Joint Office of Gas Transporters

UNC Final Modification Report	At what stage is this document in the process?

UNC 0748 (Urgent):

Prospective Removal of Entry Capacity Revenue from Capacity Neutrality Arrangements

01 Modification
02 Workgroup Report
03 Draft Modification Report
04 Final Modification Report

Purpose of Modification:

The purpose of the Modification is to remove capacity revenues recovered from daily interruptible and within day Entry Capacity from Capacity Neutrality arrangements prospectively from the implementation date. Following implementation of UNC Modification 0678A on 01 October 2020, inappropriately high cashflows are subject to the Capacity Neutrality Arrangements (c. £0.5m per day). This Proposal seeks to remove Relevant Capacity Revenues from Capacity Neutrality so that these cashflows contribute to recovery of Allowed Revenues rather than being subject to redistribution across Entry Users.

The Panel does not recommend implementation

High Impact:

All parties that hold NTS Entry Capacity and National Grid NTS

Medium Impact:

None

Low Impact:

None

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Timeline

Modification timetable:

Modification Proposal sent to Ofgem	08 December 2020
Ofgem Decision on Urgency	08 December 2020
Modification Proposal issued for consultation	08 December 2020
Consultation Close-out for representations	11 December 2020
Final Modification Report available for Panel	15 December 2020
Modification Panel recommendation	17 December 2020
Final Modification Report issued to Ofgem	17 December 2020

Any questions?

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1 Summary

What

The Capacity Neutrality arrangements redistribute specific costs and revenues across Entry Users and from October 2020 this has seen approximately £0.5m per day effectively not contributing towards National Grid NTS' Allowed Revenue collection. This is driven by increased revenue levels associated to the specific Entry Capacity auction processes that contribute to the Entry Neutrality revenues. This is in urgent need of remedy to mitigate the sizeable revenue recovery charges that are utilised to recover National Grid NTS' Allowed Revenues as well as the potential significant impacts on future capacity reserve prices, which will need to take account of these revenues not contributing to National Grid NTS' Allowed Revenues.

The UNC TPD (Section B2.13) and EID (Section B11.5) currently detail that the revenues received by National Grid NTS from Entry Capacity Charges, which include within day Daily NTS Entry Capacity and Daily Interruptible NTS Entry Capacity ('**Relevant Entry Capacity**') being subject to Capacity Neutrality arrangements, whereby National Grid NTS is held cash neutral by the subsequent return of such revenues to Users of the NTS.

As a consequence, the revenue that National Grid NTS should be entitled to recover from the provision of such Entry Capacity on the NTS has to be recovered from Entry Capacity products not subject to the aforementioned neutrality arrangements and other permitted charges (i.e. revenue recovery charges)

Why

The NTS Charging Methodology that was in place prior to October 2020 facilitated the recovery of National Grid NTS' Allowed Revenue principally from flow based 'commodity' charges and long term entry capacity products. Indeed, the vast majority of short term Entry Capacity was available at low or zero unit cost (i.e. interruptible / offpeak / within day firm). However, the low financial values within the Capacity Neutrality mechanism therefore had no material impact on the recovery of National Grid NTS' Allowed Revenue.

Following the implementation of the current NTS Charging Methodology on 01 October 2020, an increasing proportion of charges being paid by Users is associated with Relevant Entry Capacity products (that are subject to Capacity Neutrality), which now have a higher unit cost compared to pre-October 2020. For instance, interruptible / off peak capacity is now priced at 90% of the costs of the equivalent firm Capacity, as opposed to having a reserve price of zero prior to October 2020. The consequence of this is that a material proportion of payments received from Users for Entry Capacity is now subject to Capacity Neutrality and therefore does not contribute to the collection of National Grid NTS' Allowed Revenue. This has resulted in a significant monies being distributed back to Users, which is not consistent with the wider aims of the charging regime, particularly with regard to securing effective competition and to taking into account developments in the transportation business, specifically the increase in monies subject to neutrality arrangements.

If no action is taken to address the issue, the un-anticipated scale of cashflows subject to neutrality arrangements will result in a significant under recovery of National Grid NTS' Allowed Revenue in Formula Year 2020/21 and require a material proportion of revenue to be recovered via the Transmission Services Revenue Recovery Charge (TSRRC). The impact of Relevant Capacity products monies will also need to be taken into account when setting future Entry Capacity reserve prices. This will increase overall price volatility for Users if this is not addressed in a timely manner.

How

It is proposed that the cashflows from specific Relevant Entry Capacity charges are no longer subject to Capacity Neutrality arrangements from the date of implementation. For the avoidance of doubt, Capacity Neutrality will continue to operate in respect of the remaining costs and revenues (for example, overruns). This means that a greater proportion of Entry Capacity sales will contribute towards the efficient recovery of National Grid NTS' Allowed Revenue.

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 impact seen from October 2020, into November 2020 and is expected to continue in subsequent months without action to remedy. There is a need to address this issue as soon as practicable to minimise the impact on those paying Transportation Charges and those who are paying into Capacity Neutrality and receiving a proportion of the redistribution thereof and mitigate a significant commercial impact. Urgent resolution seeks to reduce the time where the current issue would be in place to provide certainty to both Users, the wider market and National Grid NTS. The longer the issue remains unaddressed will increase the likely impact on Users as it impacts the levels of any charges to manage revenue recovery within this Formula Year and potentially into subsequent Formula Years. A timely resolution will minimise, as much as possible, the volatility of the Transportation Charges.

To this extent, the need for this issue to be addressed is being driven by the need to limit the impacts (and therefore effectively stop the issue from the implementation date) and ensure the specified Relevant Capacity revenues will be treated as collected revenues and not redistributed by Capacity Neutrality. For October 2020 this was just over £15m, amounting to c. £0.5 million per day. Whilst future months will vary in the amounts, it will still be a sizeable value for every day this issue is not addressed.

If this is not urgently addressed, this may necessitate a greater utilisation of the TSRRC within the current Formula Year (and potentially subsequent Formula Years) to recover a material proportion of National Grid NTS' Allowed Revenue in accordance with National Grid NTS' Licence obligations to encourage National Grid NTS to not under/over recover within a formula year. As this Entry Capacity charge is levied to all Entry Capacity holders (except Existing Available Holdings as per UNC TPD Section B2.11.7 and Y2.2.2) this would have the unintended consequence of creating distributional effects between Users via the interactions between monies paid into / received from Capacity Neutrality and via TSRRCs (and possibly other charges). This also reverses the intention of the removal of the firm 100% discounted capacity price, as it effectively means capacity can be procured at a zero price.

This socialisation takes effect as the cost of short-term capacity is paid for by Users holding Relevant Entry Capacity, however this revenue is returned to all Users who hold Firm (Fully Adjusted) Entry Capacity via Capacity Neutrality. Therefore, there may be distributional impacts on all Users if the method by which Capacity Neutrality payments are returned to Users differs to the way they are recovered via the TSRRC.

As set out elsewhere in this Proposal, the unanticipated increase in the amounts contributing towards Capacity Neutrality (and by default, not contributing towards Allowed Revenue collection) has therefore resulted in arrangements for revenue distributions via Capacity Neutrality that are not consistent with the objectives of the charging methodology, as set out in Standard Special Condition A5(5) of the NTS Licence.

As a result, this poses a significant commercial impact on all parties mentioned and will, in turn, have impacts for the consequential charges levied to customers and for interested stakeholders of NTS customers and how they in turn recover costs and charge for their recovery, potentially across multiple years.

Justification for Authority Direction

This Modification Proposal is recommended for Authority direction as it is likely to have a material effect on commercial activities relating to the shipping, transportation and supply of gas. Without change, the impacts seen from October 2020 will continue to have distortive effects on Users and the manner in which Transportation Charges may have to adjust to compensate. Implementation will, from the earliest possible effective date, provide increased stability in relation to the prospective position.

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.

3 Why Change?

Capacity Neutrality

The UNC TPD Section B2.13.2 provides that 'Relevant Capacity Revenues' are subject to the Capacity Neutrality mechanism set out in B2.13.3 to B2.13.7. The UNC EID Section B11.5 adds into Relevant Capacity Revenues certain revenues from the equivalent Entry Capacity at Interconnection Points.

Relevant Capacity Revenues include amounts payable to National Grid NTS by Users by way of Capacity Charges in respect of:

- Daily NTS Entry Capacity that is registered on the day (TPD Section B2.13.2(a)(i)(1));
- Daily Interruptible NTS Entry Capacity (TPD Section B2.13.2(a)(i)(2));
- any additional Firm NTS Entry Capacity made available in excess of Unsold NTS Entry Capacity (TPD Section B2.13.2(a)(i)(3));
- Monthly NTS Entry Capacity allocated by reason of the acceptance of a rolling monthly surrender offer (TPD Section B2.13.2(a)(i)(4));
- NTS Entry Capacity allocated in any Interruptible Day-ahead Auction or Within-Day Auction (EID Section B11.5.1(a)(i)); and
- Interconnection Point Capacity comprising quantities subject to Surrender Offers or Withdrawal Offers (EID Section B11.5.1(a)(ii)).

The operation of the Capacity Neutrality arrangements means that National Grid NTS is held cash neutral by the subsequent return of such revenues to Users of the NTS. The original purpose of Capacity Neutrality was to ensure that National Grid NTS in no way benefited from any Constraint Management costs, and therefore retained its neutral position. For example, if a User breached its Capacity holding with its physical flows, the subsequent Overrun Charges would be smeared back as a credit across the User Community on a monthly basis, and would be based upon how much Firm Capacity each User holds for that specific day.

In the event of a constraint on the NTS, Capacity that had been previously acquired at zero price may suddenly incur a premium and it was important that National Grid NTS in no way benefited financially from subsequent increased revenues in those circumstances. Therefore, revenues from short term Capacity were also captured within Capacity Neutrality. However, the determination of reserve prices for short term Capacity allied to the likelihood of revenues associated with them, provides a basis to review this aspect of Capacity Neutrality.

As a consequence, the revenue that National Grid NTS is entitled to recover from the provision of Entry Capacity on the NTS has to be recovered from Users' procurement of other Entry Capacity products (i.e. those that are not subject to the aforementioned Capacity Neutrality arrangements).

Recovery of National Grid NTS' Allowed Revenue

National Grid NTS is permitted by its Licence to recover amounts equal to its Allowed Revenue for provision of Transportation services to Users of its network (the NTS). The NTS Charging Methodology (UNC TPD Section Y Part A) sets out the principles applied by National Grid NTS in the setting of Transportation Charge rates to enable recovery of its Allowed Revenue in each Formula Year.

The NTS Charging Methodology in place prior to October 2020 ('*the previous Methodology*') facilitated recovery of National Grid NTS' Allowed Revenue principally from flow based 'commodity' charges and long-term capacity products. Indeed, the vast majority of short-term capacity was available at low or zero unit cost (i.e. interruptible / offpeak / Within Day Firm). The socialisation of such relatively low revenue values under the Capacity Neutrality mechanism therefore had no material impact on recovery of National Grid NTS' Allowed Revenue.

In order to comply with the newly introduced EU Tariff Code, reviewing multiple elements of the charging framework for GB and to assess the most suitable Reference Price Methodology for Capacity, Modification 0678A introduced a new NTS Charging Methodology ('*the new Methodology*') from 01 October 2020.

In order to comply with the EU Tariff Code, the new Methodology provides for a principally capacity-based charging regime which enables National Grid NTS to recover the majority of its Allowed Revenue via this regime. Where in the Formula Year there is forecast to be a difference between Allowed Revenue and the aggregate amount expected to be collected from capacity charges, the new Methodology provides for a TSRRC to be applied to reconcile the two values.

Impacts of Current Capacity Neutrality Arrangements

Following the implementation of the new Methodology on 01 October 2020, a material proportion of payments made by Users for Entry Capacity are now classified as Relevant Capacity Revenue and therefore subject to Capacity Neutrality. Accordingly, such cashflows do not contribute to the collection of National Grid NTS' Allowed Revenue.

If no action is taken to address the issue, the current arrangements would continue to result in a significant under recovery of National Grid NTS' Allowed Revenue in Formula Year 2020/21 and continue to have a negative impact on future price volatility, with impacts carrying over into subsequent years.

The suitability of the Capacity Neutrality arrangements needs to be considered as, specifically with regard to the treatment of interruptible and within day firm entry capacity which have had a significant impact, its application is not consistent with the objectives of the charging methodology, as set out in Standard Special Condition A5(5) of the NTS Licence. Specifically, it is not consistent with relevant methodology objectives:

- (b) *to take account of developments in the transportation business* on the basis that the prevailing Capacity Neutrality arrangements are no longer fit for purpose as they have not taken account of the implications of the increased proportion of revenue subject to neutrality arrangements from October 2020; and

- (c) *to facilitate effective competition between shippers* on the basis that the revenue distributed as a consequence of the operation of the prevailing Capacity Neutrality arrangements and its impact on pricing are distortive and do not effectively target costs to those Users that accrue the benefit of the procurement of capacity.

This socialisation takes effect as aggregate revenues from Users contributing to Capacity Neutrality are not redistributed to such Users in the equivalent proportions. This is because Capacity Neutrality as an overall 'pot' is redistributed on the proportions of User's Fully Adjusted Firm Available NTS Entry Capacity as system wide total of the Fully Adjusted Firm Available NTS Entry Capacity. Therefore, in summary there are distributional impacts on all Users if the method by which neutrality payments are returned to Users differs to the way they are recovered via the TSRRC.

By way of illustration to use two potential scenarios:

- A User may not have Capacity secured by auction (i.e. by trading the capacity in where the liability remains with the original holder) and therefore not pay any Capacity Charges directly to National Grid NTS and will receive a proportion for the Capacity Neutrality redistribution;
- a User that is wholly an Interruptible Capacity User whereby the Interruptible Capacity is paid however would receive no proportion of the Capacity Neutrality redistribution as the redistribution is on the basis of a percentage of firm capacity.

Preferred Option to Address the Issue

Having considered the relative merits of the range of options to address this matter, National Grid's preferred solution is to remove the relevant short-term Entry Capacity revenue from the Capacity Neutrality mechanism. The historical rationale for inclusion of such revenue in Capacity Neutrality was to keep the System Operator neutral to constraint management costs. In practice, inclusion of the relevant revenues into the neutrality process was to offset Entry capacity constraint costs and therefore minimise cost exposure wherever possible to those multiple parties. Under this arrangement, the Allowed Revenue would be collected from other revenue sources.

