








UNC Final Modification Report	At what stage is this document in the process?
<div>UNC 0877S:</div> <div>Alignment of TO Revenue and TO Revenue Adjustment terms to the current Gas Transporter Licence</div>	<div><div>01Modification</div><div>02Workgroup Report</div><div>03Draft Modification Report</div><div>04Final Modification Report</div></div>
<div>Purpose of Modification:</div> <div>This Modification proposes the update of the Transportation Owner Revenue term (TORt) and Transportation Owner Revenue Adjustment term (TOKt) within UNC Transportation Principal Document (TPD) Section F to align them with the term within the current National Gas Transmission (NGT) Gas Transporter Licence applicable from 01 April 2021 that is used in the calculation of the Default System Marginal Price Calculation.</div>	
<div>Next Steps:</div> <div>The Panel determined that this Self-Governance Modification should be implemented.</div>	
<div>Impacted Parties:</div> <div>None: All NTS Users</div>	
<div>Impacted Codes:</div> <div>UNC TPD Section F will be updated</div>	

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Timetable		
Modification timetable:		 enquiries@gasgovernance.co.uk
Pre-Modification Discussed	07 May 2024	Contact: Joint Office of Gas Transporters
Date Modification Raised	02 May 2024	 enquiries@gasgovernance.co.uk
New Modification to be considered by Panel	16 May 2024	 0121 288 2107
Consultation Close-out for representations	07 June 2024	Proposer: Ashley Adams National Gas
Final Modification Report available for Panel	11 June 2024	 Ashley.Adams@nationalgas.com
Modification Panel decision	20 June 2024	 07813996680
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1 Summary

What

This Modification proposes to update references within UNC TPD Section F to two Licence terms (TOR_t and TOK_t) that are referenced in the calculation of the Default System Marginal Price (SMP). These terms are no longer in NGT's current Gas Transporter Licence and therefore need to be updated. These terms will be replaced with the Adjusted Revenue term ($ADJR_t$) which is a current Licence term. The $ADJR_t$ is an Allowed Revenue term that is independent of K and is the value that is used in the Default SMP calculation.

Why

UNC TPD Section F 1.1.2 (j) contains the terms TOR_t and TOK_t , stating that such terms are defined in Special Condition 2.1 of National Gas Transmission's Transporter's Licence. In previous Licences, the TOR_t and TOK_t terms mean respectively, the NTS TO revenue in respect of formula year t, and the NTS TO revenue adjustment term in respect of formula year t. However, the current Licence does not contain these terms and the UNC should therefore be updated.

UNC [0774S - Alignment of UNC TPD to the National Grid Licence in respect of the NTS](#), implemented on 08 October 2021, made changes to the references within UNC TPD to correctly align to the Conditions in the current NGG Licence. However, although the Licence reference within TPD Section F 1.1.2 (j) was updated from Special Condition 2A to Special Condition 2.1, the fact that the terms were no longer in use was not noticed and therefore not included in the update.

How

The current Licence replaces the TOR_t term with RR_t which is the TO Recovered Revenue term and the TOK_t term with K_t which is the Transportation owner correction term. However, given that the Recovered Revenue is not known at the time of Default SMP calculation, the Allowed Revenue term, AR_t is a more appropriate term from the current Licence to use.

As the current Licence contains the Adjusted Revenue term ($ADJR_t$), which is an Allowed Revenue term, independent of K_t , we propose the replacement of both the TOR_t and TOK_t terms with the $ADJR_t$ term to simplify the UNC text while also aligning it with the current Licence drafting.

An amendment is proposed to UNC TPD Section F Paragraph 1.1.2 (j), replacing the current references to TOR_t and TOK_t with a reference to the $ADJR_t$ term. This will align the UNC to the term within NGT's current Gas Transporter Licence that is used in the Default SMP calculation.

2 Governance

Justification for Self-Governance

This UNC Modification proposal should be classed as a Self-Governance Modification. It aims to update out-of-date Licence terms with a term from the current Licence. It has no effect on existing or future gas consumers, competition between parties, or operation of network systems nor will it unduly discriminate between different classes of UNC parties.

Requested Next Steps

This Modification should be considered a non-material change and subject to Self-Governance.

