



UNC Modification	At what stage is this document in the process?
<h1 data-bbox="134 322 689 412">UNC 0XXX:</h1> <h2 data-bbox="134 454 991 591">Introduction of a Transmission Services Entry Flow Charge</h2>	<div data-bbox="1209 309 1469 629"> <div data-bbox="1209 309 1469 383">01 Modification</div> <div data-bbox="1209 394 1469 468">02 Workgroup Report</div> <div data-bbox="1209 479 1469 553">03 Draft Modification Report</div> <div data-bbox="1209 564 1469 638">04 Final Modification Report</div> </div>
<p data-bbox="129 685 504 719">Purpose of Modification:</p> <p data-bbox="113 739 1473 965">This Modification would revise the method of the determination of National Grid Entry Transmission Services Capacity Reference Prices and introduce a new flow-based Transmission Services Entry charge (payable by all Users). The purpose of these changes is to achieve a greater degree of year on year stability in the pricing of Transmission Services Entry Capacity and reduce the overall price differential between Existing Contracts and Non-Existing Contracts.</p>	
<p data-bbox="129 1021 304 1055">Next Steps:</p> <p data-bbox="129 1072 978 1106">The Proposer recommends that this Modification should be:</p> <ul data-bbox="153 1126 1350 1245" style="list-style-type: none"> <li data-bbox="153 1126 1147 1160">• considered a material change and not subject to Self-Governance <li data-bbox="153 1171 1350 1245">• treated as urgent and should proceed as such under a timetable agreed with the Authority 	
<p data-bbox="129 1346 395 1379">Impacted Parties:</p> <p data-bbox="129 1397 815 1431">High: Shipper Users at Entry, National Grid NTS</p> <p data-bbox="129 1451 196 1485">Low:</p> <p data-bbox="129 1505 213 1538">None:</p>	
<p data-bbox="129 1588 384 1621">Impacted Codes:</p> <p data-bbox="129 1641 221 1675">None</p>	

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Modification timetable:		
Pre-Modification Discussed	05 October 2021	
Modification Proposal sent to Ofgem	03 November 2021	
Ofgem decision on Urgency	10 November 2021	
Modification Proposal issued for consultation	11 November 2021	
Consultation Close-out for representations	01 December 2021	
Final Modification Report available for Panel	08 December 2021	
Modification Panel recommendation	16 December 2021	
Final Modification Report issued to Ofgem	17 December 2021	


 Any questions?

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1 Summary

What

The current determination of Reference Prices for Transmission Services Entry Capacity is calculated *net* of any capacity or revenue associated with Existing Contracts (i.e. capacity allocated prior to 06 April 2017). As Transmission Services Entry Capacity charges are the only means of recovery of Transmission Services Entry Allowed Revenue (aside from Entry Transmission Services Revenue Recovery charges) and as the 'fixed' unit price of Existing Contract capacity is relatively low, recovery of the bulk of National Grid's Allowed Revenue at Entry is currently recovered in respect of Entry Capacity allocated from 06 April 2017 ('new Entry Capacity').

The comparatively low quantities of new Entry Capacity allocated mean that the Entry Capacity Reference Price (and therefore Entry Reserve Prices) which are redetermined each Gas Year are significantly higher than the typical price for Existing Contract Capacity and are extremely sensitive to variations between forecast new Entry Capacity allocations year-on-year. This has led to material variations in the year-on-year Reference Prices (and therefore Reserve Prices) of Entry Capacity to facilitate recovery of Allowed Revenue at Entry.

Why

The price protection afforded to Existing Contract Capacity results in **a significant price differential between Existing Contract Capacity and new Entry Capacity**, with Users allocated the latter paying on average 23 times¹ the unit price paid for the equivalent product under an Existing Contract. The proposer believes this is **detrimental to competition** between Shipper Users.

The consequential recovery of a significant proportion of Transmission Services Allowed Revenue at Entry via a smaller quantity of new Entry Capacity increases the **risk of material variations (swings) in the Entry Capacity Reference Prices** (and Reserve Prices) year-on-year which is **detrimental to market confidence** and is specifically contrary to the aims of the new NTS Charging Methodology which was introduced from 01 October 2020.

We believe that existing arrangements which effectively target the recovery of the entry revenue shortfall (created by the pricing of Existing Contract Capacity) on holders of new Entry Capacity (only) is not appropriate and that **a more equitable approach** would be to socialise such costs across all gas flowed at Entry Points (aside from two stated exceptions).

How

The solution proposed would **revise the determination of the Transmission Services Entry Capacity Reference Price** by removing the current exclusion of Existing Contracts Capacity and Existing Contracts Revenue from the respective aggregate capacity quantity and overall Allowed Revenue value used to determine the Entry Capacity Reference Price.

The anticipated sum of:

- revenue to be recovered from new Entry Capacity (attracting the 'standard' capacity charge rate); and
- revenue recovered in respect of Existing Contract Capacity (attracting the lower rate agreed at the point of allocation)

¹ Based on October 2021 data where the average Reserve Price for Existing Contracts (ECs) is 0.0036p/Kwh/d and the average Reserve Price for 'new' Entry Capacity is 0.0827p/kWh/d.

would drive an under recovery of Entry revenue. An **additional flow-based entry charge** is therefore proposed to be applied in order to recover this resultant shortfall (relative to Allowed Revenue at Entry). This new charge would be payable in respect of gas flows at all System Entry Points, except those at Storage Connection Points and Interconnection Points, and would effectively cease upon expiry of the Existing Contracts in 2032 as the stated shortfall would, at this point, be equal to zero.