The proposed solution would remove the difference between the treatment of revenues for long-term and short-term Entry Capacity bookings respectively. Whilst under the previous Methodology there was a diverse range of other charges from which to collect Allowed Revenue (i.e. charges for long term capacity, and flow- based commodity charges) differential treatment represented a logical approach. However, the move to a principally capacity based revenue recovery model from 01 October 2020 and the increased proportion of revenue now subject to neutrality arrangements, means that National Grid NTS is now of the opinion that the rationale for inclusion of Relevant Entry Capacity revenue in Capacity Neutrality is no longer valid and on this basis it is inappropriate for this revenue to continue to be subject to Capacity Neutrality.

This solution will also enable any anticipated under recovery (that would be recovered through TSRRCs) to be lower as it would remove a sizeable amount from the revenue to be collected as it would be treated as Collected Revenue rather than redistributed via Capacity Neutrality. The change would also put the remaining values being passed through Capacity Neutrality more in line with the pre-October 2020 values.

To enable National Grid NTS to take action to address this issue in a timely manner (thereby minimising the scale of the impact) it is necessary for the existing two minimum notice period requirements for changes to the changes to the Transportation Charge rates to be waived (i.e. less than two months and not less than 5 business days). Retaining the requirement to provide a notice period of two months on this occasion would effectively delay the action National Grid NTS could take to address this matter, thereby requiring a higher value correction to address it.

4 Code Specific Matters

Reference Documents

UNC TPD Section B

UNC EID Section B

UNC TPD Section Y

UNC Modification 0678A

Knowledge/Skills

Knowledge of the treatment of capacity revenues and charging principles would be beneficial.

5 Solution

It is proposed that the following sources of revenue relating to provision of Entry Capacity are no longer treated as Relevant Capacity Revenues from the date of implementation and are not therefore subject to Capacity Neutrality:

- Daily NTS Entry Capacity (TPD Section B2.13.2(a)(i)(1)). Note this does not include the capacity referred to in B2.13.2(a)(i)(3));
- Daily Interruptible NTS Entry Capacity (TPD Section B2.13.2(a)(i)(2));
- NTS Entry Capacity allocated in any Interruptible Day-ahead Auction or Within-Day Auction (EID Section B11.5.1(a)(i)).

It is also proposed that transitional terms are added to the UNC such that the minimum 2 months notice period for notification of a revision to any Transportation Charge subject to the notice period requirements in TPD B1.8.2(a) are waived for a single rate change per charge. The waiver will only be applicable where the rate change (for any such charge) takes effect within a period of two calendar months from the date of the Ofgem decision letter directing the implementation of this Proposal and where the notice provides a minimum of five business days until the rate change becomes effective. This would enable the earliest practical revision to charge rates as a consequence of the implementation of this Proposal. For the avoidance of doubt, the effective date of the associated rate change would be the first calendar day of a month.

To provide notice of the rate changes following implementation, notice of the applicable charges and the period to be applied to, would be issued as soon as practicable after a decision is made, to allow the maximum notice to Users in line with the proposals above.

To review the potential impact on revenues to collect and on TSRRCs, some examples are provided in Appendix 1. A forecast view of the amounts subject to Capacity Neutrality (that would therefore not be returned if implemented) are estimated to be £41m in total across January, February and March 2021 and £25m in total across February and March 2021. Therefore, if implemented from January 2021, in determining the TSRRC to apply, the amount required to collect could be reduced by c.£41m. If implemented from February 2021, in determining the TSRRC to apply, the amount required to collect could be reduced by c.£25m.

6 Impacts & Other Considerations

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

No such impacts have been identified.

Consumer Impacts

There will potentially be an impact on different consumer groups but the 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 Transportation costs to Users of the NTS in a way that National Grid NTS believes is fairer, more proportionate and better aligned to the EU Tariff Code principles than the current revenue arrangements deliver, with a greater proportion of Entry Capacity revenue (regardless of whether they are short or long terms products) contributing towards the collection of National Grid NTS' Allowed Revenue.

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.

Cross Code Impacts

No direct cross code impacts have been identified.

EU Code Impacts

EU Tariff Code principles have been considered as part of this Proposal in respect of the stated purpose of the capacity Reference Price Methodology ("…*the methodology applied to the part of the transmission services revenue to be recovered from capacity-based transmission tariffs*") and Revenue Recovery charges ("…*levied for the purpose of managing revenue under- and over-recovery*").

This Modification maintains alignment with EU Code requirements as it would seek to have lower revenue recovery charges than if this change were not made. This better manages the aim to minimise the application of revenue recovery charges. Without this change it will leave in place for a longer period the Capacity Neutrality process where it results in a net distribution of charges across Users that is not in line with the methodology implemented under UNC0678A.

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 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.	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.	Positive

Demonstration of how the standard Relevant Objectives are furthered:

c) Efficient discharge of the licensee's obligations.

The proposed changes in this Modification better align the treatment of entry capacity revenues with the new Methodology and arrangements. Implementation of this Proposal would enable more efficient collection of Allowed Revenue (as provided for in the Special Conditions of National Grid's Licence) as opposed to the alternative approach of recovering a material proportion of National Grid NTS' Allowed Revenue via the TSRRC.

d) Securing of effective competition between relevant shippers;

The proposed changes in this Modification are expected to provide a more stable and predictable price setting regime (specifically in respect of Entry Capacity and TSRRC), 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.

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.

The proposed changes in this Modification will ensure that the revenue recovery arrangements better align with the EU Tariff Code principles relating to the purposes of the Reference Price Methodology and the TSRRC and reduce the disproportional impact of Capacity Neutrality seen since October 2020.

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: (i) no reserve price is applied, or (ii) that reserve price is set at a level - (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and (II) best calculated to promote competition between gas suppliers and between gas shippers;	None
b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;	Positive
c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and	Positive
d) That the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).	None
e) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

Demonstration of how the charging Relevant Objectives are furthered:

a) charges reflect the costs incurred by the licensee in its transportation business

Implementation of this Modification will adjust the revenue distribution (as a consequence of the operation of the prevailing Capacity Neutrality arrangements) from the implementation date as the prevailing arrangements do not enable National Grid NTS to recover material amounts of revenue from the sale of capacity in its network.

b) properly takes account of developments in the transportation business

Implementation of this Modification will effectively adjust the arrangements from the implementation date. On this basis, from this point the arrangements will have appropriately taken account of developments in the transportation business observed since October 2020.

c) facilitates effective competition between gas shippers and between gas suppliers

Implementation of this Modification will adjust the revenue distribution (as a consequence of the operation of the prevailing Capacity Neutrality arrangements) from the implementation date as the prevailing arrangements do not effectively target costs incurred by National Grid NTS in the provision of capacity to those Users that accrued the benefit of that capacity. Effective targeting of costs in line with the methodology is a necessary cornerstone of competition.

8 Implementation

Implementation of this Proposal should take effect as soon as practicable, noting that implementation is required to take effect from the first calendar day of a month. On this basis, implementation is proposed to take effect from the first calendar day of the month following the date of the notice from the Authority directing the implementation of this Proposal.

Alternatively, the implementation date will be as directed by the Authority.

Update of the updated Transportation Charge rates will take effect at the earliest opportunity with a notice period of less than 2 months and no less than 5 business days.

The current Formula Year ends on 31 March 2021 hence a timely decision will enable National Grid NTS to include the relevant revenues from short term Entry Capacity in its Allowed Revenue at the earliest opportunity and therefore limit the scale of change to Transportation Charge rates ahead of the end of the current Formula Year. Equivalent benefit will also be realised in future Formula Years.

Two examples of the potential impact of this proposal on TSRRCs is shown in Appendix 1, illustrating the sensitivity on two possible implementation dates.

9 Legal Text

Legal Text and Legal Text Commentary has been provided by National Grid NTS and is published alongside this report in time for the start of consultation here: https://www.gasgovernance.co.uk/0748

Text Commentary

Provided ahead of consultation and published alongside this report.

Text

Provided ahead of consultation and published alongside this report.

10 Consultation

Ofgem invited representations from interested parties on 08 December 2020. The summaries in the following table are provided for reference on a reasonable endeavours' basis only (no corrections to spelling or grammar have been made). It is recommended that all representations are read in full when considering this Report. Representations are published alongside this Final Modification Report.

Of the 21 representations received, 8 supported implementation, 7 offered qualified support, 4 provided comments and 2 were not in support.

Representations were received from the following parties:			
Organisation	**Response**	**Relevant Objectives**[1]	**Key Points**
Barrow Shipping	Oppose	c) – not provided d) – not provided g) – not provided	• Suggests Ofgem should undertake and consult on an impact assessment to ascertain the effects of implementing the proposal. • Believes any change to charging will lead to a redistribution of costs and no clear case has been made that the amended distribution will better facilitate the relevant objectives. Believes it is deeply concerning that a change of this magnitude is being proposed so soon after an extended process that was supposedly underpinned by extensive analysis, including through an Ofgem Impact Assessment. Notes that the fact that National Grid now say their charge calculations were badly in error casts doubt on all that analysis. • Would suggest it should be repeated and a proper impact assessment undertaken of the current proposal rather than National Grid looking to rush through a scantily justified change. Indeed Barrow Shipping would suggest that this new information casts doubt on the appropriateness of the solution implemented in October such that an urgent post implementation review is justified to identify options for change beyond the current National Grid proposal. • If implemented, would suggest the change is not implemented before October 2021 in order to give all parties time to understand and prepare for the impact

[1] Responses against Relevant Charging Methodology Objective provided separately below (see p. 48)

			• Has not been able to identify the change in costs they would face. • Was surprised to see the assertion in the Modification Report that *"The historical rationale for inclusion of such revenue in Capacity Neutrality was to keep the System Operator neutral to constraint management costs"* and cannot recollect this argument having been made at the time it was decided that daily revenues should sit outside allowed revenue. Similarly, it appears to be erroneous that National Grid argue that it is appropriate to change the revenue treatment now following a move to principally capacity based revenue recovery. Does not recall there being any significant commodity charges at the time the revenue treatment was first established, so it is erroneous to argue that a change, and especially an urgent change, is justified on this basis.
BBLC	Support	d) – positive e) - positive	• Believes that efficient cross border trading is dependent on the provision of a 'level-playing field', effective competition between shippers and equal access to low cost transportation services between national trading hubs. The Proposal seeks to remove the potential market distortive impacts of the large sums of money currently flowing through the Entry Capacity Neutrality mechanism and, in effect, using this cashflow to reduce the transportation charges that would otherwise be levied on a proportion of the gas entering the GB network during the peak winter period. • Agrees that the approach, together with the expected subsequent reduction in the Entry Revenue Recovery Charge (RRC), will reduce the costs of delivering gas to the GB market during the Peak Winter period. • Understands the urgency of addressing the current situation and the pending increase in the Transmission Services Revenue Recovery Charges (TSRRCs). The published revised TSRRCs are due to come into effect on the 01 February 2021. • Believes that the notified increases could have a significant and detrimental impact on the GB gas market and are likely to lead to higher prices at the NBP at a time of peak demand, and therefore considers that it is in the interests of market participants, consumers and energy suppliers to seek to reduce these likely impacts where possible and as soon as possible. Furthermore, considers that the

			proposed Modification reduces this impact in an appropriate way. • Points out that during industry discussions regarding the current situation they noted that representatives of storage operators and shippers cautioned that the published revised TSRRCs and the subsequent increase in the NBP market prices may lead to early withdrawal of stored gas, which in turn could lead to a negative impact on GB's Security of Supply. Given this, they believe that, to the extent that this Proposal would subsequently deliver a near-term reduction in the Entry RRC, this Proposal will reduce the negative impact on Security of Supply of the pending revision of the TSRRCs. As such, considers that the Proposal furthers supports Relevant Objective e). • Notes that during Stakeholder meetings in December 2020, National Grid (NGG) detailed how the cash-flow through the Entry Capacity Neutrality mechanism has increased significantly since the introduction of the revised transportation charging arrangements associated with UNC Modification 0678A. The notified and forecast increase in cash-flows, and the distortive re-distributional effects of the mechanism has increased the potential for adverse impacts on shipper competition. Removing these increased cash-flows from this mechanism going forwards and using them to address a proportion of National Grid's Allowed Revenue under-recovery, and thus reduce the pending increase in the Entry RRC as from 1st February 2021, would reduce the magnitude of the mechanism's redistributional effects and thereby may reduce the potential impact on shipper competition. It would also serve to reduce the harmful market distortion and cross border competition effects that will be generated by the published high Entry RRC rates during the peak winter period, and therefore considers that the Proposal better facilitates Relevant Objective d) and Charging Relevant Objective c).
Centrica Energy Ltd	Qualified Support	c) - neutral d) – negative g) – neutral	• Agrees that any changes to capacity neutrality payments must be prospective rather than retrospective. However, strongly disagrees with the proposal to reduce the notice period for changing the Revenue Recovery Charge (RRC) to as little five business days, even as a one-off. Given the interaction that transmission tariffs have on the gas price, such a short notice period would have a highly negative impact on the attractiveness of the NBP. At

			least 30 days' notice should be provided for a change to the RRC and any change should land on the 1st of a given month. • Believes the Modification implies some aggressive implementation timescales, both for the cessation of capacity neutrality payments and altering the currently published RRC. The wider market impacts do not appear to have been properly considered. • Feels that in terms of the capacity neutrality payments, parties should be given at least 30 days' notice that these will change, and the new rules should begin on the 1st of a given month. Shippers may need time to adapt to the change in capacity neutrality arrangements, for example, with regards to apportioning any neutrality recalculation and reallocation to internal and external customers. • Proposes the potential notice period of 5 days for changing the RRC is far too little. At least 30 days' notice should be provided, and any change should land on the 1st of a given month. Changes in the level of the RRC at very short notice, and the knock-on effect to wholesale gas prices, will reduce the attractiveness of the NBP relative to other markets, at a time when liquidity is already falling. • Believes that changing the RRC with such short notice would not be in line with the Relevant Objective d) of *'securing effective competition'*. • Is concerned that the consultation process has been rushed with very little time to analyse whether the solution properly rectifies the defect on an enduring basis and would recommend that National Grid or Ofgem engages a consultant or auditor to scrutinise the proposals before a final decision is made. • Believes the main impact on Centrica is the uncertainty around transmission charges and the wider impact on wholesale gas prices. The detail is provided in Centrica's answer to the [Implementation] question above. • Believes the legal text reflects the intent of the solution.
Drax	Qualified Support	c) – none d) – positive g) – negative	• Accepts that intervention is necessary to halt some entry capacity revenues being allocated to capacity neutrality. In the time available it is not possible to

