

Representation - Draft Modification Report UNC 0857

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

Responses invited by: **5pm on 26 January 2024**

To: enquiries@gasgovernance.co.uk

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

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

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

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

As the Formula Year runs from April to March and the Tariff Period (that aligns to the Gas Year) runs from October to September. There is a requirement to determine an amount of revenue to be recovered over the course of a Gas Year from the two 'part' Formula Years that coincide with the relevant Gas Year. The existing methodology to determine this target revenue only considers the Allowed Non-Transmission Services Revenue due to be collected in the Formula Year which ends in the relevant Gas Year, without taking account of the Allowed Revenue for the following Formula Year (the first half of which coincides with the latter half of the relevant Gas Year). The effect of this mechanism, where revenue related volatility is the driver, can result in large swings in the General Non-Transmission Services price should the Formula Year Allowed Revenues changes significantly from year to year.

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

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

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

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

Implementation of this Proposal should take effect in time to be reflected in the Transportation Charges which will apply from 01 October 2024. To achieve this NGT believes a decision would be needed by May 2024 so that a full view of the regime is known at the time of Transmission Services Charge setting.

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

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

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

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

Yes

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

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

The Proposal aims to smooth the charge profile over time by revising the determination of Allowed Revenue to be collected over the course of a Gas Year to reduce the level of revenue related volatility that can impact the General Non-Transmission Services charges. The method introduced through the proposal would result, all else being equal, in a higher charge than would be the case under the status quo in one year and a lower charge than would be the case under the status quo in the following year, with this process then continuing from year to year. Whether a charge might be higher or lower than the status quo would depend on the size and direction of the revenue changes year to year. Over time, the overall amount charged out to Shippers would be the same, albeit with some timing differences to the current arrangements. When assessing consumer impacts, we must assume that any costs or savings are eventually passed on to

consumers and when considering any impacts, the overall amount charged is the key. In this event, there is no difference over time as to the total amount charged, with smaller changes year to year in charges as a result compared to the status quo. This would mean that the cost to consumer in any given year could be slightly higher or lower than under the status quo although neutral over time. The net position of costs and savings passed through to consumers would balance out over time and remain unchanged compared to the status quo as Formula Year Allowed Revenues (determined in line with NGT's Licence) and used to set Gas Year target revenues, will not change if this Proposal is implemented.

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

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

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

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

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

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

We have not identified any errors or omissions.

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

None.