2 Governance

Justification for Urgency

This Modification should be treated as urgent and should proceed under a timetable approved by the Authority. A proposed timeline is provided in the 'Timetable' section of this Proposal.

Urgent status is sought on the basis of the consequential impacts of the current arrangements representing a current issue that, if not urgently addressed at the earliest opportunity, may cause a significant commercial impact on gas shippers and in turn, may have impacts for the consequential charges levied to consumers, potentially across multiple years.

The price protection afforded to Existing Contract Capacity results in a significant price differential between Existing Contract Capacity and new capacity as illustrated in the table below. The proposer believes this is detrimental to competition between Shipper Users.

Entry Capacity Product	Average Entry Reserve Price (October 2021)	Magnitude Above EC Average Reserve Price
Existing Contracts (EC)	0.0036 p/kWh/d	
All Entry Capacity (EC and 'New')	0.0267 p/kWh/d	7.4 times
'New' Entry Capacity	0.0827 p/kWh/d	23 times

In principle, this Proposal seeks to reduce the above differential between the costs of EC capacity and New Entry Capacity. A further benefit of this change will be to increase the stability of Entry Capacity Reference Prices.

Urgent resolution seeks to introduce the proposed charge at the earliest opportunity to achieve greater stability in the pricing of Transmission Services Entry Capacity, the earliest opportunity (in terms of implementation) being for Gas Year commencing 01 October 2022. Should Urgent procedures not be applied, is it highly unlikely this benefit could be realised for 01 October 2022 thus the risk of material difference in the pricing of Transmission Services Capacity will continue beyond this point. Hence, a timely resolution will minimise, as much as possible, the volatility of the Transportation Charges.

Implementation of a new Transportation Charging Methodology from 01 October 2020 was expected to impact capacity booking behaviours on the basis of the removal of zero-priced capacity. This was expected to result in capacity booking levels closer to levels of flow however, the unanticipated extent of the reduced capacity bookings at Entry in conjunction with the extent of Existing Contracts (with relatively low fixed charge rates) means that a material proportion of Allowed Revenue needs to be recovered from a relatively small proportion of Entry Capacity allocations. This has resulted in highly volatile pricing for Transmission Services Entry Capacity

(other than Existing Contracts) which is not consistent with the objectives of the charging methodology, as set out in Standard Special Condition A5(5) of the NTS Licence.

[additional analysis related to the longevity of Existing Contracts to be added]

Justification for Authority Direction

As the Proposal seeks to adjust the proportion of costs borne by Shippers Users dependent upon the profile of their Entry Capacity allocations (between Existing Contracts and new Entry Capacity) and proportions of entry gas flows the Proposer is of the view that there is sufficient materiality to require a decision from the Authority. The materiality of this change is as set out in the Impact Analysis set out in the 'Why Change?' section.

Requested Next Steps

This Modification should:

- be considered a material change and not subject to Self-Governance.
- be treated as urgent and should proceed as such under a timetable agreed with the Authority .

As referred to above, application of Urgent procedures is sought on the basis of obtaining a decision in a timely manner in order to meet an 01 October 2022 implementation date and thus curtail the distortive impact of the current arrangements on competition as soon as reasonably practicable.

National Grid NTS ('National Grid') has highlighted in concerns in this area in a number of meetings of the NTS Charging Methodology Forum culminating in the issue of an [open letter](#) to industry on 28 May 2021 which set out our belief that further change to the charging regime was essential and a commitment to work with stakeholders and the Ofgem to achieve this. [Ofgem's response](#) to this letter dated 04 June 2021 expressed support for this action noting the need to avoid interventions in the charging regime that undermine market confidence. Ofgem also encouraged National Grid and stakeholders to "*progress...at pace...committing to an ambitious and realistic timetable for the completion of the necessary steps to effect change*".

These actions (and resultant Modification Proposal) are entirely consistent with the ACER recommendation² to "*closely monitor the impact of this 'dual regime' [the pricing of Existing Contracts and 'new' Entry Capacity] ... and to implement remedies if detrimental effects were such that that they would significantly affect competition in a negative way*"

3 Why Change?

National Grid's Allowed Revenue for the provision of Transmission Services is principally recovered via the application of capacity charges to Users. The unit cost of this capacity is set by the determination of 'Reference Prices' which are then used to calculate Reserve Prices for capacity marketed via auctions. Reference Prices are re-determined for each Gas Year (reflecting variations in the annual revenue to be recovered and the forecast quantities of capacity allocated) hence the actual price payable by User will change year on year (i.e. a 'floating price') according to period to which the capacity right applies and the Reference Price for that period.

² See para 63 of the ACER Report '[Analysis of the Consultation Document on the Gas Transmission Tariff Structure for Great Britain](#)' (24th April 2020)

The only capacity allocations which are not subject to the floating price principle are 'Existing Contracts' which is capacity subject to fixed terms under Article 35 of the EU Tariff Code (as incorporated into UK law). This applies in respect of any capacity allocated prior to 06 April 2017 and effectively fixes the terms under which this capacity was allocated (including the price payable) regardless of the period to which the capacity right applies. In GB, as Exit Capacity is subject to a 'floating price' principle, the fixed price nature of Existing Contracts only manifests itself in respect of Entry Capacity.