This Proposal will be discussed as a Pre-Modification discussion at NTSCMF in May. Given the Proposal is fully developed and the relative simplicity of the proposed change, we believe that it is not necessary for the Proposal to be sent to Workgroup for development and request that the Panel issue the Modification straight to consultation.

3 Why Change?

This UNC Modification seeks to facilitate the amendment of the following two defunct Licence terms found within UNC TPD Section F 1.1.2, to align them with the term within NGT's current Gas Transporter Licence that is most appropriate to be used in the Default System Marginal Price calculation.

Transportation Owner Revenue (TORt) term: The TORt term was used in the previous Licence, applicable for the RIIO-T1 price control period, and replaced in April 2021 when the current RIIO-TR2 Licence came into effect.

Transportation Owner Correction (TOKt) term: The TOKt term has not been used in the Licence since the TPCR4 Licence which preceded the RIIO-T1 price control period.

The TORt and TOKt terms remain in UNC as part of the calculation of the "Average Forecast NTS Capacity Charges" which in turn are used in the calculation of the "Default System Marginal Price" within TPD Section F 1.1.2. An update to the terms is therefore required to ensure there is no confusion in the values which are used in the calculation.

In the current Licence, the TORt term is replaced with the TO Recovered Revenue Term, RRt. However, given that the Recovered Revenue is not known at the time of Default SMP calculation, the Allowed Revenue term, ARt is the more appropriate term from the current Licence to use in the calculation.

When the RIIO-T1 Licence was introduced the Transportation Owner correction term (TOKt) term was no longer used and was replaced by the Kt term, this term then continued to be used as the current RIIO-T2 Licence replaced the RIIO-T1 Licence.

The Adjusted Revenue (ADJRt) is a term from the Licence which is equal to the Allowed Revenue (ARt) independent of the K correction and any legacy adjustments. It is therefore proposed that the ADJRt replaces TORt and TOKt terms, aligning the UNC with the most appropriate term within the current Licence.

4 Code Specific Matters

Reference Documents

[TPD Section F](#)

[National Grid Gas Transporter Licence Special Conditions](#)

Knowledge/Skills

None

5 Solution

The TORt and TOKt terms within UNC TPD Section F will be replaced with the ADJRt term to reflect the drafting in the current Licence (applicable from 01 April 2021) and the practical calculation of the Default SMP. The description of "Average Forecast Capacity Charges" TPD Section F 1.1.2 (j) will therefore be amended as detailed below.

Current wording:

(j) **“Average Forecast NTS Capacity Charges”** are the charges (in pence per kilowatt hour (p/kWh)) determined as TORt less TOKt (both such terms being defined in Special Condition 2.1 of National Gas Transmission’s Transporter’s Licence) in respect of the Formula Year commencing in the Gas Year in which the Default System Marginal Price Statement is published, divided by the 1 in 20 peak day demand in relation to the Gas Year following the Gas Year in which the Default System Marginal Price Statement is published;

New wording:

(j) “Average Forecast NTS Capacity Charges” are the charges (in pence per kilowatt hour (p/kWh)) determined as ADJRt (as defined in Special Condition 2.1 of National Gas Transmission’s Transporter’s Licence) in respect of the Formula Year commencing in the Gas Year in which the Default System Marginal Price Statement is published, divided by the 1 in 20 peak day demand in relation to the Gas Year following the Gas Year in which the Default System Marginal Price Statement is published.

6 Impacts & Other Considerations

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

No

Consumer Impacts

None, this Modification will have no impact on Consumers.

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

No User groups will be impacted.

Impact of the change on Consumer Benefit Areas:	
Area	Identified impact
Improved safety and reliability	None
Lower bills than would otherwise be the case	None
Reduced environmental damage	None
Improved quality of service	None
Benefits for society as a whole	None

Performance Assurance Considerations

There are no PAC considerations.

Cross-Code Impacts

None.

EU Code Impacts

None.

Central Systems Impacts

None.

Initial Representations

None Received.

Panel Questions

None.

Workgroup Impact Assessment

Please refer to the following link to the minutes from the pre-Modification discussion held at NTSCMF on 07 May 2024 (www.gasgovernance.co.uk/NTSCMF/070524).

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.	None
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

As this proposal is updating out of date Licence terms within UNC TPD Section F to align with NGT's current Licence, the broader Standard Relevant Objective f) (Promotion of efficiency in the implementation and administration of the Code) is better facilitated by ensuring that the UNC contains the correct terms from the current Licence.