			assess all the impacts of the proposal and analyse fully against the relevant objectives. • Does not offer comment against Relevant Objective c) *'Efficient discharge of the licensee's obligations'* except to note that the issues experienced by users occur in how the UNC and the Gas Transmission Licence interact. The charging arrangements (UNC621/UNC678) in the UNC were altered to reflect the TAR network code but the implications from a licence perspective were outside the scope of the UNC change process. • In respect of Relevant Objective d) *'Securing of effective competition between relevant shippers'* notes that there is a positive (albeit limited) impact against this relevant objective, as it reduces the current distortions and cross subsidisation caused by the entry capacity issue. • Believes that the Modification does not propose a complete solution to the issue. In particular, it does not address the misallocation of revenues from Exit capacity sales (which will continue) or the distortive cross-subsidisation issues from the consequential imbalance between transmission services and non-transmission services revenue. • Has not considered any wider consequences or unintended impacts of this modification. But does would note that there has not been any analysis to assess the implications of changing the neutrality arrangements, or analysis of collection of the Revenue Recovery Charges over the remainder of the Gas year as prescribed in section Y3 of the UNC (sections Y 3.2.2 and Y 3.2.3 contain the relevant calculations). • In respect of Relevant Objective 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'* believes the Modification is negative against this relevant objective. As highlighted above, believes the Modification does not address areas of continuing non-compliance with the regulation and TAR network code. Believes the recently approved charging framework deviates significantly from the intent of the TAR network code. Believes market participants can neither predict nor model their exposure to transmission services or non-transmission service

			charges. It is not clear that the actions in the modification and outside of the Modification are compliant with TAR. In Drax's view, the proposed RRC changes are inconsistent with the TAR network code, and the provisions of the UNC to apply any RRC to the remainder of the relevant Gas year. • Suggests there is currently a misallocation of costs and cross subsidisation from exit to entry which this modification partially addresses. • Agrees the Legal Text will deliver the intent of the solution.
Energy UK	Comments	c) – comments d) – comments g) – negative	• In offering comments only, accepts that the revenue flows to entry capacity neutrality need to be addressed, Energy UK is concerned that this could lead to further unforeseen consequences due to the very rapid timescale proposed. This proposal was first published as a pre-mod late on 3 December 2020 before being issued for consultation on the 8 [December] for 3 days, there have been no workgroups since the modification was raised, yet National Grid had over a month to develop its proposal. Therefore, it will not be possible for any market participants to fully assess the impact of the proposal. • In respect of Relevant Objective c) *'Efficient discharge of the licensee's obligations',* points out that a reference to which Special Condition National Grid refers to would be helpful. • In respect of Relevant Objective d*) 'Securing of effective competition between relevant shippers'*, notes that the Transportation charges should not impact competition, particularly in a postage stamp regime. • Is of the view that this proposal seeks to reduce a charge that has already been published and factored into market prices. Any change up or down is a further change that will need to be factored in by the market. Energy UK considers that a smaller RRC value over a longer period of time would have less overall impact on the market. • Suggests that it is not self-evident that Users will have greater confidence in forecasts of network charges, rather the opposite may be true as further change of unknown magnitude is anticipated. Such changes stem from the RIIO2 settlement, change to NG's

			forecasting approach for charges for future years and the ongoing risk of a proposal seeking retrospective change to the neutrality arrangements. • Points out that this issue has also highlighted the risk of further unintended consequences and raised significant questions about other parts of the charging regime with respect to compliance and cross-subsidy. For example, the exit capacity revenue flows to entry, given how the revenues from within-day firm and off-peak exit capacity flow into non – transmission services commodity charges which are paid by both entry and exit market participants. • In respect of Relevant Objective 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', remains very concerned that the UNC and TAR NC (Article 20) rules were not complied with in the calculation of the published RRC charges to address this neutrality issue and the general under-recovery position. UNC section Y3 requires RRC charges to be set for the remainder of the gas year, with Y 3.3.3a requiring a first notice setting out the reasons for the revision and an estimate of the RRC, before the formal notice of a change. • Notes that the RRC charges were set for a period significantly less than the remainder of the gas year and applied differently for entry and exit RRCs and the non-transmission services commodity charge. Believes there is no recognition that the UNC rules were being ignored or explanation as to why this is the case, beyond a desire for National Grid to recover revenue in the regulatory period. This significantly undermines the UNC contract between shippers / Users and National Grid and sets a worrying precedent for the future. TAR NC Article 20 also requires revenue reconciliation to take place in accordance with the reference price methodology, which is clearly defined in the UNC. • Suggests that implementation of this Modification would appear to support further deviation from the UNC rules and TAR NC compliance by enabling a further adjustment to the already published entry RRC charge for a period less than the remainder of the gas year. Energy UK hopes that Ofgem will direct for the RRC to be calculated in accordance with the UNC in

			its decision letter, and therefore apply over the remainder of the gas year which in itself will reduce the level of the charge and reduce the impact on the market and consumer prices. • Believes that it is clear that the compressed timescale presents challenges to all stakeholders. It is proposed that the FMR be submitted to Ofgem on Thursday 17 December. This is one day before Ofgem's Christmas moratorium usually starts. It is not clear how long Ofgem intends to take before issuing its decision but it should carefully consider the impact of issuing a decision during the moratorium period. • Notes that many Shipper offices will be running a skeleton staff over that period, and whilst shipper operations are clearly 24/7 activities, regulatory staff may not be available, to receive and inform colleagues of the changes. Parties may therefore receive and react to Ofgem's decision in different timescales which could distort the market. • Believes that Ofgem needs to consider whether publications of market significance should be made during the moratorium. The market has already factored in the RRC charges with effect from February and whilst any change is likely to be downwards it is not appropriate to assume this will not further impact the market. A change is a change irrespective of direction. • Considers that a decision on this proposal should not be published during the (Ofgem) moratorium period. • Points out that as trade association Energy UK faces no costs. • Notes that Ofgem set an expectation of an assessment of impacts being included in the Modification Proposal. The brief summary provided on page 9 hardly seems sufficient in this regard. Ofgem also asks in its urgency decision for impacts to be included in consultation responses. Participants will find this very challenging in a three-day consultation period. • Notes that wholesale price impacts have been observed from February and into Q2 in 2021. Energy UK would expect these to be passed through to customers; for gas fired generation the costs will pass to the electricity market.

			• Points out that the impact on domestic customers is less direct, suppliers will be impacted by wholesale price impacts if their customers demand from February is not already fully hedged and they have sold fixed price contracts. The timescale and magnitude of changes to the DN ECN charges, is unclear and is also expected to be impacted by the RIIO2 settlement. • Believes that the Security of Supply may be impacted given the increased costs of storage withdrawal and injection, if the day on day price differentials do not support this cost, gas withdrawn after February may not be replaced leaving storage stocks depleted towards the end of the winter. Decisions on UNC Modifications 0727 and 0729 would be helpful in this regard. • Is of the view that there are also likely to be impacts on NG's constraint management incentive, Entry and Exit within day firm and interruptible / off-peak revenues contribute to this incentive. Increased revenue flowing into this incentive pot is likely to be beneficial to incentive outcomes for National Grid. Energy UK expects Ofgem to follow up on this issue, to mitigate this impact, although Energy UK accepts a licence change will be required, it should be considered in parallel with the UNC changes. • Notes that whilst the legal text appears to deliver the intent of the proposal, its implementation would appear not be compliant with the TAR NC. • Suggests that whilst the legal text allows any Transportation Charge to be amended within gas year 2020/21, TAR NC Article 12 is clear that reference prices / reserve prices are binding for the gas year once published. • Points out that the definition of Transportation Charge includes reserve prices as well as RRC prices at entry and exit and therefore is far broader than applying only for an amendment to the entry RRC. It is not clear whether this wide-ranging ability to amend charges was National Grid's intention but it is not the expectation of the industry and needs to be addressed, Energy UK believes it would have been identified if there had been the opportunity for Workgroup consideration of the proposal and legal text.

			• Notes that the premise of the Modification is that revenues flowing into entry capacity neutrality and deviations of bookings from forecasted values were unforeseen. Capacity neutrality arrangements have been in place for almost 20 years and issues of where revenues flow for the various capacity products were raised during 0621 development. • Suggests that it is also the case that bookings will always deviate from forecasts. Shippers booking short term products was anticipated in response the new charging arrangements being introduced, with the intent of bookings more closely matching flows. In this regard the regime is working as intended. • Retains a number of additional concerns that have been highlighted by the under-recovery situation which gave rise to this modification proposal. Whilst these may go beyond the narrow scope of this proposal they are noted here since Energy UK believes they need further consideration, explanation and potentially resolution. • In respect of TAR NC compliance: ○ TAR NC allocates transporter revenue into two categories of Transmission Services (TS) and Non-Transmission Services (Non-TS) revenues which are recovered via transmission services and non-transmission services charges. Industry was told at the time of 0678 development that these broadly match on to TO and SO activities. The under-recovery situation since 1 October has led Energy UK to explore the UNC and licence text in more detail. Energy UK has found that the drafting is so complex it is almost impossible to confidently identify which revenues are TS, non-TS and TO and SO. Energy UK has asked for a flow diagram to help it understand this in more detail, but this has not yet been provided. ○ Have also asked for clarification of the term at UNC Y 1.5.1 (d), which is subdivided into entry and exit terms in Y 1.5.2: *“Allowed TS-Related NTS System Operation Revenue” is that amount of the Maximum NTS System Operation Revenue which is attributable (as determined by National Grid NTS) to charges in respect of NTS Capacity net of charges for the surrender of NTS Capacity;’*

			◦ In particular the *'as determined by National Grid NTS'* part. This may correctly allocate certain capacity related revenues to being TS, but even if this is the case significant questions persist about cross subsidies, potential for double counting and consistency with the licence defined TO and SO. • In respect of Cross Subsidies: ◦ Whilst there is capacity neutrality at entry there is no parallel arrangement at exit, instead the revenue from within day firm and off-peak capacity sales pass to being a credit in the Non-TS commodity charge. This commodity charge is applied equally at entry and exit, therefore exit revenues are passing to entry. This would seem to be not compliant with TAR NC, in that TS revenue is allocated to Non-TS charges and it creates a cross subsidy. ◦ Subject to clarification of the definition of the exit term in UNC Y 1.5.2 this revenue may also be counted as TS. ◦ Considers that a further modification is required to address this cross subsidy, ensure entry and exit revenues are treated in a consistent manner and ensure compliance with TAR NC. • In respect of the Role of SO: ◦ The issues above also question the definition of the roles and responsibilities of the SO, since activities, revenues and incentives should surely be aligned. Given the changes proposed above and further issues identified Energy UK is not convinced that this is the case and there is a risk of unintended consequences. ◦ Believes a more general review is required to ensure these are all aligned and the SO continues to be appropriately encouraged to release maximum capacity to the market.
Equinor	Qualified Support	c) - positive d) – negative g) – neutral	• Supports the removal of entry capacity revenue from neutrality starting from 1st February 2021. This process was overlooked during the charging review and shows the importance of carefully considering the impact of all future changes to charging methodology. • Is concerned with National Grid (NG) being able to waive the 2 month notice period for announcing changes to RRC as it is not clear from the wording in

			the Modification if this would be a one off process or if it sets a precedent going forward for NG to announce changes at very short notice? • Believes that changing the RRC with such short notice would be negative in relation to Relevant Objective d) *'Securing effective competition'.* • Supports implementation 01 February 2021 with a final decision from Ofgem announced as soon as possible preferably outside of the moratorium period. • Suggests a change to pricing with 5 business days should be avoided on the grounds that it is difficult to assess and analyse this proposal on such a short timetable, but this is probably the best solution available for the time being. • Accepts that Urgent Modifications must be assessed quickly by industry stakeholders, but believes that 3 business days is unacceptably short and something that should not be repeated for proposals with a material impact. • Believes that it is not feasible to provide a full analysis of the impacts and potential costs of this proposal due to the highly condensed timetable of this consultation. The impact of announcing such a large RRC significantly increases the cost of bringing gas to the UK during the period of the of the [sic] RRC which could have further impacts on the market. • Believes the legal text delivers the intent of the solution but remains concerned that National Grid should not have dispensation to amend charges at less than 2 months' notice, and would like to see it confirmed in the final decision this will be a one-off process.
ESB	Qualified Support	c) - positive d) – negative g) - comments	• Suggests the National Grid Gas's (NGG) presentation of the issues asserts that the Entry capacity neutrality arrangements have emerged to be no longer fit for purpose since the implementation of 0678A in October 2020. This Modification 0748 seeks to resolve the identified deficiencies in the neutrality mechanism in a timely manner, which appears rational. It is not clear, however, what the consequences of this change may be, and the possible outcomes cannot be explored in the timeline. • This is of major concern given the continued uncertainty and volatility that the market is already incorporating in trading activity. NGG expects there to

			be a positive impact on predictability and stability of charging from Modification 0748, but this is unclear and in itself this Modification leads to volatility. • Opposes a 5 days' notice of a charging change due to the impact on the market, hedging and commercial positions, and also the prospect that this could set a precedent. • Is unclear on TAR NC compliance impacts, although ESB has concerns as the Transmission Services/Non-Transmission Services, TO/SO alignment and tangled web of revenue allocations has not been adequately explained. This area requires a thorough review, which is not in the scope of this Modification as it stands, should have taken place within the Modification 0621/0678 processes and must now be conducted as soon as possible, and certainly before final tariffs are set for gas year 2021. • Believes that the resultant charging changes should be published with a notice period of at least 1 month. • Is not able to assess the impacts in the time available. The uncertainty surrounding introduction of Entry RRCs and this Modification has impacted wholesale gas prices and trading activities, which as a gas-fired power generator and supplier, will affect our businesses (in GB and the island of Ireland). Further changes will lead to future volatility. • Believes the scale of the RRCs is directly connected to this Modification, therefore ESB raises that the compressed period of application of RRCs causes the level to be artificially high in comparison with the charges that would be set according to UNC TPD Section Y, 3.3. In accordance with this text, RRCs would be applied across the remainder of the gas year and adjusted within that gas year should their level require further changes. RRC levels would therefore be lower. NGG anticipated that RRCs would be set at inconsequential levels when introduced to the charging methodology through Modification 0678A. • Is not satisfied that the legal text will deliver the intent of the Solution on the grounds that the use of the term any Transportation Charge payable to National Grid NTS in respect of any Day in Gas Year 2020/2021 does not limit the notice period waiver to RRCs. A reference to UNC TPD Section Y, 3 is required.