The current determination of Reference Prices for Transmission Services Entry Capacity (as set out in TPD Section Y Part A-I 2.4.1) is calculated *net* of:

- any capacity associated with Existing Contracts (the '*Net Forecast Contracted Capacity*' as per TPD Section Y Part A-I 2.5.1(b)(i); and
- any revenue associated with Existing Contracts (the '*Net Allowed Transmission Services Entry Revenue*' as per TPD Section Y Part A-I 2.3.1(c))

This means that the recovery of National Grid's Allowed Revenue at Entry, net of the revenue recovered from Existing Contracts, is recovered exclusively from new Entry Capacity and as the 'fixed' unit price of Existing Contract capacity is on average significantly below that for new Entry Capacity, this means that recovery of the bulk of National Grid's Allowed Revenue at Entry (in monetary terms) is currently recovered from new Entry Capacity. In terms of proportion, the Existing Contract capacity for Gas Year 2021/22 equates to **71%** of total forecast Entry Capacity quantity (kWh) to be booked however it is forecast to only collect **10%** of the total Allowed Revenue (£) at Entry³.

The comparatively low quantities of new Entry Capacity allocated mean that the Entry Capacity Reference Price (which is redetermined each Gas Year) is significantly higher than the typical price for Existing Contract Capacity and is extremely sensitive to variations between forecast new Entry Capacity allocations year-on-year. This has led to material variations in the year-on-year Reference Prices (and therefore Reserve Prices) of Entry Capacity which is detrimental to market confidence and is specifically contrary to the aims of the new NTS Charging Methodology which was introduced from 01 October 2020.

Further analysis to be included to show the sensitivity within the current methodology to capacity changes impacts to the reserve prices.

We believe that existing arrangements which effectively target the recovery of the entry revenue shortfall (created by the pricing of Existing Contract Capacity) on holders of new Entry Capacity (only) is not appropriate and that a more equitable approach would be to socialise such costs across all gas flowed at Entry Points (aside from two stated exceptions). We believe this is a more equitable and efficient approach on the basis of the following:

- We are of the view that the focus of the recuperation of this shortfall in Entry revenue should be focussed on system utilisation (flows) as opposed to the reserving of space in it (capacity);
- Existing Contracts are currently only contributing a small amount towards capacity-based revenue collection and there are restrictions on the application of a capacity-based additional charge that would target a small User base undermining its fairness. Under a flow-based approach for this charge, broadly all flows will be required to pay it making it fairer across Users;

³ These values can be seen within the latest version of the published [Transmission Services Model](#).

- The proposed approach that treats Existing Contracts and Non-Existing Contracts the same would not require a distinction to be drawn between the two i.e. not requiring the identification of Existing Contracts and Non-Existing Contracts and matching/allocation of flows to these capacity types; and
- The proposed application does not need to consider the impacts arising from circumstances where the party liable for the capacity to National Grid is different to the party that is flowing (allocated the gas at Entry).

Specific Proposal Rationale

In this Proposal, the desired outcome is achieved via two distinct aspects:

- *inclusion of all Entry Capacity quantities and full Entry Allowed Revenue in the calculation of Entry Reference Prices.*

This will reduce the susceptibility of the Entry Reference Price to material change by reducing its sensitivity to changes in Entry Capacity quantities (as *all* Entry Capacity quantities will be used in the calculation) and therefore increase the stability of this charge rate.

- *Establishment of a new flow-based charge to recover the shortfall in revenue recovered as a consequence of the price-protection applied in respect of Existing Contracts.*

EU Tariff Code and Form of Charge

The NTS Charging Methodology effective from 01 October 2020, as implemented by Modification 0678A, exempted Existing Contracts (as set out in Article 35 of the EU Tariff Code) from exposure to capacity-based Revenue Recovery Charges. These capacity holdings were excluded on the basis that levying such an additional capacity charge would impact the level of transmission tariffs resulting from Existing Contracts which is explicitly precluded by Article 35. On this basis, we have concluded that in order to remain consistent and compliant with Article 35, the proposed charge needs to be flow-based in nature.

We are of the view that this flow-based charge falls within the remit of Article 4(3)(b) of the EU Tariff Code. This article permits, by exception, an additional 'commodity-based' transmission charge. It sets out a number of criteria which such a charge should comply with as follows:

- levied for the purpose of managing revenue under- and over-recovery;*

the proposed charge would but used solely for the purpose of managing the under-recovery arising from the 'fixed' pricing afforded to Existing Contracts

- calculated on the basis of forecasted or historical capacity allocations and flows, or both;*

the proposed charge would be calculated on the basis of forecast flows such that application of the flow-based charge would recover the intended quantity of revenue

- applied at points other than interconnection points; and*

the proposed charge would not be applicable at Interconnection Points. The rationale for non-application of the charge at Storage is detailed below.

- iv. *applied after the national regulatory authority has made an assessment of its cost-reflectivity and its impact on cross-subsidisation between interconnection points and points other than interconnection points.*

We anticipate that Ofgem's assessment of cost-reflectivity will, in part, be considered as part of the cost allocation assessment undertaken in respect of this Proposal

A flow-based charge is also consistent with this Article and we believe is most appropriate in these circumstances because it is more equitable in its application compared to a capacity-based charge that would have more limitations on which Users would pay it, lessening its impact compared to the current methodology. A capacity-based charge for revenue recovery is already in place and highlights the limited application of such a charge.