No changes are proposed to UNC TPD Section Y therefore we consider there is no overall impact on any Charging Methodology Relevant Objectives.

8 Implementation:

As Self-Governance procedures are proposed, implementation could be sixteen business days after a Modification Panel decision to implement, subject to no Appeal being raised.

9 Legal Text

Text Commentary

Amend UNC TPD Section F 1.1.2 (j) as outlined below to ensure the Licence terms align with the RIIO-T2 Licence.

Text

(j) **“Average Forecast NTS Capacity Charges”** are the charges (in pence per kilowatt hour (p/kWh)) determined as ~~TORt less TOKt~~ **ADJRt** (~~both such terms being as~~ defined in Special Condition 2.1 of National Gas Transmission’s Transporter’s Licence) in respect of the Formula Year commencing in the Gas Year in which the Default System Marginal Price Statement is published, divided by the 1 in 20 peak day demand in relation to the Gas Year following the Gas Year in which the Default System Marginal Price Statement is published;

10 Consultation

Representations were invited from interested parties on 17 May 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. Of the 2 representations received 1 supported implementation and 1 offered qualified support.

Representations were received from the following parties:		
Organisation	Response	Relevant Objectives
National Gas Transmission	Support	f) positive
Sisman Energy Consultancy Limited	Qualified Support	f) 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 0877S would update the Transportation Owner Revenue term (TORt) and Transportation Owner Revenue Adjustment term (TOKt) within UNC Transportation Principal Document (TPD) Section F to align them with the term within the current National Gas Transmission (NGT) Gas Transporter Licence applicable from 01 April 2021 that is used in the calculation of the Default System Marginal Price Calculation.

Panel members noted that no initial representations had been submitted and no Panel Questions had been raised. Panel Members noted that this Modification had been considered at Panel on 16 May 2024 and had been sent out for consultation, without moving to Workgroup for assessment. Panel Members considered the representations submitted during the Consultation, noting that, of the 2 representations received 1 supported implementation and 1 offered qualified support.

Panel Members agreed with respondents and the Proposer that this Modification would align the UNC to the current National Gas Transmission (NGT) Gas Transporter Licence applicable from 01 April 2021.

Greater transparency in numbers used

Further to a request in one of the consultation responses, Panel Members discussed the following comment:

“...greater transparency about all values featuring in the default system marginal price calculation is warranted. This could easily be achieved by detailing both the values, and identifying a public source reference, for the four terms to be used in the methodology statement calculation (i.e. Annual Compression Fuel Cost, Total System Demand, ADJRt and 1 in 20 peak day demand). The outcome would then be verifiable.”

A Panel Member (on behalf of National Gas Transmission) clarified that the modification is not proposing any change to the level of transparency within the calculation. Although tangential to the modification proposal, transparency of the calculation is a fair general challenge to make, and this has been raised with the relevant Operational team at National Gas Transmission.

The Proposer Ash Adams (National Gas Transmission, NGT) clarified, upon request, that ADJRt is the allowed revenue and the K term combined. RRT is becoming the ARt. Allowed Revenue is used instead of Recovered Revenue.

A Panel Member asked whether Code needed additional elements or a different calculation to accommodate the combining of Allowed Revenue and K. A Adams clarified in response that AR is a forecasted revenue term known at the start of the formula year, whereas Recovered revenue is only known at the end of the formula year. He confirmed that NGT does not believe any additional element, nor a different calculation is required. This Modification is only looking to address the mismatch between Code and Licence. NGT could explore the default system marginal price calculation and would be happy to do so with the industry through the Transmission Workgroup if there is the appetite to do so. There would be an option to look at the topic with a narrow scope – focusing on Average Forecast Capacity Price. Alternatively, the topic could be widened to cover the Default SMP calculation. This was brought before Workgroup previously but there was no appetite to do so.

Panel Members commented that industry’s appetite to look at something may not be an indicator of the need to cover something at Workgroup. Panel Members noted that National Gas Transmission can bring forward changes which may not appear to have an immediate interest to Workgroup nevertheless they may still be necessary.