			• Believes it is possible to infer from the Modification Report (ref: page 9) that because the Allowed Revenue remains the same, any consumer impacts will be due to Shippers' commercial arrangements. The revenue paid to NGG is the same, simply NGG is moving it around differently internally. This is somewhat disingenuous as the fluctuating and uncertain Entry cost has a direct and material impact on the wholesale price which is ultimately passed through to end-users. It is rational for Shippers and suppliers to take uncertainty into account in pricing.
Gazprom Marketing & Trading Ltd	Qualified Support	c) - positive d) – none g) - comments	• Believes implementation of this Modification better achieves charging objective (a) as the revenue distribution will be adjusted to ensure the Revenue Recovery Charge (RRC) is reduced as soon as practicable. Currently the existing arrangements do not enable National Grid to recover a material amount of revenue from the sale of within day and interruptible capacity. Despite this, Gazprom M&T can only offer qualified support to this proposal due to the proposed lead times. • Notes the proposal allows National Grid to give five Business Days' notice for any revisions to transportation charges as a result of this enabling Modification. This short lead time would be incredibly disruptive to the GB gas market. Liquidity in the forward trading markets will be reduced, as participants are unable to factor in the costs of transportation charges until such time as the RRC is notified. Further it will compromise security of supply as market participants providing physical supplies would be unable to consider the full costs of the NTS until very close to delivery. This is a sub-optimal outcome for all GB consumers. • From a TAR compliance perspective, Gazprom M&T notes that there is explicit reference to the provision of information related to transmission and non-transmission tariffs in Art 30.1.(c) which sets out those tariffs which can be published up to 30 days prior to the tariff period. In addition, as the RRC is not required to be published in accordance with Art. 29, by extension it is a relevant charge for the purposes of Art. 30 therefore the proposed minimum lead time in UNC 748 is not in compliance with the code. • Feels that given that the risk of last-minute changes removes price certainty, prevents long term hedging

			and increases the cost of balancing during the crucial winter period, Gazprom M&T proposes an amendment to Section 8 to allow at least one month's notice so shippers can make appropriate adjustments for incoming changes. This change would achieve NC TAR compliance and further Relevant/Charging objectives (g) and (c). • Notes that although a decrease in the incoming RRC is welcomed, the proposed lead time means that many shippers are unable to mitigate their exposure to the cost of delivering gas to the NBP during winter and may need to unwind their positions in the market which is a cumbersome process. Increasingly, shippers rely on short term products for their physical trading portfolios as these products influence the spreads between market areas therefore, any quick changes to the RCC will impact the flow direction of marginal supply sources from the continent. • Believes the proposal as currently drafted also risks undermining the stability of the regulatory regime and ultimately the attractiveness of the GB gas market. Although Gazprom M&T believes the absolute level of tariffs should not be disproportionately high, in instances where there is a trade-off between certainty and the level of capacity prices, Gazprom M&T believes certainty (and therefore transparency) prevails. • With regards to the legal text, further to the reasons outlined above, Gazgrom M&T disagrees with paragraph 5.6(a) which states National Grid "shall give [no] less that [sic] five Business Days' notice" for revisions to transportation charges as it applies for the full remainder of gas year 2020/21 and is not unique to the Authority decision on this Modification. • Also highlights the following areas of concern / omission: ○ The consultation is very rushed, lacks detail, and does not explain why neutrality was introduced. ○ Further consideration is still required for the remaining exit capacity cross subsidies as highlighted in National Grid's presentation on 10th December. ○ There is further under recovery unrelated to the neutrality mechanism that requires consideration.

			○ Analysis of alternative recovery mechanisms such as recovering revenue over the full remaining duration of the gas year or utilising the k-factor to recover “missing revenues” in Gas Year 21/22. ○ The legal text does not confirm that any changes will not be applied before 1st February 2021.
Interconnector UK Ltd	Support	c) - positive d) –positive g) – positive	• Understands that with the market increasing profiling and optimising bookings with shorter term products, it is appropriate for NTS daily interruptible and within day Entry Capacity revenue to be removed from the Capacity Neutrality arrangements and into National Grid’s allowed revenue calculation. This is consistent with the EU tariff network code objective that TSOs should primarily recover their allowed revenue from capacity sales. • Believes the changes are in the consumer interest. Entry tariffs into the GB market are now the most expensive compared to key North West European countries and set to rise considerably more with a RRC price spike suggested to be introduced for February 2021. These high tariffs are a barrier to gas entering the GB market and likely to result in higher wholesale gas prices if/when GB needs more gas. This translates into higher consumer bills. The Modification Proposal will dampen the expected February entry revenue recovery charges (RRC) increase and should dampen further increases in the RRC and reserve prices in the future, thus reducing the cost to supply GB consumers compared to no change. • Notes the uncertainty in the RRC changes is already impacting activity in the market and had a knock on impact to connected assets like IUK. Industry has been vocal about the need for stable and predictable NTS charges. • Clearly believes that the more notice period that can be given the better. The market needs sufficient time hence why 2 months is considered appropriate in normal circumstances. This enables shippers to plan and execute commercial transactions and also allows connected parties like IUK to market capacity appropriately. Sufficient notice allows the market to function efficiently. • Notes that the proposal is allowing the possibility for the resultant charges to be changed with a minimum 5

			business days' notice. Ordinarily Interconnector UK believes such a small timescale is inadequate. However, given the broader benefits the proposal will bring by helping reduce the RRC from what it otherwise would be, Interconnector UK supports the proposal. It should however clearly be noted in any decision that this is permitted only on this occasion and Interconnector UK hopes in practice a prompt decision can be made by Ofgem to allow a longer notice period.
National Grid NTS	Support	c) - positive d) – positive g) - positive	• As the Proposer, fully supports the implementation of this Modification Proposal. • Points out that since the implementation of UNC Modification 0678A on 01 Oct 2020 the entry Capacity Neutrality mechanism has returned circa £0.5m per day to capacity holders which has contributed significantly to the need for National Grid to levy Transmission Services Revenue Recovery Charges (TSRRCs) from 01 February 2021. The return of such a materially high proportion of Entry capacity revenue to Users disproportionately benefits certain Users, particularly those who do not pay directly to National Grid for their Entry capacity, who receive a proportion of the capacity neutrality redistribution payment and are also not charged the TSRRC. • Highlights that with the high value of the overall Capacity Neutrality revenue, driven by the increased revenues associated to within day and daily interruptible capacity, National Grid NTS believes the inclusion of these revenues within the Capacity Neutrality process is not fit for purpose. With these revenues effectively returned under the current regime, this drives an under recovery which requires the use of the TSRRCs to enable National Grid NTS to recover its Allowed Revenue. • Believes that the key principal of the charging methodology introduced from 01 October 2020 as a result of UNC Modification 0678A – Amendments to Gas Transmission charging regime is to set reserve prices for all capacity at such levels that best facilitate recovery of National Grid NTS' Allowed Revenue. Therefore, return of a material portion of this capacity revenue to Users runs contrary to this principle. The distributional impact will vary across Users depending on how they have booked their capacity.

			• Two examples highlighted in the Modification, which has been evident in October 2020's data illustrate the varied impacts across Users: ○ A User not having Capacity secured by auction (i.e. by trading the capacity in where the liability remains with the original holder) and therefore not paying any Capacity Charges directly to National Grid NTS and receiving a proportion of the Capacity Neutrality redistribution; ○ A User procuring a significant proportion of their capacity from Interruptible Capacity whereby the Interruptible Capacity is paid for direct to National Grid however the Interruptible capacity receives no proportion of the Capacity Neutrality revenue as the redistribution is based on each individual User's percentage of firm capacity on a daily basis. • Points out that a TSRRC can adjust these positions depending on the applicability to each User. For Entry, the Transmission Services Revenue Recovery Charge (TSRRC) is applied to the aggregate amount of NTS Entry Capacity that a User holds at an Entry Point on a given day "Fully-Adjusted Available Capacity" minus the "Existing Available Holdings", which are defined as User's Available NTS Entry Capacity for such Entry Point and Day as at the Tariff Regulation Effective Date (06 April 2017). Therefore, the impacts will vary across Users, however the Entry TSRRC rate is significantly influenced by the high levels of Existing Available Holdings that do not attract the TSRRC. • Is of the opinion that the proposal to temporarily permit a reduced notice period for signalling amendments to relevant charges is beneficial to make such changes in the earliest possible timeframe post decision and also points out that further detail is provided in National Grid NTS' response to Ofgem's Question 3 below. • On this basis of the information above, believes implementation would better facilitate the identified Relevant Objectives and Relevant Charging Methodology Charging Objectives for the reasons set out in the Proposal. • Points out that as set out in the Proposal, implementation should take effect as soon as

			practicable noting that this should be the first calendar day of a month. • Suggests that there is a clear need to rapidly address the issues caused by Capacity Neutrality given the materiality of the issue (i.e. the revenue returned to Users that needs to be consequently recovered via the TSRRC) increases incrementally (circa £0.5m per day) for as long as the issue remains unresolved. On this basis, timely implementation will facilitate a consequential reduction in the TSRRC rate as soon as possible following an implementation decision. • Highlights that in its proposal, National Grid NTS also included a transitional arrangement following a positive decision to implement that would allow a temporary and time limited reduction in the notice period for signalling changes to any charges subject to the two months' notice period given in TPD Section B1.8.2(a) that is referenced in TPD Section Y. The proposal and legal text allow this to be less than two months and no shorter than 5 Business Days until the rate becomes effective. In practice National Grid NTS will seek to offer the longest possible notice period following a decision to implement. If this proposal is implemented, for example from January 2021 (i.e. a decision to implement is made in December 2020) then the change to Capacity Neutrality would be effective from 1st January 2021 and National Grid NTS would look to amend the already published TSRRC effective from 1st February 2021 • Points out that as stated in the Proposal, there will be impacts on Gemini and UK Link invoicing systems. The costs of implementation are currently being assessed but are expected to be minor when compared to the benefits of implementation. • Points out that if this Proposal is not implemented the current Capacity Neutrality arrangements will continue and the published TSRRC notified on 30 November 2020 will be applied. As mentioned, Capacity Neutrality has resulted in around £0.5m per day being returned to Users and implementation will enable, as highlighted above, a reduction to the TSRRC from February 2021 subject to the timing of a decision. • Mentions that the distributional effects of Capacity Neutrality highlighted by scenarios in the Modification Proposal have become evident upon further analysis

			of the October Data and will likely continue without intervention. • Is satisfied that the legal text delivers the intent of the solution.
Neptune Energy	Support	c) – not provided d) – not provided g) – not provided	• In supporting the Modification notes the significant cost of entry capacity under the current capacity charging regime has led to 2 behaviours by shippers; (1) Those shippers with excess long term entry capacity, now have a valuable and marketable commodity, the marketing and sale of this capacity to another shipper generates no incremental revenue for National Grid (but provides a profit for the holder of such capacity and a saving for the purchaser), and (2) dictates that shippers without long term entry capacity are economically incentivised to book capacity as close possible to the time of gas delivery in order to avoid over-bookings and over-payments i.e. to book Interruptible or Within-Day Capacity. The fact that these logical, commercial behaviours were not contemplated means that the associated loss of revenue was not forecast under the new charging regime by National Grid. This Modification seeks to rectify a part of that – specifically the inclusion of Interruptible and Within-Day Capacity in Capacity Neutrality, which means it does not count towards National Grid's allowable revenue recovery. • Believes that it is unreasonable that the revenue generated from Interruptible or Within-Day Capacity does not count towards National Grid's allowable revenue recovery, since this effectively leads to companies paying for such capacity twice; once through the entry capacity tariff (such tariffs then being distributed to shippers with Enduring Capacity) and then a second time through a Revenue Recovery Charge (RRC). Further, since the RRC is not applied on any capacity booked before April 2017, the burden of paying for any revenue recovery shortfall falls only on shippers booking Entry Capacity booked after April 2017 rather than being apportioned proportionally across all shippers. • In fully supporting the proposal, Nepture Energy does not however believe the Modification goes far enough to remedy the adverse impacts of the new charging regime on those companies without long term entry capacity.

			• Points out that support for the Modification is without prejudice to future Modifications aimed to rectify the inequitable entry capacity regime that has been implemented with effect from 01 October 2020. • Supports a prompt implementation to ensure that the issue associated with the Capacity Neutrality charge is mitigated as soon as reasonably practicable. • Points out that it has 2 large gas flows entering the UK National Grid; Cygnus at Bacton and Gjoa-Vega at St Fergus. • Believes under the old capacity regime, for shippers without long term capacity bookings, entry capacity was typically booked within-day at zero cost and the commodity charge was then paid on all volumes delivered - the commodity charge was ~1.7p/th. • Also notes that under the current arrangements, the entry capacity tariff and the GNTSC, which combined are 0.0845p/KWh or ~ 2.47p/th (itself already significantly higher than under the previous regime). With the proposed RRC of 0.0717p/KWh or ~2.1p/th, costs to enter the National Grid become ~4.6p/th i.e. nearly 3 times higher than costs under the old regime. Neptune Energy understands that the proposed modification will reduce the RRC to be between 0.0578 - 0.0672p/KWh and whilst any reduction is helpful, it still means that entry capacity cost are over double the costs of the previous gas year. • Feels if such costs are reasonably forecast to continue in the future then it will likely have an impact on the future development of gas fields in the UKCS (putting in jeopardy the principle of maximum economic recovery), as well as gas imports from fields located in other sectors of the North Sea such as Norway and the Netherlands and lead to an earlier cessation of production of existing fields, not just for Neptune but for wider industry. • Notes that many UKCS fields also have the optionality to sell into alternative EU markets such as the Netherlands. Prohibitive cost increases could have the unintended consequence of reducing UK security of supply as operators impacted by these changes consider alternative markets. • Notes due to time constraints the legal text has not been fully reviewed and therefore Neptune Energy

			cannot comment on whether the legal text will deliver the intent of the Solution.
Northern Gas Networks	Comments	c) – not provided d) – not provided g) – not provided	• Whilst supportive of the principle, that impacts to Allowed Revenue should be able to be taken into account and corrected, has a number of concerns with fairness of process and the legal text drafting. • Believes that this Modification is primarily about expediency, rather that[sic] the change itself, and whilst NGN sympathises with this, would like to raise concerns at two levels. • Notes firstly, NGN has previously applied to Ofgem to be allowed to make an in year price change, the reason for this change was due to an impact caused by AQ amendments, something which is outside of NGN's control and could not have been foreseen when the pricing was set. This was rejected by Ofgem. • Points out, NTS already have the ability to make in year price changes, which the Distribution Networks (DNs) do not, to further grant permission for them to make an additional price change, outside of the standard notice periods NGN would consider to be preferential treatment to 1 transporter over another. • Secondly, notes the Modification 0678A changes have been in circulation as a proposal since January 2019, and therefore sufficient modelling should have been able to take place to allow for this impact to have been foreseen, therefore furthering the appearance of preferential treatment. • Being a Distribution Network (DN), NGN is concerned with the precedent that allowing a price change at short notice could set, as all industry parties should be able to expect stability and predictability around the level of charges. Whilst any impacts of an NTS price change that affects DNs can be recovered in a later year by the DN as part of their allowed revenue (not in the same year due to DNs not being able to make in year price changes), the impact needs to be borne by the DN in the short term. • Observes that the standard minimum period of 2 months' notice, at least allows the DN to prepare for this impact and make necessary changes to ensure cashflow. A period of just five days, would not allow for adequate changes to take place and could result in DNs having short term cash flow issues, or