We view the proposed socialisation of the shortfall in Allowed Revenue at Entry created by the fixed price nature of Existing Contract capacity (via the proposed flow-based charge) as similar in principle to the arrangements to 'fund' the provision of discounts to Capacity Reserve Prices for interruptible capacity, storage capacity and conditional discounts for avoiding inefficient bypass. The shortfall in revenue that would ordinarily be generated by provision of these discounts is funded via an upscaling of all capacity Reserve Prices. In this way all Users paying capacity charges 'fund' the provision of discounts. In a similar vein, the proposed flow-based charge will socialise the funding required (to maintain the price protect for Existing Contract capacity) between all Users flowing gas into the NTS.

In terms of the application of the proposed charge to all flows, including those pursuant to Existing Contract capacity allocations, Article 35 of the EU Tariff Code affords protection to the level of transmission tariffs for Existing Contracts where a change in such a level was not foreseen. The NTS charging methodology in place when Existing Contracts were struck included provision for flow-based entry charges, one of the purposes of which was to recover shortfalls in allowed revenue at entry (arising from low entry capacity revenue).

On the basis that a flow based charge to manage revenue shortfall was apparent when Existing Contracts were entered into (up until April 2017), we do not believe that the application of the proposed charge to all flows (including those flowed pursuant to an Existing Contract capacity allocation) represents a change to the level of transmission tariff *which was not foreseen*.

Exemptions

The exception of Interconnection Points is prescribed by Article 4(3)(b) of the EU Tariff Code which precludes application of such charges at Interconnection Points.

The exception of Storage Connection Points is proposed in order to prevent 'double payment' as flows at Storage Connection Points have not entered, nor been offtaken from, the NTS and any application would penalise the 'cycling' nature of gas injection/withdrawal at Storage and therefore the absence of an exception would disproportionately impact storage.

Exemption from the proposed charge recognises that Storage can facilitate efficient system operation and enable optimisation of operating costs by providing additional pressure to the system. The proposed exemption for storage discount acknowledges the beneficial impact on the efficient and economic operation of the pipe-line system.

From a revenue perspective, gas storage has arguably already made a contribution to cost recovery when it enters the NTS and before it is injected into storage and subsequently makes a contribution to cost recovery when it exits the NTS after being withdrawn from storage.

Interactions and Scope

For the avoidance of doubt, this proposed charge does not replace, or impact the application of the Entry Transmission Services Revenue Recovery Charge which is in place to address any variations between Allowed Revenue and actual revenue expected to be recovered (i.e. this is not limited to instances of revenue shortfall expected as a consequence of the fixed terms, including price, afforded to Existing Contracts).

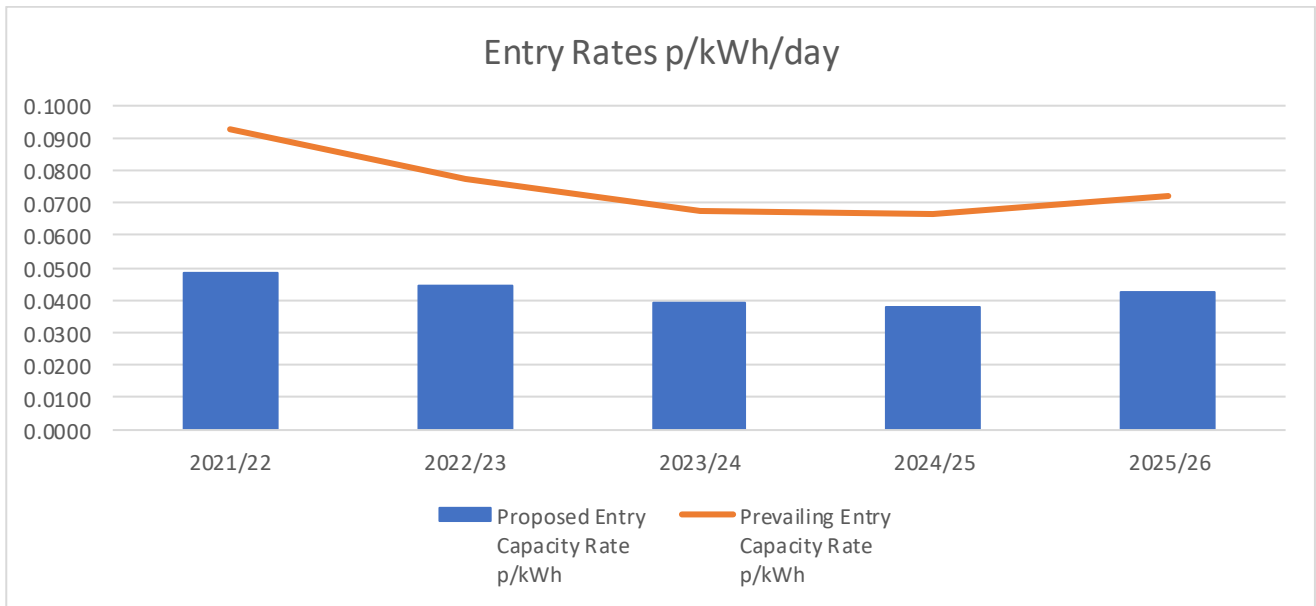
Impact Analysis

In the tables and graphs below, we compare the current published and indicative Transmission Services Entry Capacity Reference Prices⁴ against indicative Transmission Services Entry Capacity Reference Prices calculated based on the proposed method set out in the Solution (see “Transmission Services Entry Capacity Reference Price”).