When considering both Consumer Impacts and impact on Net Zero, Panel Members noted that the Workgroup has not considered this Modification as it went straight out to consultation. Panel Members noted the comments in the Modification from the Proposer on both topics and noted that there were no consultation responses that

highlighted any consumer impact nor any net zero impact. Panel Members summarised that there was likely to be none or very minimal impacts upon both areas.

In summary, Panel Members agreed the Modification is required.

Consideration of the Relevant Objectives

Panel Members considered Relevant Objective *f) Promotion of efficiency in the implementation and administration of the Code*, agreeing that implementation would have a positive impact, as this proposal is updating out of date Licence terms within UNC TPD Section F to align with NGT's current Licence, ensuring that the UNC contains the correct terms from the current Licence.

Implementation

As Self-Governance procedures are proposed, implementation could be sixteen business days after a decision by Panel Members to implement the Modification. Publication of "SMP default Statement" should occur before 01 August 2024 which can be accommodated within these proposed timelines.

Determinations

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

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

Panel Members voted unanimously to implement this Self-Governance Modification.

12 Recommendations

Panel Determination

Panel Members agreed that this Self-Governance Modification should be implemented.

13 Appended Representations

Initial Representations – None

Representation – National Gas Transmission

Representation – Sisman Energy Consultancy Limited

Representation – Draft Modification Report UNC 0877S

Alignment of TO Revenue and TO Revenue Adjustment terms to the current Gas Transporter Licence

Responses invited by: 5pm on 07 June 2024

To: enquiries@gasgovernance.co.uk

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

Representative:	Ash Adams
Organisation:	National Gas Transmission
Date of Representation:	07/06/2024
Support or oppose implementation?	Support
Relevant Objective:	f) Positive
Relevant Charging Methodology Objective:	Not Applicable

Reason for support/opposition: *Please summarise the key reason(s) for your support or opposition.*

As proposer of this UNC Modification, National Gas Transmission supports its implementation.

Since the two Licence terms (TORt and TOKt) referred to in UNC TPD Section F1.1.2 no longer exist in NGT's current Gas Transporter Licence there is a requirement to update them to provide clarity on the values that are used in the Default SMP calculation.

The Transportation Owner Revenue term (TORt) broadly aligns with the TO Recovered Revenue Term (RRt) in the current Licence. However, given that the Recovered Revenue is not known at the time of Default SMP calculation, this cannot be used. Instead, the Allowed Revenue term (ARt) is the more appropriate term from the current Licence to use in the calculation as this is known at the time of the Default SMP publication. The Transportation Owner correction term (TOKt) term is replaced by the K correction term in the current Licence.

Given the Adjusted Revenue (ADJRt) term from the Licence is equal to the Allowed Revenue (ARt) independent of the K correction and any legacy adjustments, the most sensible approach is to update UNC TPD Section F 1.1.2 by replacing "TORt less TOKt" with "ADJRt" to simplify the UNC text while also aligning it with the current Licence drafting. For the avoidance of doubt the ADJRt value used we be as published in the most recent PCFM published by Ofgem.

National Gas believes that this Proposal would further standard Relevant Objective (f) Promotion of efficiency in the implementation and administration of the Code by ensuring

that the UNC is aligned with the most appropriate terms from within the current Licence and providing clarity on the values that feed into the default SMP calculation.

Governance Statement: *Please provide your views on the self-governance statement or reasons why Authority Direction should apply.*

This proposal should be classed as a Self-Governance Modification. It aims to update out-of-date Licence terms with an appropriate term from the current Licence. It has no effect on existing or future gas consumers, competition between parties, or operation of network systems nor will it unduly discriminate between different classes of UNC parties.

Impacts and Costs: *Please provide a view on the impacts and costs you would face.*

None.

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

No lead time is required for implementation of this Proposal. Implementation could therefore be sixteen business days following a decision to implement.

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

We are satisfied that the legal text delivers the intent of the solution.

Panel Questions: *Panel Members have requested that the following questions are addressed.*

n/a

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

We have not identified any errors or omissions.

Additional analysis: *Please provide below any analysis or information to support your representation.*

National Gas Transmission does not believe that any additional analysis or information is required.