			impacting their Approved Credit Rating, which is the driver for many businesses to be able to offer the DN credit and can even result in the DN being in breach of financial covenants. • Points out, additionally, as drafted, the legal text does not seem to fully align with the intent of the modification: The Modification talks about a 1 off change to specific charge types. Notes that as drafted the legal text includes a transitional rule which talks about allowing changes to ‘any Transportation Charge’ during the current gas year, with less than 2 months’ notice. For clarity and assurance, NGN would suggest that the legal text should contain the specific charges that are to be excluded from the current rules in TPD Section B1.8.2(a).
OGUK	Support	c) - positive d) – positive g) - positive	• Accepts the revision of the gas charging regime under Modification 0678A has changed booking strategies with fewer shippers booking capacity products ahead of time, with more capacity booked as Daily NTS Entry Capacity, Daily Interruptible NTS Entry Capacity and Interruptible Day-ahead Auction or Within-Day Auction products. The revenues from sales of these products and [sic] now much higher than before Modification 0678A was implemented. • Points out, the current Capacity Neutrality mechanism distributes these revenues back uniformly to network users including, for example, those which have not secured capacity in auction. In addition, these revenues do not then contribute to meeting National Grid allowed revenues, meaning that further upward adjustments are then required to the reserve prices in subsequent periods. These impacts are likely to make charges unpredictable and with an undue differential impact on users compared to the original intention of the neutrality mechanism. • Notes, support for this Modification should not be taken as implying any particular view on future related Modifications. • Suggests implementation of this proposal should take effect as soon as practicable. • Has not reviewed the legal text.
Pavilion Energy Spain S.A.U.	Comments	c) – not provided d) – not provided g) – not provided	• Agrees on the substance of the proposal, but does not agree on how it is intended to be implemented, via an “ad hoc” exception to the established procedure (in

			this case, referring to the minimum notice to carry out a regulatory change affecting the price of the tolls). • Feels that in order to provide greater predictability in the regulatory and legal system, the regulation has to assure that the established procedures and deadlines are met (in this case provide two months' notice of pricing changes) without making "ad hoc" exceptions, which could also set a precedent for the future. This could also harm legitimate expectations in the regulatory system of operators.
RWE Supply & Trading GmbH	Support	c) - positive d) –negative g) - none	• Supports this Modification Proposal as it addresses a specific defect in the UNC identified by NGG relating to the misallocation of revenue from within day entry capacity products, which, according to NGG, are currently subject to capacity neutrality arrangements when they should form part of the revenue under transmission services charges. On this specific point and based on the information provided by National Grid Gas (NGG), RWE Supply & Trading supports implementation of the proposal since it will better meet Relevant Objective c) in relation to the *'Efficient discharge of the licensee's obligations'* and Relevant Charging Methodology Objective b) in relation to the *'charging arrangements properly reflecting developments in the transportation business'*. • Points out that with regard to competition, RWE Supply & Trading believes that the proposed solution will introduce significant uncertainty and volatility into the charging arrangements with a consequent impact on market participants. Therefore, the proposal does not better meet Relevant Objective d) and Charging Objective c). • Notes that the effect of this change is to address the misallocation of revenues in the UNC. There is no impact on the overall cost reflectivity of the proposed solution (Charging Objective a)). • Feels uncertain with regard to overall compliance with Regulation 2017/460 establishing a network code on harmonised transmission tariff structures for gas (Charging Objective e)). • Believes that the Modification raises important issues about the relationship between the Transmission Owner (TO) and System Operator (SO) activities. It also raises concerns about the allocation of UNC cashflows to transmission services and non-

			transmission services. In the absence of the relevant information that properly describes UNC cashflows and their allocation to SO and TO activities it is difficult to determine if the proposed solution is compliant with Regulation 2017/460. • Notes also, the proposed solution does not address the issue of capacity neutrality and the justification for this cashflow in relation to system constraints. The SO may take actions that create the opportunity to make available within day products. The proposed solution may unintentionally impact on the current cost reflective allocation of cashflows to the SO and parties under the UNC. Further work is required to consider this issue in greater detail. • Suggests that given the material effect of the defect on transmission services revenue identified by NGG, RWE Supply & Trading supports implementation at the earliest opportunity, subject to providing sufficient notice to market participants of the proposed changes. RWE would support the introduction of a minimum notice which should be set in a way that enables market participants to take into account the potential for the impact of any change in the RRC. • Remains concerned that 5 business days may be insufficient if an Ofgem decision is issued over the Christmas period. • Feels that given the limited time available for this consultation RWE Supply & Trading has not been able to determine the potential impact of the modification. However, RWE Supply & Trading notes that the effect on the revenue recovery charge creates material uncertainty for market participants. • Points out that they are particularly concerned that NGG propose the recovery of the RRC over a limited time period (five months at entry and two months at exit). The UNC makes it clear that the RRC is set in relation to a “gas year”, and RWE Supply & Trading’s expectation is that the RRC when introduced would apply for the remainder of the gas year (UNC TPD Section Y 3.2). • Points out that there is further material uncertainty over the level of the RRC as a result of the implementation of the new gas transportation price controls from 1st April 2021.

			• Suggests the proposed legal text in Part IIC Paragraph 25.6.1 should make clear that the revised notice period is [sic] only relates to the Revenue Recovery Charges in Gas Year 2020/2021. The reference to "any transmission charge" should be deleted.
ScottishPower Energy Management Limited	Qualified Support	c) – neutral d) – negative g) – neutral	• Has not been able to complete a comprehensive assessment of the likely impacts of this far-reaching proposal within the truncated time available. Moreover, the manner in which it has been hastily pulled together, of necessity without the usual benefit of any Workgroup consideration or analysis, does give rise to concerns of unintended consequences elsewhere within the new charging regime. Having said that, any change in charges arising from this particular proposal in isolation would appear to be downwards and be more reflective of the true level of Allowed Revenue recovery, such that ScottishPower Energy Management would be supportive subject to concerns over any unidentified knock on effects. • Goes on to point out that subject to their concerns above regarding timing and assessment it appears preferable that any implementation should be as soon as possible. However, it is essential that that should only be allowing for due notice periods as specified within the existing arrangements. It should not be lost that parties may already have taken account of the previously published charges and further significant changes bring a level of volatility that is undesirable. Indeed, price stability was supposed to be one of the cornerstones of the new regime. • Has been unable to undertake a comprehensive assessment [of impact and costs] in the extremely limited time available. It is notable that National Grid have identified impacts to both the Gemini and UK Link invoicing systems yet those impacts are still being assessed. • Believes the legal text appears to deliver the principal [sic] intent of the proposal. However, it also appears to include a wider ability to National Grid to vary "any Transportation Charge" within year rather than being limited to this proposal. Any general power regarding short notice is out with the scope of this proposal and should otherwise be subject to wider scrutiny and assessment allowing for the significant implications that that may have.

			• Notes that allowing for the scale of the proposal and the potential interactions with other elements of the charging regime it is not possible in the time available to say definitively whether there are any errors or omissions.

Shell Energy Europe Limited (SEEL)	Support	c) - comments
		d) – positive
		g) - comments
			• Supports the proposal on the basis that the current mismatch creates distortive pricing as it does not effectively target costs to those shippers that accrue the benefit of the procurement of capacity.
			• Supports minimum 5 days' notice to change the RRC to allow on a one-off basis for a single change to be made to the RRC and relating to a Day in Gas Year 2020/2021 without the need for the minimum 2 month notice period providing:
			  ○ (i) the change is made within 2 months of the date the Authority directs Modification 0748 be made;
			  ○ (ii) not less than 5 business days' notice is given of the changed rate; and
			  ○ (iii) the changed rate applies from the first day of a month.
			• Notes that a one-off change to any Transportation Charge would, however, significantly undermine a key premise of the Modification, which is to minimise a negative impact on future price volatility and would exacerbate the unprecedented level of market uncertainty already facing network users.
			• Believes an ad-hoc change to other transportation tariffs would undermine existing contracts and remaining market confidence. Shell Energy Europe understands it is not possible for Ofgem to 'cherry pick' specific aspects of the proposal and with only three days to respond to the consultation, there was limited time for industry participants to propose an alternative modification so perhaps a workable solution if the legal drafting can't be amended at this stage, would be for National Grid Gas (NGG) to publish a letter to confirm that it will not use this clause to make a one-off change to any other transportation charges.
			• Feels given the extent to which the revenues currently feeding into the capacity neutrality are contributing to National Grid's under-recovery and therefore, some of the RRC volatility, it is paramount that this is resolved at the earliest stage practicable to mitigate some of the unprecedented tariff uncertainty and volatility

			following implementation of Modification proposal 0678A. • Notes that according to Section Y3.3 of the UNC, where NGG's estimates for the purposes of determining the RRC prove to be materially inaccurate, NGG may revise the RRC for the Gas Year. To ensure network code compliance, a variation to this proposal, which sets the RRC for the remainder of the Gas Year would ensure NGG is not in breach of its contractual obligations under the network code. If a variation is not feasible at this late stage, then direction from Ofgem that the accumulated under-recovery is fed into the RRC for the remainder of the Gas Year would ensure code compliance and further serve to have downward impact on the level of the RRC, mitigating further exposure to unforeseen costs redistributed to network users. • Points out that according to the Network Code Modification Rules, *'where the Authority accepts that the Uniform Network Code…may require Modification as a matter of urgency, the exclusion, acceleration or other variation, subject to the Authority's approval, of any particular procedural steps which would otherwise be applicable…may include provisions which differ as between proposed Modifications to the Uniform Network Code'.* In our view, this leaves scope for the usual procedural steps, which govern the timing of a variation request to be deviated from and there should be no material affect from clarifying that the one-off change to transportation charges refers to the RRC only and a change to the RRC to apply for the rest of the Gas Year will ensure network code compliance. • Point out the Network tariff uncertainty and volatility undermines the market and as noted in the proposal, 'if no action is taken to address the issue, the current arrangements would continue to result in a significant under recovery of National Grid NTS' Allowed Revenue in Formula Year 2020/21 and continue to have a negative impact on future price volatility, with impacts carrying over into subsequent years.' • Proposes a wider review of National Grid's allowed revenue streams and methodology for Forecasted Contracted Capacity should be reviewed in due course but for the purposes of this urgent Modification

			Proposal, it is not possible to review these in the timescales given.
SSE	Qualified Support	c) – not provided d) – not provided g) – not provided	• Points out that on the 30 November when National Grid (NG) published its Transmission Services Revenue Recovery Charges (RRC) for 2 and 5 months for exit and entry, respectively, they did not comply with the UNC. The UNC section, Y 3, is clear that the RRC should be applied "for the Gas Year". The definition of the gas year, reference GT C2.2.1(e), is 01 October to 30 September. Hence to be compliant, the RRC should be applied from the date of implementation (01 February) until 30 September, i.e. 8 months. • Believes National Grid has breached TAR NC Article 20 and the UNC Contract, and this sets a market de-stabilising precedent of undermining the UNC. SSE looks to Ofgem to resolve this with National Grid urgently as Shippers cannot make changes to published charges. • Believes also once this is resolved the RRC will be applied over a longer time period and will be lower, causing less distortion to the market. • Offers qualified support to Modification 0748 as this would reduce the size of the Transmission Services under-recovery and the RRC but SSE has concerns, as described below: ○ Believes the proposed legal text allows a one-off change in 2020/21 to "any transportation charge" with 5 days' notice. *"25.6.1 The minimum notice requirement in TPD Section B1.8.2(a) shall not apply in respect of a single change of rate of any Transportation Charge payable";* ○ Also notes, TAR NC stipulates that Reserve Prices are only set once a year, but the proposed legal text would allow these to be changed too. The text should be changed to restrict the changes to just RRC or Ofgem's implementation decision should restrict change to just RRC and not "any" charge. ○ Suggests the proposed Modification 0748 applies to entry but does not resolve a similar issue at exit, where daily capacity revenue has been allocated to Non-Transmission Services revenue and not Transmission revenue. This element of Non-Transmission Services revenue is then redistributed to both entry and exit.

			○ If implemented Modification 0748 would facilitate the different treatment of entry and exit and not address the cross subsidy between exit and entry, neither of which are complaint with TAR NC. A similar urgent Modification is required for exit, but this has yet to be developed. • Feels the increase in RRC will increase entry and exit costs and feed through into higher wholesale market prices for gas and electricity as well as increasing volatility and risk premiums. • Points out, based on NG's publication of 30 November 2020, the combined Transmission Services cost of entering and exiting gas on and off the NTS will increase from ~2.7p/th now to ~5.2p/th in February 2021. • Notes that if this Modification is implemented by Ofgem, it will lower costs to ~4.8 p/th. • Believes that if Ofgem were to force National Grid to re-publish the RRC in line with the UNC and the Gas Year and implement this Modification total costs will be 3.9 p/th. • Notes that due to high capacity charges, it would appear that daily capacity bookings have been optimised to match gas flows and have replaced longer term capacity bookings. These incremental daily capacity bookings will feed through on a marginal cost basis and increase the price of gas at the NBP and exit points. Where gas is burnt to generate electricity at the margin, this will lead to higher electricity prices too. • Supports implementation of the Modification as it will help reduce these costs, noting the earlier caveats. • Understands the proposed legal text allows a one-off change in 2020/21 to "any transportation charge" with 5 days' notice. *"25.6.1 The minimum notice requirement in TPD Section B1.8.2(a) shall not apply in respect of a single change of rate of any Transportation Charge payable"*. Points out that the TAR NC stipulates that Reserve Prices are only set once a year, but the proposed legal text would allow these to be changed too. The text should be changed to restrict the changes to just RRC or Ofgem's implementation decision should restrict change to just RRC and not "any" charge.