Table 1

	Prevailing Capacity Rate p/kWh	Proposed Capacity Rate p/kWh
2021/22	0.0927	0.0486
2022/23	0.0774	0.0447
2023/24	0.0678	0.0393
2024/25	0.0666	0.0380
2025/26	0.0724	0.0427

Fig. 1



The proposed Transmission Services Entry Flow Charge (EFC) would be payable on entry flows. Where Entry Capacity is utilised, the two rates can be combined to provide the full cost of booking and flowing that unit of energy. Where Entry Capacity is not utilised, only the Transmission Services Entry Capacity Reserve Price would be payable.

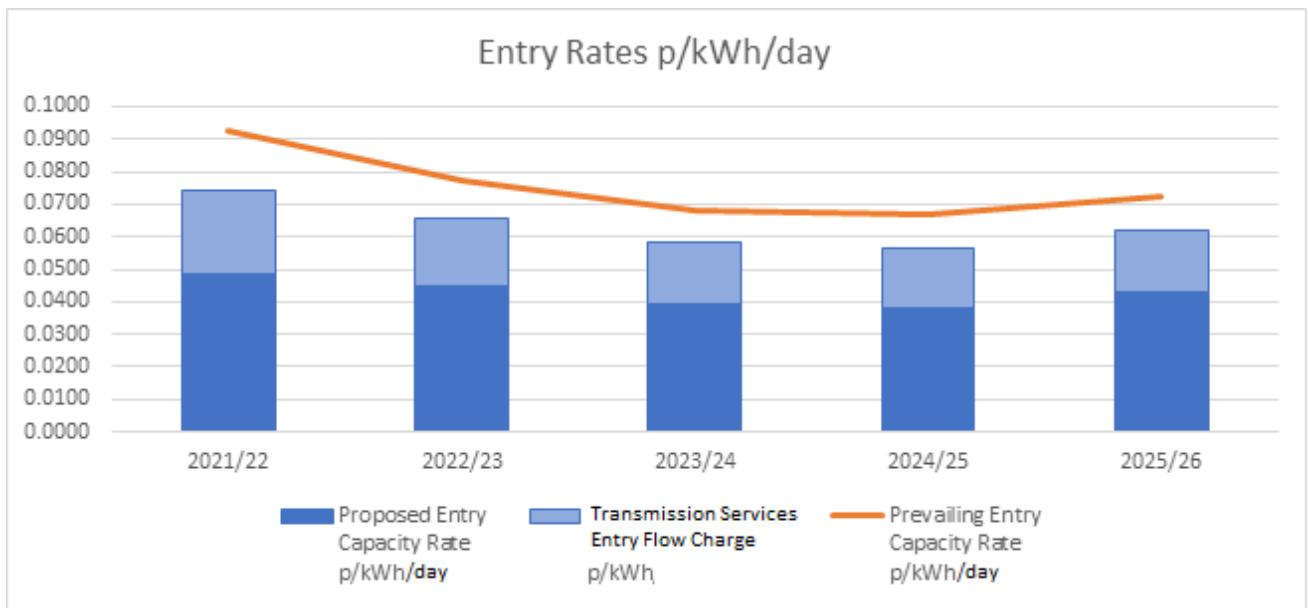
⁴ <https://www.nationalgrid.com/uk/gas-transmission/charging/transmission-system-charges>

The dark blue boxes displayed in Fig.1 (which demonstrate the payable Entry Capacity Price) are repeated below. Here the light blue boxes stacked on top highlight the EFC which is payable if all capacity is utilised i.e. gas flows are equal to Entry Capacity quantity. If gas is not flowed and the Entry Capacity is not utilised, only the rate represented by the dark blue box is payable.

Table.2

	Prevailing Entry Capacity Rate p/kWh	Proposed Entry Capacity Rate p/kWh	Combined Rate p/kWh/day
2021/22	0.0927	0.0486	0.0741
2022/23	0.0774	0.0447	0.0658
2023/24	0.0678	0.0393	0.0582
2024/25	0.0666	0.0380	0.0563
2025/26	0.0724	0.0427	0.0620