Representation – Draft Modification Report UNC 0877S

Alignment of TO Revenue and TO Revenue Adjustment terms to the current Gas Transporter Licence

Responses invited by: **5pm on 07 June 2024**

To: enquiries@gasgovernance.co.uk

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

Representative:	Nigel Sisman
Organisation:	Sisman Energy Consultancy Limited
Date of Representation:	5 June 2024
Support or oppose implementation?	Qualified Support
Relevant Objective:	f) Positive – the proposal would seem to deliver a correction to legal text introduced from UNC 333A “Extending update of the default Marginal Buy Price and System Marginal Sell Price” in 2011 that is unimplementable
Relevant Charging Methodology Objective:	Not Applicable

Reason for support/opposition: *Please summarise the key reason(s) for your support or opposition.*

This proposal was unannounced before its pre-modification discussion in May’s NTS CMF. No participant was able to consider the proposal before National Gas Transmission’s presentation and the subsequent limited discussion. However despite the limited industry engagement this response offers qualified support for the proposal.

The proposal seeks to address an anomaly that has only recently been revealed. However our view is that the problem has been present since the default system marginal price methodology was introduced in 2011 via UNC 333A “Update of the default System Marginal Buy Price and System Marginal Sell Price Modification”.

The proposal suggests a problem has arisen as a result of changes in terminology associated with RIIIO-T2 implementation and an oversight in the associated change UNC 0774C “Alignment of the UNC TPD to the National Grid Licence in respect of the NTS”. However it would seem that the problem preceded this and emanates from the drafting associated with the 2011 implementation of UNC 333A.

The legal drafting from UNC 333A, which currently applies, seems to require a recovered revenue to be used to derive an average price for capacity within the methodology. However a recovered revenue for the relevant period would not be available at the time the average price for capacity is calculated. Thus the UNC may contain a provision that is unimplementable. It has never been clear what value the licensee has used (for TOR_t and

TOK_t) in the necessary calculation although Sisman Energy Consultancy have, on several occasions, sense checked the calculations and found the outcomes to be credible although unverifiable. The default system marginal price defines User exposures to imbalance cashout and influences cashflows associated with balancing neutrality. It is therefore important that the outcome of the default system marginal price sets an adequate but not excessive imbalance exposure to Users and which should not create excessive cashflows within balancing neutrality.

It is likely that the UNC 333A drafting should have referenced allowed revenues (i.e. forecast) rather than recovered revenues and hence the broad intent of this proposal is appropriate. Hence we support this proposal although we make no comment on the appropriateness of the methodology.

Our concern, which is much wider than this issue, is that there are adverse and unintended consequences that arise from unfortunate and misunderstood interactions between UNC, Licence, regulatory financial reporting and their complex interactions.

More narrowly, in respect of this proposal, this response offers “qualified support”. Whilst the proposal should be implemented it would be helpful to address the two points identified in respect of the legal text comments below. Furthermore greater transparency about all values featuring in the default system marginal price calculation is warranted. This could easily be achieved by detailing both the values, and identifying a public source reference, for the four terms to be used in the methodology statement calculation (i.e. Annual Compression Fuel Cost, Total System Demand, ADJR_t and 1 in 20 peak day demand). The outcome would then be verifiable.

We agree that the proposal affords an opportunity to make timely progress to resolve this issue subject to the clarifications sought in this response being addressed and with implementation of the recommendations for improved transparency.

Governance Statement: *Please provide your views on the self-governance statement or reasons why Authority Direction should apply.*

No view expressed

Impacts and Costs: *Please provide a view on the impacts and costs you would face.*

No view expressed

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

It would be helpful to have a robust implementation prior to the publication of the next Default System Marginal Price Statement.

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

It would be helpful to understand which ADJR_t value should be used. For example is it the value associated with the most recent publication by Ofgem of the PCFM or is it a value subsequently derived by National Gas? Greater transparency about the source of the ADJR_t, and if other than the latest Ofgem published value a justification for the value, should be included in the Default System Marginal Price Statement.

Additionally does the calculation to derive the Average Forecast Capacity Price require refinement? Is the calculation $ADJR_t / \text{Peak Day demand}$ (which implies a p/kWh/annum value) or should it be derived as $ADJR_t / (\text{nos of days in relevant Gas Year} * \text{Peak Day demand})$ (a p/kWh/day value)?

Panel Questions: *Panel Members have requested that the following questions are addressed.*

None raised

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

None beyond comments above.

Additional analysis: *Please provide below any analysis or information to support your representation.*

None supplied.