			• Also points out neither an impact assessment nor detailed workgroups have been undertaken to allow a detailed understanding of cashflows from Transmission Revenue to Capacity Neutrality and subsequently to entry and exit Non-Transmission revenue and National Grid incentives. • Believes the existing arrangements and this proposed Modification leads to cross subsidy and different treatment of entry and exit points, both in conflict with TAR NC. Therefore, an urgent Modification is also required to resolve the issue at exit. In its Modification National Grid imply that revenues flowing into entry capacity neutrality and deviations of bookings from forecasted values were unforeseen, however; ○ Notes that Capacity neutrality arrangements are unchanged and issues of where revenues flow for the capacity products were raised in the Final Modification Report of 0621, the Modification that ultimately lead to Modification 678A. ○ Believes with regards to forecasts, it was anticipated that Shippers would book short term products in response to the new charging arrangements as stated in Ofgem's Final Decision Letter on modification 678A, with the expectation of bookings more closely matching flows. In-addition, significant quantities of annual exit capacity was returned in July 2020 which could have acted as a further prompt. • Notes the RRC charge as published by National Grid on 30 November 2020 will result in high daily costs for transporting gas on the NTS. This cost is in excess of typical inter-day spreads and may result in gas being withdrawn from storage before the increase in charges in February 2021. In-addition, inter-day spreads may not be high enough to reward re-injection of gas. This potentially leads to less supply and may raise security of supply issues post January 2021. • Urges Ofgem to implement Modifications 0727 and 0729 which have been with Ofgem for decision since July and September 2020, respectively. This would allow a justified reduction to NTS transportation costs for Storage and help alleviate the above issues.
storengy	Support	c) – not provided d) – not provided	• Notes that in light of the oversight of several key aspects of the newly implemented charging

		g) – not provided	methodology, and subsequent under-recovery of capacity revenues by National Grid, storengy supports the Modification Proposal in addressing these issues and returning the market environment to a more stable situation. • Agrees that the situation should be addressed as soon as possible, however storengy is extremely concerned at the ongoing and proposed timescales for industry review and assessment, time for consultation responses, and proposed rushed implementation date for this Modification. • Does not feel that this provides sufficient time to fully assess the impact of proposals and whether they are the best solution for the current situation in under-recovering National Grid revenues. • In addition storengy would like to raise their concerns with regards to: ○ The lack of detail in the proposals, indicating that there is still not a clear understanding of the situation and how it should best be resolved. This appears to suggest a blanket approach to changes in allocations, without consideration for the reasons and methodology originally behind these allocations. ○ Failure to address the current under-recovery and mis-allocation of revenues for Exit Capacity. This results in extra financial burdens being placed on some areas of the market, especially for gas storage who incur extra TO charges, but see no benefit in reductions in SO charges. ○ Market uncertainty and further wholesale market price shifts influenced by announcing RRC rates before carrying out a full assessment of the situation. Changes to timescales under this proposed modification will potentially result in further changes to charges at short notice. This is likely to affect wholesale prices further and due consideration and scrutiny should be taken to avoid significant uncertainty in security of supply over the coming months. ○ Excessively short period of recovery for revenue recovery charges has also placed a large burden on shippers, with extremely high additional costs being charged to shippers at short notice distorting the competitive environment. This shows a clear

lack of understanding of the effects of these charges on the market and raises concerns over National Grid's understanding as to how Modification 0748 may affect the market. Impacts on the market and industry financial pressures of these additional charges would be minimised by spreading these costs over a longer period, and potentially into the next gas year through the K factor.

  - Points out that with the Modification seemingly granted 'extremely urgent' status, this is effectively allowing these proposals to be rushed through by National Grid with little, if any consideration and scrutiny by other members of the industry.
  - Suggests that the 'extremely urgent' status of this Modification also appears to have resulted in other Modifications granted 'urgent' status being delayed for decisions and potential implementations. This is particularly the case for the proposals related to gas storage (UNC Modifications 0727 and 0729), and the short-haul proposal (UNC Modification. 0728); with the absence of a decision placing some businesses in a very difficult situation following the implementation of UNC Modification 0678A, which has already been recognised to be an incomplete package of work.
  - Believes that the short timescales for further pricing changes again places significant unnecessary pressures and uncertainties on the market, potentially creating further damage to the industry rather than providing the beneficial effects that would normally be expected from implementing a solution to this problem.
  - Notes that the UNC and TAR NC rules may not have been complied with in announcing the large RRC charges, with this proposal potentially providing further divergence from compliance with these rules.

- Notes that although storengy welcomes proposals to address the current financial uncertainties in the market, storengy has major concerns in rushing through proposals without taking suitable time to assess their potential impacts on shippers and the market, as this increases the risk of further unforeseen problems in the future and distortion of the market environment.

Uniper	Comments	c) - none d) – none g) - none	• Are unable to determine whether this proposal better facilitates the UNC Relevant Objectives as there is inadequate information provided to properly assess this. The urgent nature of this proposal means there has been no real opportunity for industry to fully understand the impacts of the final proposal. • Whilst Uniper appreciates National Grid Gas's (NGG) quick actions to identify the problem of unintended flows of revenue between the TO and SO "pots", resulting in significant RRC levels, Uniper believes that this should have been foreseen much earlier by NGG. There was sufficient time between the 0678 Final Modification Report being sent to Ofgem (15 May 2019) and the 01 October 2020 implementation date, for NGG to properly assess the impact on capacity neutrality and progress any required changes. This is simply an oversight. Whilst the proposed solution helps mitigate the immediate impact of an extremely high RRC, it can only be considered a temporary "sticking plaster". A more fundamental industry review of capacity neutrality, incentives and TO/SO revenue streams must be undertaken regardless of whether this proposal is, or is not, implemented. • Highlights that from a market certainty and price stability aspect, Uniper does not believe it would be in anyone's best interests for Ofgem to make a decision on this proposal during the Christmas period, particularly if new or significant issues are raised during consultation. During this time, there is less market liquidity in general, so it will be harder for the market to digest and trade effectively in response to any announcements. A January 2021 Ofgem decision would be more acceptable. • Points out that in relation to costs, significant commercial impacts [would potentially be experienced] if, as proposed, any transportation charge is changed with just five days' notice. • Believes the legal text will not deliver the intent of the solution, as Uniper understand it is to address the high Transmission Services RRC, but the proposal and the legal text would allow NGG the ability to change 'any transportation charge due to NGG' (Legal Text explanatory table) with just five business days' notice. As currently drafted, this would mean any capacity reserve price and both TS and Non-TS

			RRC levels at both Entry and Exit. This is not what most parties will have taken NGG's proposal to mean and, whether this is intended or not, the drafting needs to be tighter to prescribe a narrow, time-bound window in which this significant power can be used by NGG. • Believes there is inadequate or no analysis on impacted parties. If this proposal was not classed as urgent, a more thorough analysis could have been performed under the normal governance arrangements.
Wales & West Utilities	Oppose	c) - positive d) – positive f) - negative	• Believes that there are two parts to this Modification Proposal, namely: ○ 1) Changes to the charges subject to revenue neutrality; and ○ 2) Changes to the notice periods required for changes to Transportation Charges. • Opposes the Modification due to the unwelcome precedent it sets with regard to notice periods for changes to Transportation Charges and the risk that this is extended to NTS exit charges in future. Wales & West Utilities also thinks that the legal text covering this point has been drafted too widely and needs revision. • Appreciates the argument for changes to the charges subject to revenue neutrality or equivalently changes to the charges that count as collected revenue against the entry allowed revenue. The argument in the Modification Proposal is based more on expediency when it would be better to argue the point based on principles and applied to both entry and exit. • Notes that as the Modification Proposal includes both elements, Wales & West Utilities has to oppose the Modification Proposal overall. • In respect of Relevant Objective c) *'Efficient discharge of the licensee's obligations'*: ○ Notes that the proposed changes in this Modification better align the treatment of entry capacity revenues to the services provided. Wales & West Utilities does not see how the reduction in the notice period for changes to Transportation Charges does much to further this relevant objective although acknowledges that National

			Grid recovers its revenue quicker with a reduction in notice period. • In respect of Relevant Objective d)(i) *'Securing of effective competition between relevant shippers'*: ○ Appreciates how change [sic] the charges subject to revenue neutrality could further this objective for relevant Shippers in regard to entry. • In respect of Relevant Objective f*) 'Promotion of efficiency in the implementation and administration of the Code'*, ○ Wales & West Utilities believes that this adversely impacts this Relevant Objective as it reduces the notice period for changes in Transportation Charges and creates an unwelcome precedent. ○ Goes on to point out that the two-month notice period has been a well-established provision for a number of years and serves to increase predictability of charges for both Shippers and DNOs which has been a key issue in the past. • Regarding costs, there are none for Wales & West Utilities directly, but as explained above is concerned about the potential extension to NTS exit capacity charges and the consequential impacts that would have on Wales & West Utilities' cash flow unless equivalent provisions were simultaneously introduced in respect on DNO charges to Shippers. • Does not believe the legal text will deliver the intent of the solution. Notwithstanding Wales & West Utilities' objection in principle to the reduction of the notice period, the text does not reflect the solution. • Believes the transitional text allows a reduction of the notice period in TPD B1.8.2a. This applies to all Transportation Charges for all Transporters and is much wider than the scope in the Modification Proposal which suggests that this provision only applies to certain NTS entry capacity charges. This must be amended. Wales & West Utilities further proposes that the specific charges to which this one time carve out applies should be specifically referenced. Thinks that the text also needs to be tightened to reflect the intent of the modification in respect to making changes to the charges all on the same date. Believes the text allows for different charges to be amended on different dates whereas the intent is that there should be one opportunity to

			amend the charges and that where one charge is amended but another is not then the ability to amend the unamended charge at a later date ceases. • Notes this imprecision in the drafting may have been due to the very short timescales for the production of the legal text or it may have been done on the basis that wider powers are convenient as National Grid are not quite sure what they may want to do in the future. This approach is consistent of a concerning wider trend in 2020 whereby the powers organisations propose to be taken are wider than the initial announcement suggests. • Points out the consultation period for this very significant Modification proposal was only four days. • Acknowledges that the Joint Office needs time to collate the probably large number of responses and to produce a Final Modification Report and the Modification Panel members need time to read the Final Modification Report and the individual consultation responses; however, WWU's ability to respond to this Modification was constrained by the fact that it was issued for consultation on the day the RIIO 2 Final Determinations were issued. This meant that key people in WWU were limited in the time available to consider this Modification.

Representations were received from the following parties:

Organisation	Response	Relevant Charging Methodology Objectives	Key Points
Barrow Shipping	Oppose	a) – not provided b) – not provided c) – not provided	• Suggests Ofgem should undertake and consult on an impact assessment to ascertain the effects of implementing the proposal.
BBLC	Support	c) – positive	• Please refer to the statement provided above.
Centrica Energy Ltd	Qualified Support	a) - positive b) – positive c) – negative	• Please refer to the statement provided above.
Drax	Qualified Support	a) - none b) – none c) - none	• Please refer to the statement provided above.

Energy UK	Comments	a) – comments b) – comments c) – comments	• In respect of Relevant Charging Relevant Objective a) *'charges reflect the costs incurred by the licensee in its transportation business',* notes that Ofgem's decision to implement UNC 0678 introducing a postage stamp regime, places less importance on cost reflectivity, so this is not really relevant. • In respect of Relevant Charging Relevant Objective b) *'properly takes account of developments in the transportation business',* suggests that it is not entirely clear which developments in the transportation business are referred to here? The implementation of 0678A is not a development, rather the implementation of a change that had been confirmed several months earlier. A shift to bookings that more closely match flows was an intended outcome of transmission charging reform, shippers were expected to make greater use of short- term products to do this. • Suggest that as the capacity neutrality arrangements have been in place for many years so this is not a development. • In respect of Relevant Charging Relevant Objective b) 'facilitates effective competition between gas shippers and between gas suppliers', refers back to the statement provided for d) above.
Equinor	Qualified Support	a) – neutral b) – positive c) – neutral	• Please refer to the statement provided above.
ESB	Qualified Support	a) - none b) – none c) – negative	• Please refer to the statement provided above.
Gazprom Marketing & Trading Limited	Qualified Support	a) - positive b) – positive c) - comments	• Please refer to the statement provided above.
Interconnector UK Ltd	Support	a) - positive b) – positive c) - positive	• Please refer to the statement provided above.
National Grid NTS	Support	a) - positive b) – positive c) - positive	• Believes that implementation of the Modification would better facilitate the three Relevant Charging Methodology Objectives for the reasons provided in the above statement(s).

Neptune Energy	Support	a) – not provided b) – not provided c) – not provided	• Please refer to the statement provided above.
Northern Gas Networks	Comments	a) – not provided b) – not provided c) – not provided	• Please refer to the statement provided above.
OGUK	Support	a) - positive b) - positive c) - positive	• Please refer to the statement provided above.
Pavilion Energy Spain S.A.U.	Comments	a) – not provided b) – not provided c) – not provided	• Please refer to the statement provided above.
RWE Supply & Trading GmbH	Support	a) - none b) – positive c) - negative	• Please refer to the statement provided above.
ScottishPower Energy Management Limited	Qualified Support	a) - positive b) – positive c) - negative	• Please refer to the statement provided above.
Shell Energy Europe Limited (SEEL)	Support	a) - comments b) – comments c) - positive	• Please refer to the statement provided above.
SSE	Qualified Support	a) – not provided b) – not provided c) – not provided	• Please refer to the statement provided above.
storengy	Support	a) – not provided b) – not provided c) – not provided	• Please refer to the statement provided above.
Uniper	Comments	a) - none b) – none c) - none	• Please refer to the statement provided above.
Wales & West Utilities	Oppose	a) – none b) – none c) - positive	• In respect of Relevant Charging Methodology Objective a) *'charges reflect the costs incurred by the licensee in its transportation business'*: o Understands how change the charges subject to revenue neutrality could further this objective; however, we do not see that reducing the notice period for changes to Transportation Charges

			furthers this relevant objective other than by bringing forward the recovery.
			• In respect of Relevant Charging Methodology Objective b*) 'properly takes account of developments in the transportation business'*:
			  ○ Believes it is clear that there was a change to the charges on 01 October 2020. It is not clear from the Modification Proposal that Shippers collectively have changed their behaviour, rather that the consequences of their behaviour has had material impact on National Grid's revenue. We think that the argument in favour of a change to the charges subject to revenue neutrality arrangements would be better made from principles rather than expediency.
			• In respect of Relevant Charging Methodology Objective c) *'facilitates effective competition between gas shippers and between gas suppliers'*:
			  ○ Understands how a change to the charges subject to revenue neutrality could further this objective for relevant Shippers in regard to entry.