Fig.2

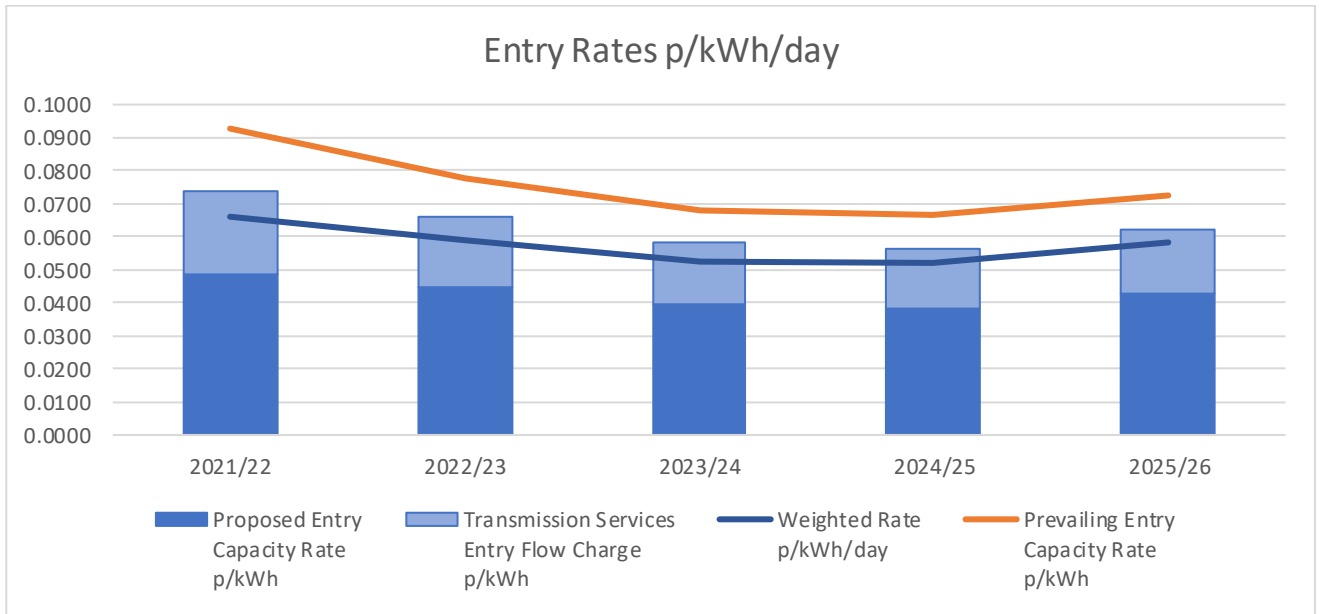


Based on the utilisation of Entry Capacity across the NTS, regardless of booking type, a weighted rate can be inferred, for both utilised Entry Capacity and Entry Capacity booked but unused, for the average User. Users who regularly maximise usage of their Entry Capacity bookings would generate a weighted rate higher than the average User and Users who utilise less than the average will have a weighted rate lower than this line, but both will still fall between the limits defined by the light blue box displayed previously in Fig.2 and repeated in the illustration below.

Table.3

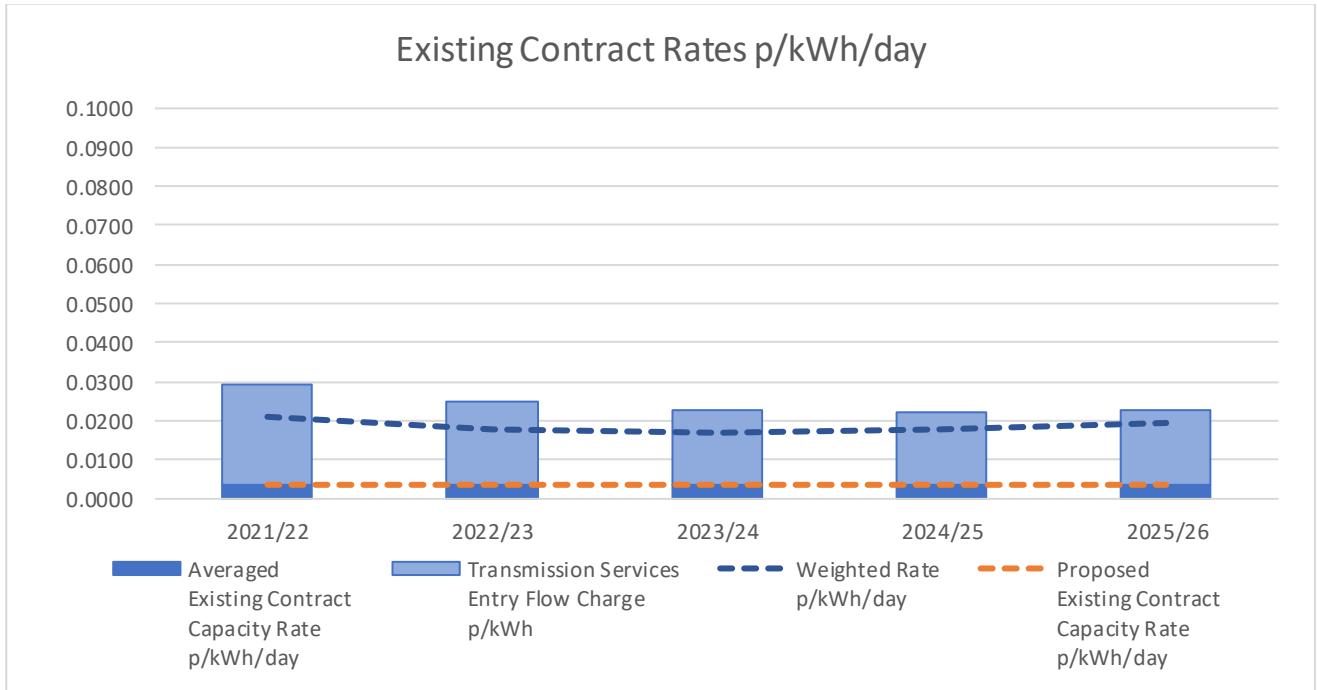
	Prevailing Entry Capacity Rate p/kWh	Proposed Entry Capacity Rate p/kWh	Combined Rate p/kWh/day	Weighted Rate p/kWh/day
2021/22	0.0927	0.0486	0.0741	0.0661
2022/23	0.0774	0.0447	0.0658	0.0591
2023/24	0.0678	0.0393	0.0582	0.0526
2024/25	0.0666	0.0380	0.0563	0.0521
2025/26	0.0724	0.0427	0.0620	0.0584

