year 2021/22, with a 2 year true-up as per the RIIO1 NGG Licence.

LK_t will need to be split into an Entry and Exit proportion to be input into the Allowed Revenue, to be used within the Postage Stamp (PS) model to calculate the Transmission Services capacity reserve prices. This will be done using the same mechanism as per TPD UNC Section Y A-I 1.5.3.

6 Impacts & Other Considerations

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

No Impacts identified.

Consumer Impacts

This ensures the revenues which go into the charge setting calculations are aligned to the revenue which is calculated as per the RIIO2 NGG Licence and Price Control Financial Model (PCFM). The RIIO2 NGG Licence and TPD UNC Section Y (Part A-I) references are aligned for K_t and also that the appropriate split for Transmission Services Entry and Exit is used when apportioning prior years under / over recovery into charges.

The Allowed Revenue National Grid NTS is not changing. This prevents any potential impacts of further reconciliations that may be needed avoiding impacts from this to Customer charges and ultimately Consumers by removing any such uncertainty.

Cross Code Impacts

None

EU Code Impacts

None

Central Systems Impacts

None – these changes are to the references between UNC TPD Section Y and the Licence and the revenue used to calculate the charges before they are within the system.

7 Relevant Objectives

Impact of the modification on the 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.	Positive
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.	Positive
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

Standard Relevant Objective c) *Efficient discharge of the licensee's obligations*. This Modification positively impacts Relevant Objective c) by ensuring UNC is aligned with the prevailing RIIO2 licence requirements.

Standard Relevant Objective d) *Securing effective competition*. This Modification positively impacts Relevant Objective d) by setting charges in line with the intentions of the Charging Methodology and the Licence. This would remove potential competitive distortions that might otherwise occur by not having such carry-over of revenues and having impacts of one year felt in another thereby improving competition.

Standard Relevant Objective f) *Promotion of efficiency in the implementation and administration of the Code* is overall furthered as this proposal is promoting efficiency in the code and providing clarity in the necessary areas, here specifically the references within UNC TPD Section Y (Part A-I) to the RIIO2 NGG Licence.

Impact of the modification on the 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;	Positive
aa) That, in so far as prices in respect of transportation arrangements are established by auction, either: <ul style="list-style-type: none"> (i) no reserve price is applied, or (ii) that reserve price is set at a level - <ul style="list-style-type: none"> (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; 	Positive
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	None
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

This Modification furthers Relevant Charging Methodology Objectives (a) and (aa) by ensuring that the revenue used in charge setting for Transmission Services Entry and Exit when setting the prices for Gas Year 2021/22 and onwards, are aligned to the appropriate Allowed Revenue calculated in accordance with the prevailing Licence.

This Modification ensures the most accurate apportionment takes place for K_t (which is used in calculation of revenue for Transmission Services Entry and Exit for calculation of reserve prices and uses the data related to the appropriate year).

This Modification will ensure that the references in UNC TPD Section Y for K_t are aligned to the RIIO2 NGG Licence and take account of RIIO2 outcomes including ensuring that the appropriate apportionment of any under / over recovery through the Allowed Revenues is allocated to Transmission Services Entry and Exit. This is necessary to ensure alignment to the NGG Licence so there are up to date references and no instances where the references are invalid.

8 Implementation

Implementation of this Proposal should take effect as soon as practicable following Authority direction to do so, but no later than a date that would enable the publication of Transmission Services Entry and Exit Reserve Prices by 05 June 2021. This is to ensure the references in UNC TPD Section Y for K_t are aligned to the RIIO2 NGG Licence and the appropriate apportionment of any under / over recovery through the Allowed Revenues is allocated to Transmission Services Entry and Exit.

9 Legal Text

Legal Text and Legal Text Commentary has been provided by National Grid and are published alongside this report at: <https://www.gasgovernance.co.uk/0764>

10 Consultation

Ofgem invited representations from interested parties on 14 April 2021. The summaries in the following table are provided for reference on a reasonable endeavours' basis only. It is recommended that all representations are read in full when considering this Report. Representations are published alongside this Final Modification Report.

Implementation was unanimously supported in the 1 representation received.

Representations were received from the following parties:

Organisation	Response	Relevant Objectives	Key Points
National Grid NTS	Support	c) - positive d) - positive f) - positive	<ul style="list-style-type: none"> As Proposer, supports the implementation of the Modification Proposal as it believes that this ensures alignment with the NGG Licence and delivers the necessary changes to the UNC, to ensure continuity of treatment in line with the methodology and Licence that was in place before 01 April 2021. Points out that within UNC TPD Section Y there are references to the NGG Licence, that relate to the RIIO1 NGG Licence (effective up to and including 31 March 2021) and will need to be updated to reflect the RIIO2 NGG Licence which is applicable from 01 April 2021 (the prevailing Licence) and that there are updates in the prevailing Licence that are necessary to reflect in the UNC in relation to the under / over recovery related to Transmission Owner revenues, known as the "Kt" term in the Licence, that would impact the total revenue for Transmission Services (related to this under / over recovery) if not reflected in UNC to align with the prevailing Licence. Highlights that the Proposal seeks to: <ol style="list-style-type: none"> Update the polarity of how "K" is accommodated to align with the prevailing Licence; Update how the ratio to apportion "K" between Transmission Services Entry and Exit is determined so it based on the year in question; As per (1) and (2) the same treatment for "LK" which represents a one-off treatment for Regulatory Year 19/20, and

			<p>4. Update relevant Licence references related to “K” in UNC TPD Section Y.</p> <ul style="list-style-type: none"> • Points out that the result of these changes ensures that the value of Kt and LKt are applied correctly and that references to Kt in UNC TPD Section Y align appropriately to the prevailing NGG Licence and therefore positive for Relevant Objective c). • By way of example, where the value of Kt reflects an under recovery, it should be added on to revenues to collect. Without this change, the UNC as written would subtract it rather than add this on as the approach where K is subtracted is embedded in UNC TPD Section Y. This would result in a mismatch that would need reconciliation, via a future modification, were 0764 not implemented. Irrespective of an under or over recovery value for Kt, the impact would be to misalign the required revenue from K by a factor of two (i.e. without the change, an under recovery of £50m would result in understating the required revenue to collect by £100m. Similarly, an over recovery of £50m would result in overstating the required revenue to collect by £100m). • Believes that the Modification will remove the uncertainty for pricing purposes by clarifying and updating the UNC ahead of setting Gas Year 21/22 Transmission Services Reserve Prices (as any mismatch without this change would still need to be resolved over time), by aligning UNC to the prevailing Licence. • Also believes that overall, this removes potential competitive distortions that might otherwise occur by not having such carry-over of revenues and impacts of one year felt in another thereby improving competition. • Is of the view that implementation of the Proposal should take effect as soon as practicable following Authority direction to do so, but no later than a date that would enable the publication of Transmission Services Entry and Exit Reserve Prices by 05 June 2021. This is to ensure the references in UNC TPD Section Y for Kt are aligned to the prevailing Licence and the appropriate apportionment of any under / over recovery through the Allowed Revenues is allocated to Transmission Services Entry and Exit. • Believes that there are no costs associated with implementation of the Modification. • Is satisfied that the Legal Text will deliver the intent of the Solution.
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Representations were received from the following parties:

Organisation	Response	Relevant Charging Methodology Objectives	Key Points
National Grid NTS	Support	a) - positive aa) - positive	• Please refer to the table above for details.

Please note that late submitted representations will 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

12 Recommendations

Panel Recommendation

Panel Members recommended that Modification 0764 (Urgent) should [not] be implemented.