Ofgem Consultation Questions

Q1: Do you agree that the treatment of interruptible and within day firm entry capacities feeding into capacity neutrality is inappropriate?		
Organisation	**Response**	**Rationale**
Barrow Shipping	No	• A proper review of this is needed in the context of the Charging Methodology and capacity regime as a whole rather than reaching the conclusion change is needed without an impact assessment.
BBLC	-	• No direct response provided.
Centrica Energy Ltd	Yes	• The original purpose of Capacity Neutrality was to ensure that National Grid did not benefit from any Constraint Management costs, and therefore retained its neutral position. The proportion of capacity payments now flowing through the capacity neutrality arrangements, from the sale of interruptible and within day firm, departs from the original intention. It is therefore right that they are removed, subject to the points we make above.
Drax	-	• Cannot give a definitive yes or no to this answer as we have not conducted any analysis as to the impact of removing the feed into the capacity neutrality arrangements. Our presumption is that the neutrality arrangements incentivise the release of capacity by the gas system operator and there may be unintended consequences as a result of this modification.
Energy UK	-	• It would be easy to say yes to this question, but that would be an inappropriate simple response notwithstanding the magnitude of the revenue flows involved. There are many inter-related issues that have been highlighted as a result of the under-recovery situation, which need further consideration and are outlined below.
Equinor	-	• Agrees the treatment of short-term capacity feeding into capacity neutrality is inappropriate and should have been addressed during the Gas Charging Review Process. A wider review of how revenues are apportioned across Transmission and Non-Transmission would be sensible.
ESB	Yes	• Neutrality was constructed to prevent NGG from benefiting from constraint management money flows. The Modification Report makes reference to short-term capacity scarcity leading to premia being paid, and that the aim was that NGG should not financially benefit in this circumstance. In the case of a capacity constraint and price premia being bid, we question whether this principle remains unchanged and is an unintended consequence that needs to be taken into account, however unlikely it appears today. • Are concerned that there are other NGG revenue allocations that need to be investigated in light of this. Specifically, the lack of alignment of SO/TO pots to Non-Transmission and Transmission

		Services revenues. The cross-subsidy that has been demonstrated between Exit capacity Transmission Services payments and Non-Transmission Services charges is a key concern.
Gazprom Marketing & Trading Limited	Yes	• Believe it's appropriate to retain interruptible capacity sales within the Capacity Neutrality mechanism. • Within the capacity release methodology, interruptible capacity is calculated as the 30-day rolling average of unused capacity capturing unused, sold firm capacity. On this basis, it's intuitive to retain interruptible capacity in the neutrality mechanism so the system fairly recompenses firm shippers for their capacity purchases that have not been utilised by the purchaser. Further it does not reward National Grid for effectively selling the same unit of capacity thereby over-recovering revenue against its Allowed Revenue.
Interconnector UK Ltd	Yes	• The market is increasing profiling and optimising bookings with shorter term products. It is therefore appropriate for NTS daily interruptible and within day Entry Capacity revenue to be removed from the Capacity Neutrality arrangements and into National Grid's allowed revenue calculation. This is consistent with the EU tariff network code objective that TSOs should recovery their allowed revenue from capacity sales.
National Grid NTS	Yes	• Inclusion of Within Day NTS Entry Capacity and Daily Interruptible NTS Entry Capacity revenues in Capacity Neutrality was predicated on the charging methodology and structure in place at that time for a specific purpose i.e. to ensure that National Grid NTS was neutral to any cash flows related to any Constraint Management costs and relevant revenues and that these revenues offset such costs for those parties subject to Capacity Neutrality. • The introduction of a new Charging Methodology which materially differs in structure from that previously in place merits consideration as to whether these arrangements remain fit for purpose. Due to the move to a model whereby the purpose is to recover Allowed Revenue for Transmission Services entirely from capacity based charges, around two-thirds of Entry Capacity Revenue collected in October 2020 was returned to Users via Capacity Neutrality and is therefore not in line with the intentions of the reforms implemented under UNC Modification 0678A. • With the high value of the overall Capacity Neutrality revenue, driven by the increased revenues associated to within day and daily interruptible Entry capacity, National Grid NTS believe the inclusion of these revenues within the Capacity Neutrality process is not fit for purpose. Prior to 1st October 2020 the revenue returned via Capacity Neutrality was typically circa £100k per month. On average, across October and November this is approximately £15m per month.

Neptune Energy	Yes	• Under the current regime the tariff costs are the same regardless of which auction the capacity booked in, it incentivises shippers to book as close to the time of delivery to give the highest chance of booking to match flows. Accordingly, the majority of entry capacity bookings will be made either as interruptible or within-day firm entry capacity. • Under the previous regime, where there were capacity constraints within-day capacity that had been previously acquired at zero price could incur a premium and it was important that National Grid NTS in no way benefited financially from subsequent increased revenues in those circumstances. • The logic for including interruptible or within-day firm entry capacity in Capacity Neutrality made sense under the old tariff regime. However, given the current tariff set up, it is no longer appropriate that such capacity bookings feed into the capacity neutrality since National Grid must now recover most of its revenue through such short-term capacity bookings.
Northern Gas Networks	-	• No direct response provided.
OGUK	Yes	• Given the impact of Modification 0678A on shipper booking behaviour, the capacity neutrality revenues are now significant, and the capacity neutrality mechanism is now leading to some unintended effects which have a differential and unpredictable impact.
Pavilion Energy Spain S.A.U.	-	• No direct response provided.
RWE Supply & Trading GmbH	-	• Agrees the Modification proposal raises important issues on the separation of transmission owner (TO) and system operator (SO) activities and the allocation of the various cashflows under the UNC to transmission services and non-transmission services. With respect to interruptible and within day firm entry capacities it is unclear as to whether the availability of these products is determined by the overall network capacity (TO) or by operational decisions taken by the SO, for examples on the dispatch of network compressors. The linkage between the neutrality arrangements and network constraints suggests that the availability of interruptible and within day firm entry capacities may be related to SO activities. • Believes a full review of UNC cashflows and the allocation of these cashflows to transmission and non-transmission revenue recovery is required so that the market can fully understand the allocation process that underpins revenue recovery by the SO and TO. This will facilitate greater transparency of the arrangements and allow a fundamental assessment of the UNC cashflow allocations in relation to compliance with Regulation 2017/460.
ScottishPower Energy	-	• The consequences of the inclusion of those products in Capacity Neutrality appear to have been the driver for this proposal and so it

Management Limited		may well be the case that that should be discontinued going forward. However, charging regimes are complex with many interactions between individual elements and we remain concerned that this may have not been thoroughly assessed.
Shell Energy Europe Limited (SEEL)	Yes	• Please refer to the answer provided in their main response.
SSE	-	• The TAR NC is clear on what is Transmission revenue and what is Non-Transmission revenue. The UNC and NGs' cashflows and licence should be compliant with this. • A wider review of System Operator licenced activities and incentives should be undertaken by Ofgem to ensure that if daily capacity revenue is transferred to Transmission revenue that appropriate incentives remain in place to ensure release of daily capacity.
storengy	-	• No direct response provided.
Uniper	-	• Please refer to the answer to Question 2 below.
Wales & West Utilities	-	• Under the pre Modification 0678A arrangements the NTS's argument was that interruptible services were only offered where there was capacity and therefore were not included in Transmission Operator revenues. In the case of Exit Capacity WWU argued that this meant that DNs were paying for about 80% of NTS exit capacity but only using 50%. • Our understanding, following the implementation of Modification 0678A, is that revenue from interruptible exit capacity is included in in Transportation Services Revenue and therefore counted as collected revenue against the allowed revenue. Therefore, from a principles point of view this should have been applied to entry as well. We support consistency between entry and exit where the same principles apply. • Notes that the arguments put forward proposing this approach seem to be based more on expediency that principle and this leads us to question whether our understanding of how revenue from interruptible exit capacity is treated is correct.

Q2: Do you agree that these revenues should be removed from capacity neutrality?		
Organisation	**Response**	**Rationale**
Barrow Shipping	No	• A proper review of this is needed in the context of the charging methodology and capacity regime as a whole rather than reaching the conclusion change is needed without an impact assessment.
BBLC	-	• No direct response provided.

Centrica Energy Ltd	Yes	• Please refer to the answer to Question 1 above.
Drax	-	• Please refer to the answer to Question 1 above.
Energy UK	-	• Agrees that a short-term solution is needed, but considers this issue raises wider questions as to whether the current framework is compliant with TAR NC and the roles of the TO and SO. We detail these concerns at the end of this response.
Equinor	-	• Agrees a short-term solution to this issue is needed and hope this will not create further unintended consequences.
ESB	Yes	• Believes that in the current market circumstances, it appears rational. However, the principle of whether any auction premia above reserve price in the case of constraint should be allocated to neutrality or to NGG revenue should be reviewed.
Gazprom Marketing & Trading Limited	-	• The revenues from within day capacity should be removed from capacity neutrality as outlined above.
Interconnector UK Ltd	Yes	• See answer to Question 1 above. • It is unfortunate that the proposed change was not raised as part of the new charging regime changes which came into force from October 2020; this has resulted in higher charges affecting the market. If this revenue does not go into allowed revenue it will only serve to increase capacity prices and RRC levels going forward to the detriment of the effective functioning of the market.
National Grid NTS	Yes	• Based on the rationale stated in response to Question 1, they believe the revenues from the identified Entry Capacity products should be removed from Capacity Neutrality arrangements.
Neptune Energy	Yes	• Suggests the revenue attached to interruptible or within-day firm entry capacity should be recovered by National Grid and be included within their allowable revenue recovery. It is simply illogical that a capacity booking regime be set up in a way that incentivises certain commercial behaviour (i.e. to book interruptible or within-day firm entry capacity) but the revenue generated from such behaviour does not flow to the system operator but instead to shippers who have previously booked the much cheaper long term entry capacity, which then requires National Grid to recover the same costs again from only the shipper for whom the Revenue Recovery Charge is applicable.
Northern Gas Networks	-	• No direct response provided.
OGUK	Yes	• Believes that removing these revenues from the Capacity Neutrality mechanisms would ensure these contribute to NG allowed revenue

		so that there is a better match between capacity booked and used in any particular year and the revenues received from network users.
Pavilion Energy Spain S.A.U.	-	• No direct response provided.
RWE Supply & Trading GmbH	-	• Believes that given the materiality of the cashflows and the potential impact on revenue recovery under transmission services charges we support implementation of the modification proposal, based on the evidence submitted by NGG. However, the issue has highlighted a need for a considered assessment of the allocation of UNC cashflows to transmission services and non-transmission service, and in relation to TO and SO activities.
ScottishPower Energy Management Limited	-	• Suggests that it would appear appropriate to remove these revenues from Capacity Neutrality, although that again is subject to their concerns around unintended consequences.
Shell Energy Europe Limited (SEEL)	Yes	• Please refer to the answer provided in their main response.
SSE	-	• Believes the TAR NC is clear on what is Transmission revenue and what is Non-Transmission revenue. The UNC and NGs' cashflows and licence should be compliant with this. • Suggests a wider review of System Operator licenced activities and incentives should be undertaken by Ofgem to ensure that if daily capacity revenue is transferred to Transmission revenue that appropriate incentives remain in place to ensure release of daily capacity.
storengy	-	• No direct response provided.
Uniper	-	• Feels it is not necessarily a question of whether it should be feeding into Capacity Neutrality at all, but rather whether the revenue should be assigned to TO or SO. Both within-day and interruptible capacity are created as by-products of long-term firm capacity being made available. As a result, both products relate more closely to the short-term, variable costs of operating a network (such as running compressors) rather than recovering the costs of long-term assets. In a simplistic model, where SO is about variable costs and TO about fixed costs, it would seem appropriate that revenues from these short-term products should be assigned to the SO. The introduction of a Postage Stamp model, which removed the concept of short and long-term marginal costs, has confused and undermined the existing licence structure of revenue streams. It appears to have resulted in undue cross subsidies between the TO and SO and therefore warrants urgent Ofgem attention, as this is not something that UNC parties can fix.

Wales & West Utilities	-	• Please refer to the answer to Question 1 above.

Q3: Do you support that National Grid should be granted a one-off relaxation of its obligation to provide two months' notice of pricing changes?		
Organisation	**Response**	**Rationale**
Barrow Shipping	No	• Suggests rapid price changes create instability and are best avoided. National Grid talk about being customer focussed, and if they wish to show some customer focus they should maybe consider absorbing the impacts of their miscalculation and making any adjustments to allowed revenue over an extended period following a review of how the present situation arose and how the charging methodology might be amended in light of the new information.
BBLC	-	• Suggests that the pending increase in the TSRRCs may result in increased market prices at the NBP and increased energy costs to end consumers. National Grid have committed to reducing the currently notified Entry RRC if the Proposal is implemented. • Believes that it is in the interests of market participants for the reduction in the Entry RRC to be introduced as soon as possible in order to reduce the market and consumer impacts of higher levels of Entry RRC. National Grid has also confirmed that the Entry RRC can be further reduced if the Proposal is implemented in time to apply for the January 2021 period. Again, to the extent that such earlier implementation results in a lower Entry RRC, supports this intention. Given that there are market and competition benefits from a reduction in the Entry RRC. • Believes it is in the interests of consumers for the proposed changes to be implemented without delay. • Emphasizes that since the current situation is exceptional the waiving of the normal minimum notice periods should be strictly temporary and linked solely to the changes proposed within this Proposal. On this basis, agrees with the introduction of the Transitional elements of the Proposal.
Centrica Energy Ltd	No	• Please refer to the answer provided in the 'implementation' section of their main response.
Drax	No	• Believes this is not in line with the provisions in the UNC and Tar NC. We are concerned that relaxing any obligations will produce more severe detrimental impacts on market participants and the stability and predictability of charges for transmission services and non-transmission services.