Fig.3



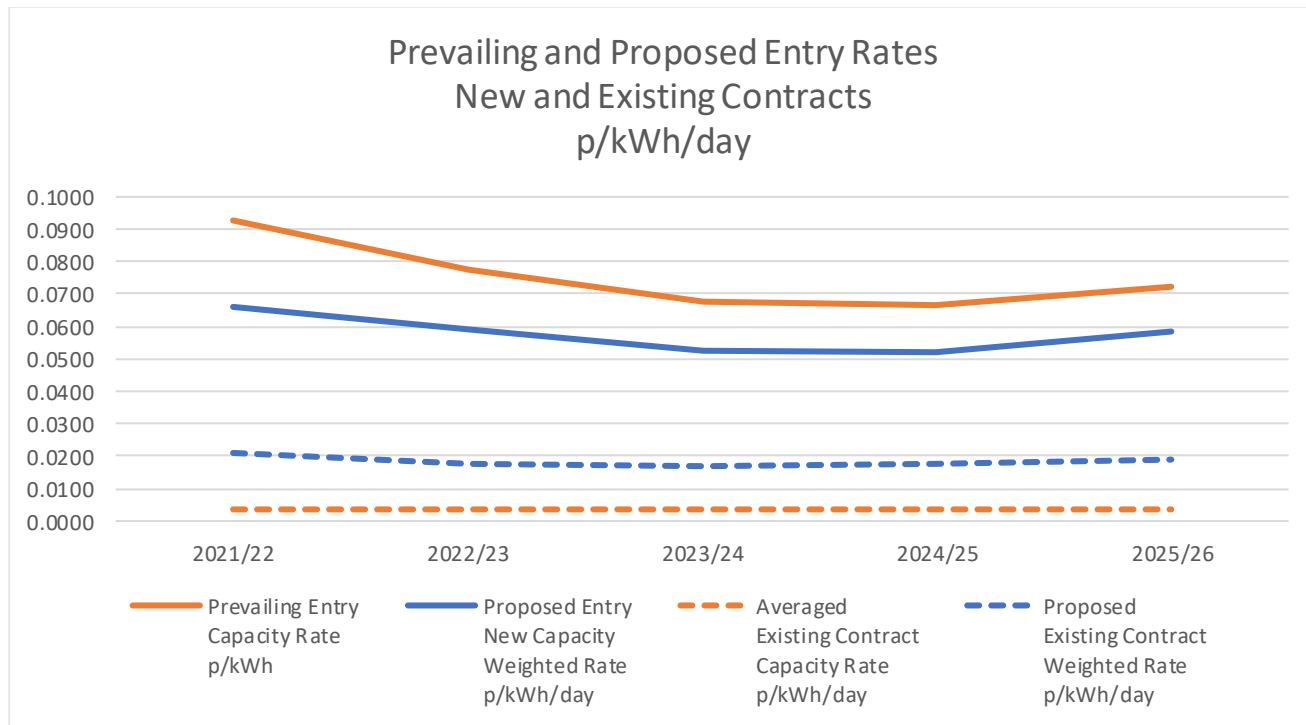
The same logic can be applied to holders of Existing Contract Capacity. Below is a table and graphical representation of the impact of the mean EFC payable when combined with the weighted average Entry Capacity Price paid by holders of Existing Contracts. Note that the Capacity Price Payable by Existing Contract holders, represented by the orange line, remains unchanged as this Proposal does not impact the protected capacity price arrangements already in place for holders of Existing Contracts.

Table.4Fig.4



Comparing the proposed weighted rates for both New and Existing Contract Capacity below, we see that the differential between the expected costs associated with standard New Capacity Bookings (excluding any discounts associated with; Storage, Interruptible or Avoidance of Inefficient Bypass) are now approximately three times higher than the expected costs associated with the average Existing Contract, as compared with the previous figure of 23 times higher (inclusive of discounts) demonstrated in the Justification for Urgency section. When comparing the non-discounted New Capacity Booking costs to the current highest price Existing Contract Capacity price, rather than the average, the ratio closer to, but still below, 1:1.

Fig.5



4 Code Specific Matters

Reference Documents

[UNC TPD Section Y](#) (including Part A-I: NTS Transportation Charging Methodology)

[UNC TPD Section B](#)

[May 2021 - Open Letter on the Future Of Gas Transmission Charging](#)

- open letter
- subsequent materials

[Ofgem Response to National Grid Open Letter](#)

ACER Report '[Analysis of the Consultation Document on the Gas Transmission Tariff Structure for Great Britain](#)' 24th April 2020

Knowledge/Skills

Knowledge of the NTS Transportation Charging Methodology and evolution from that in place prior to October 2020 would be beneficial.

5 Solution

For the avoidance of doubt, there are no changes proposed to the derivation of the Transmission Services Exit Capacity Reference Price nor General Non-Transmission Services Charges.

Transmission Services Entry Capacity Reference Price

It is proposed that the determination of the Transmission Services **Entry** Capacity Reference Price for a Gas Year (in principle, the quantity of entry revenue to be collected (£) over this period divided by the quantity of entry capacity (kWh) expected to be booked over this period) is revised as follows:

Component	Current Method	Proposed Method
Quantity of Revenue (£)	Transmission Services Allowed Revenue at Entry <i>minus revenue from Existing Contracts</i>	Transmission Services Allowed Revenue at Entry
Quantity of Capacity (kWh)	Forecast Contracted Capacity (Entry) <i>minus Existing Contract capacity</i>	Forecast Contracted Capacity (Entry)

Transmission Services Entry Flow Charge

It is proposed that a new Transmission Services charge is introduced, this being the Entry Flow Charge as follows:

- **Application**

The Transmission Services Entry Flow Charge (EFC) will be payable as a flow-based charge in respect of all Entry Gas Allocations (i.e. Entry Gas Allocation multiplied by the EFC rate) at all System Entry Points except those at Storage Connection Points and Interconnection Points.

- **Charge Rate**

The EFC rate (p/kWh) will be calculated as follows:

$$EFC = \frac{RD \times 100}{FEF}$$

where

FEF is a forecast of the aggregate of input gas flows at all Entry Points on the Total System (kWh) in the forthcoming Gas Year (except at Storage Connection Points and Interconnection Points); and

RD is the Revenue Difference (£), calculated as follows:

$$RD = ATSER - ACCR$$

where

ATSER is the Allowed Transmission Services Entry Revenue (£) in the forthcoming Gas Year; and

ACCR is the Actual Collectable Capacity Revenue at Entry (£) in the forthcoming Gas Year, calculated as follows:

$$ACCR = ECR + NECR$$

where

ECR is the expected revenue (£) from Existing Contracts in the forthcoming Gas Year

NECR is the forecast of the revenue (£) from Entry Capacity other than that associated with Existing Contracts in the forthcoming Gas Year

- **Invoicing**

The EFC will be invoiced and payable in accordance with TPD Section S.

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 Entry Allowed Revenue (determined in line with National Grid NTS' Licence) which is collected by National Grid NTS will not change in the event of implementation of this Proposal. This Proposal will essentially apportion the shortfall in recovery of National Grid's Allowed Revenue at Entry Points (driven by the fixed pricing of Existing Contracts) to Users of the NTS at Entry Points in a way that National Grid NTS believes is fairer, more proportionate and better aligned to the objectives of the NTS Transportation Charging Methodology than the current arrangements.

The nature of how the Users' Transportation charge liability is charged downstream from UNC arrangements will depend on how Users and other market participants structure their respective contracts and associated service charges.

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
<p>Improved safety and reliability</p> <p>No impact.</p>	None
<p>Lower bills than would otherwise be the case</p> <p>Individual consumers bills may change as a consequence of implementation dependent upon the nature and type of relevant shippers' capacity allocations and how the associated transportation costs are recovered from downstream stakeholders under the relevant contractual terms.</p>	For individual consumers: positive (lower bills), negative (higher bills) and potentially none (no change)
<p>Reduced environmental damage</p> <p>No impact.</p>	None
<p>Improved quality of service</p> <p>No impact.</p>	None
<p>Benefits for society as a whole</p> <p>No impact.</p>	None

Cross-Code Impacts

No impact.

EU Code Impacts

No impact.

Central Systems Impacts

There will be impacts on Gemini and UK Link invoicing systems. These impacts are being assessed.

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
<p>b) Coordinated, efficient and economic operation of</p> <p>(i) the combined pipe-line system, and/ or</p> <p>(ii) the pipe-line system of one or more other relevant gas transporters.</p>	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 a more stable and predictable Reference Price for Entry Capacity 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. Further, implementation would enable a more equitable recovery of Allowed Revenue at Entry (as provided for in the Special Conditions of National Grid's Licence) across all Shipper Users as opposed to the existing approach which effectively targets recovery of the aforementioned deficit on holders of new capacity only.

for Section Y (Charging Methodology) Modifications

Impact of the Modification on the Transporters' Relevant Charging Methodology Objectives:	
Relevant Objective	Identified impact
a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;	None
aa) That, in so far as prices in respect of transportation arrangements are established by auction, either: (i) no reserve price is applied, or (ii) that reserve price is set at a level - (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and (II) best calculated to promote competition between gas suppliers and between gas shippers;	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	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

In the case of a modification to a NTS Charging Methodology, please state why the modification does not conflict with:

- (i) paragraphs 8, 9, 10 and 11 of Standard Condition 4B of the Transporter's Licence; or*
- (ii) paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Transporter's Licence;*

Demonstration of how the charging Relevant Objectives are furthered:

- aa) That, in so far as prices in respect of transportation arrangements are established by auction (ii) that reserve price is set at a level - best calculated to promote competition between gas suppliers and between gas shippers;**

The proposed changes in this Modification are expected to provide a more stable and predictable Reference Price (and therefore a more stable and predictable Reserve Price) for Entry Capacity. Further, in conjunction with the additional flow-based charge proposed, this is expected reduce the material differentiation in Users' Transportation Charges for the equivalent Transportation service which is apparent under the current arrangements.

- 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 Reference Price for Entry Capacity 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. Further, implementation would enable a more equitable recovery of Allowed Revenue at Entry (as provided for in the Special Conditions of National Grid's Licence) across all Shipper Users as opposed to the existing approach which effectively targets recovery of the aforementioned deficit on holders of new capacity only.

8 Implementation

Implementation of this Proposal should take effect in time to be reflected in the Transportation Charges which will apply from 1 October 2022 or the next 1 October following the Authority direction to implement.

9 Legal Text

Text Commentary

TBC.

Text

TBC.

10 Recommendations

Proposer's Recommendation

This Modification should be treated as urgent and should proceed as such under a timetable approved by the Authority.