Energy UK	-	• Is concerned that this will lead to non-compliance with TAR NC as highlighted in the legal text section and could also support further deviation from UNC rules in Y section Y 3 and by association TAR NC article 20. We therefore have strong reservations about relaxing the obligation to provide two months' notice of changes to charges, especially to a period as short as 5 business days.
Equinor	-	• Has reservations about relaxing the obligation to provide two months' notice of changes to charges, especially to a period as short as 5 business days.
ESB	No	• Notes National Grid Gas (NGG) is entitled to provide 1 month notice and that should not be waived. We are concerned that precedent could be set and subsequent change proposals would also be inadequately analysed and poorly managed.
Gazprom Marketing & Trading Limited	-	• Understands that urgency procedures are appropriate for this proposal so we support a one-off relaxation of this obligation, however one months' notice for pricing changes would be more appropriate to avoid significant commercial impacts.
Interconnector UK Ltd	Yes (only on this occasion)	• Believes that given the broader benefits the proposal will bring by helping reducing the RRC from what it otherwise would be, we support the proposal. As this question indicates, it should be a "one off". Normal practice must be to ensure the market has sufficient notice and they hope whilst the Modification allows a minimum of 5 business days' notice, that a decision can be made promptly to give a longer notice period than that.
National Grid NTS	Yes	• As identified above in Questions 1 & 2, the materiality of the issue (i.e. the revenue returned to Users that needs to be consequently recovered via the TSRRC) increases incrementally (circa £0.5m per day) for as long as the issue remains unresolved. A TSRRC has been notified to the industry to take effect from 1st February 2021, should this modification be implemented then the Revenue to be recovered will cease escalation. • Recognises the need to maintain price/market stability and confidence which forms the basis of the rationale for the current notice period. Without this proposed reduced timeframe it would mean, for example Entry TSRRCs, could not be updated until at least two months post any decision. Therefore, we are proposing that this notice waiver is only available for a limited period of time (2 months) subsequent to the date of Ofgem's decision. • Points out the proposal allows this to be less than two months and no shorter than 5 Business Days until the rate becomes effective. In practice National Grid NTS will seek to offer the longest possible notice period following a decision to implement. If this proposal is implemented, for example from January 2021 (i.e. a decision to implement is made in December 2020) then the change to Capacity

		Neutrality would be effective from 01 January and National Grid NTS would look to amend the already published TSRRC effective from 01 February 2021 to reflect the change.
Neptune Energy	Yes	• Supports the one-off relaxation of the notice period to implement this Modification, since this implementation is simply reducing the costs for shippers who are having to book entry capacity under the new regime and reducing the amount of windfall profits for holders of long term entry capacity (who could not reasonably have expected to be receiving such windfall profits when they booked the capacity).
Northern Gas Networks	-	• No direct response provided.
OGUK	Yes	• Believes this would allow the earliest practical revision to charge rates as a consequence of the implementation of this proposal and thus more quickly correct the regime to better reflect the code objectives.
Pavilion Energy Spain S.A.U.	-	• Agrees on the substance of the proposal, but not on how it is intended to be implemented. • Feels with regards to the substance of the proposal, they consider that the revenues obtained by both the "daily entry capacity" and the "interruptible capacity" should not be included in the “Capacity Neutrality” mechanism and they should be applied to the Allowed Revenues of the Transmission Operator (TO). They also understand that this regulatory adjustment is consistent with the new regulation that has been implemented since last October 2020. • However, with regards to the way that the proposal is intended to be applied, they do not agree to make an “adhoc” exception to the established procedure (in this case, referring to the minimum notice to carry out a regulatory change affecting the price of the tolls). This is so for the following reasons: o Considers that the proposal that is currently under consultation, raises two distinct situations, which must be managed separately from a regulatory point of view: ▪ (1) On the one hand, the under-recovery situation must be handled with the mechanisms that the regulation offers to do so. In this case, the activation of the "Revenue Recovery Charge" (RRC) in the short term (as will occur from February 2021) and, if applicable, the recalculation of the reserve price from October 2021, with new estimates more adjusted to reality. ▪ (2) On the other hand, the Modification of the terms considered in the "Capacity Neutrality" mechanism. This regulatory adjustment must be carried out regardless there is and over or under-retribution or whether the under-retribution (as is the case) is relevant or not. They also understand that the procedures established in the regulation to carry out regulatory

		adjustments, must be followed (in this case a minimum notice that allows all agents a proper price forecast, establish their business strategies or communications to customers, adapt their processes, etc.). o Understands that, from a regulatory point of view, both situations must be managed independently and through the specific mechanisms established for each of them: (1) In the case of the under-recovery, it will be solved since February 2021 through the application of the RRC and, (2) in the case of the regulatory change in the "Capacity Neutrality" mechanism, by means of the corresponding regulatory proposal to be processed and implemented in accordance with the established procedures. o However, the current proposal now under consultation, intermingles the two situations with the aim of justifying the exception to the procedure (in this case, having to comply with a minimum notice in the case of a change affecting tolls). It is more, the need for derogation from the established procedure is justified by the fact that the under-recovery affecting National Grid's Allowed Revenues is much higher than anticipated. o Understands that the issue affecting the under-recovery of National Grid's Allowed Revenues will be solved in February 2021 with the activation of the RRC. Therefore, the justification for requesting the exception to the general procedure would no longer apply. o Suggests finally, in order to provide greater predictability in the regulatory and legal system, they believe that the regulation has to assure that the established procedures and deadlines are met without making "ad hoc" exceptions, which could also set a precedent for the future. This could also harm legitimate expectations in the regulatory system of operators. o Suggests given the successive regulatory changes that have occurred recently, in addition to the obligation to comply with the established procedures, they consider it is necessary to carry out an in-depth analysis of the parameters that determine the basis of the new regulatory scheme, in order to be able to properly adjust them to the existing reality and therefore offer all agents the best possible estimation of the values of the tolls for the whole year 2020/2021.
RWE Supply & Trading GmbH	-	• Recognises that a "one off" relaxation of the NGG obligation to provide two months' notice of pricing changes may be required in this case to address the defect. However, this relaxation should only be for publication of revised Revenue Recovery Charges associated with the removal of Capacity Neutrality payments as set out in the Modification proposal.

ScottishPower Energy Management Limited	-	• Has concerns about reducing the notice requirements as this would limit parties' ability to factor in such new charges, and particularly when the proposal includes a reduction to only 5 working days.
Shell Energy Europe Limited (SEEL)	Yes (but only the RCC)	• Please refer to the answer provided in their main response.
SSE	-	• Notes the proposed legal text allows change to "any" transportation charges with 5 days' notice*. "25.6.1 The minimum notice requirement in TPD Section B1.8.2(a) shall not apply in respect of a single change of rate of any Transportation Charge payable."* TAR NC requires 30 days' notice of changes to RRC. Additionally, TAR NC stipulates that Reserve Prices are only to be set once a year. But the proposed legal text would allow these to be changed too. The text should be changed to restrict the changes to just RRC or Ofgem's implementation decision should restrict change to just RRC.
storengy	-	• No direct response provided.
Uniper	No	• Believes this issue was foreseeable and NGG should have planned for it. It is unacceptable that all the risks (in terms of large unpredictable RRC) are passed directly through to network Users and customers when NGG makes forecast errors or fails to follow good practice. Under the current arrangements, NGG is exposed to almost no risk, whilst Shippers and the wholesale market bear it all. This direct pass-through of network charge volatility is clearly incompatible with a competitive and efficient wholesale gas market. • Suggests there must be a more equitable sharing of risk, which could take the form, for example of NGG absorbing some of the pricing volatility and spreading the cost recovery out over a longer period. Again, this would almost certainly require licence and/or incentive changes which only Ofgem can enact. Whilst we are not necessarily advocating such a solution, serious consideration needs to be given to options other than simply using the RRC. • Points out that in addition, a proposed reduction from two months to just five business days' notice for network Users sets an alarming and unacceptable precedent. Whilst on this occasion it is to reduce charges, the principle could equally be relied upon in future to raise charges at short notice. As noted above, the legal text also gives NGG the power to change any transportation charge with just business days' notice. • Suggests that overall, network Users need certainty about tariffs <u>months</u> in advance and also require predictability and stability. Changing tariffs at extremely short notice (up or down) does not respect the way that businesses operate and may lead to significant commercial losses. The normal minimum notice period of two months exists for good reason.

Wales & West Utilities	-	• Believes that there are two separate parts to this Modification, first the removal of some revenue streams from the revenue neutrality process and second, the relaxation of the notice periods for price changes. They are linked but separate. • Does not agree that National Grid should be given a one-off relaxation. National Grid already has powers to levy Revenue Recover Charges that are not available to Distribution Network Operators. Our concern is that if this Modification is implemented then National Grid may seek similar provisions in respect of NTS Exit Capacity Charges in the future based on this precedent. DNOs are already exposed to Revenue Recovery Charges that impact cash flow and to which we have limited ability to respond. • Feels where additional charges are notified and levied in the same regulatory year (i.e. notice not provided in advance of the start of a regulatory year), the associated revenues cannot be collected in the same year under the RIIO 1 and RIIO 2 regimes, resulting in an adverse cashflow impact. WWU has been subject to a £4m adverse cash flow impact in 2020/21 as a result of the levying of additional costs to DNs that take effect in February and March 2021 under the Revenue Recovery Charge. The price notice detailing these additional charges was published by National Grid on 1 December 2020. • Notes that for charges to be reflected in a DN's allowed revenue, they would need to be known by the end of October before the start of the regulatory year. Under the RIIO GD2 Annual Iteration Process, the deadline for regulatory inputs into the PCFM is 31 October. • Points out that they would only agree to these powers if the Modification explicitly provided that they applied to all Transporters as this would allow DNOs to pass on the changes by revising their charges; however, we expect that Shippers on DNO networks would object to the resulting lack of predictability in DNO charges. • Appreciates that a shorter notice period will reduce the size of the change in charges required and mean the recovery is made quicker but believe that the principle of providing two months' notice should be maintained.

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

Discussion

The Panel Chair summarised that Modification 0748 would remove two types of capacity revenues (namely those recovered from daily interruptible and within day Entry Capacity) from Capacity Neutrality arrangements prospectively from the implementation date. This is to avoid these cashflows being subject to redistribution across Entry Users and instead ensure that they contribute to recovery of Allowed Revenues.

Panel Members considered the representations made noting that, of the 21 representations received, 8 supported implementation, 7 offered qualified support, 4 provided comments and 2 were not in support.

The Panel Chair asked Panel Members for their general views, however she specifically noted that the timings associated with the Modification have meant that to have conducted analysis would have been exceedingly difficult.

Panel Members discussed the Energy UK email that they were notified of at 17.45 on 16 December 2020. In the note Energy UK pointed out they had concerns around licence and UNC discrepancy.

Some Panel Members noted that some of the aspects which Energy UK identified are separate to the Modification.

National Grid clarified that the Modification covered two aspects: re-directing monies from Capacity Neutrality and separately amending notice periods.

National Grid confirmed discussions are ongoing with Ofgem about the nature of the Revenue Recovery Charge (RRC) and the period for which it endures. National Grid considers these discussions to be outside the scope of this Modification.

A Panel Member noted that Panel Members were not aware of these ongoing discussions, although they stated that it is useful that they are ongoing. In addition to the RRC issues, Some Panel Members stated that they believed a further and separate issue is the potential 5 days notice for change of any Transportation Charge. Additionally, some Panel Members stated that these arrangements with so little notice appear to already be non-compliant, so this is exacerbated by the RRC being set over a short period.

A Panel Member noted it would have made more sense for these discussions to be concluded before the Modification was presented to the Modification Panel for determination. Panel Members noted that compliance with EU TAR NC is still required, Brexit notwithstanding.

Another Panel Member noted that the period over which the RRC is applied is separate to the Solutions proposed in the Modification which focuses on the notice period for a change to RRC.

A Panel Member noted that the 5 day notice period appears to be non-compliant which gives the impression that compliance with EU law appears to be considered more important in some cases but not so important in others. It is import ant that the significant effect on trading of reducing notice periods must be taken into account. In addition, retrospection would be introduced by cutting the normal window of operation caused by a short notice implementation of Modification 0748.

The Independent UNC Modification Panel Chair asked the Ofgem representative to respond.

In response to the Panel Chair inviting comment on two points, firstly Ofgem were of the understanding that National Grid had sent out a communication providing clarification on the 5 day window, and this was an issue for National Grid to respond to, and secondly the Ofgem representative stated that they were of the view that nobody within the industry disagrees this is a significant issue with serious consequences and it is not ideal to delay addressing the significant issues.

National Grid clarified that the 5 day notice period aims to enable a change to the RRC that should be have a positive impact on the community. The 5 day period is to try and introduce a buffer. The intention still is to give as much notice as possible (and any notice would be accompanied by appropriate engagement with the market). The amendment of the RRC will only take effect from 01 February 2021 and there is no intention to create an RRC from 01 January 2021. National Grid stated that there is a table in Appendix 1 of the Modification which highlights this.

A Panel Member noted that although there is an explanation contained in Appendix 1, this is not actually part of the formal Modification and thus is not within the Solution.

Some Panel Members discussed how placing this information in the Appendix rather than the main Modification had in their view created uncertainty as to when the changes to the RRC will be applied. Some Panel Members noted that there UNC is a commercial contract and there must be certainty within it. Fundamentally it is imperative that the UNC prevails and that the UNC provisions are surrounded by good governance.

Panel Members discussed whether the Legal Text reflected the intent of the Modification. Panel Members noted that within the UNC notice periods exist for good reason and that there are significant commercial considerations to be taken into account in relation to notice periods.

A Panel Member believed that wording in the legal text gives rise to three concerns:

1. 5 days is five days regardless of the intent;
2. 'Any Transportation Charge', gives large scope, regardless of intent; and
3. Notice periods in code – a precedent will be set which undermines stability and planning, with links to commercial contracts and financing. The governance around this is worrying.

A Panel Member noted that if there were universal support for the Modification including for the change of notice period in consultation responses, then this would be less concerning. However, in their view this is clearly not the case. Additionally, a Panel Member noted that a serious amount of feedback had been received even within the very short consultation window.

National Grid as Proposer noted that there was broad support for removing the revenues from neutrality, though this appeared to not be the case in terms of the notice period and legal text.

Some Panel Members noted that due to the Urgent Modification process, the Modification Panel were limited in their options to ensure that the Modification could progress in a satisfactory manner. It was felt by some Panel Members that the Proposal could have been developed with the addition or one of more Workgroups which could have ironed out any potential differences between the original intent of the Proposer and the Legal Text.

Panel Members wished to reiterate that it takes its duties seriously and upholds the same standards for all Modifications, regardless of the size of the impact or urgency of the issue at stake.

The Modification Panel discussed how it strongly discourages the use of comfort letters or explanatory text accompanying Proposals, urging Proposers to ensure the Proposal is clear and well understood before Legal Text is produced.

A Panel Member noted that the Modification had spent time as a pre-Modification discussion (at Draft Modification stage) at Workgroup on Monday 07 December.

Most Panel Members viewed the email sent by National Grid on 15 December 2020 regarding intent, as not providing the clarification that they would have wished to have seen.

Panel Members further discussed the importance of good governance and, some Panel Members noted that a considerable precedent was being proposed by the inclusion of the short notice period in the Transitional text.

Some Panel Members stated that the Legal Text appears to reflect the Modification but that it appears that the Modification does not reflect the intent of the Proposer. Whilst most Panel Members noted that the legal text meets the Solution of the Modification, some felt that the wording was quite broad in scope.

A Panel Member noted that 2-3 years ago, predictability and stability of charges was of great concern with discussion around the need for longer notice periods was very important. He further stated that the Modification Panel should not 'sway with the wind'.

National Grid clarified that their intention is to give far more than 5 days notice to the community.

A Panel Member noted that in their view there are parts of the Modification which appear to be outside the UNC and highlighted SSE's response in this area.

A Panel Member noted that there is clearly a problem to be solved. However the question remains what options are there for the Modification Panel to pursue.

A Panel Member noted that the moving of the funding to cover Allowed Revenue seemed to make sense.

A Panel Member noted that some DN consumers are already concerned about charging for 3-6 months in advance and 'codifying' the possibility of 5 days notice is of great concern all round.

The Independent UNC Modification Panel Chair asked the Joint Office to confirm the available routes that the Modification Panel could purse.

The Head of the Joint Office confirmed that the Modification Panel would be asked to vote on a recommendation for implementation and following this the Final Modification Report would be sent to Ofgem for determination. A further option could be for the Proposer to ask for the Modification to be withdrawn. Finally, it was stated that any party to Code can raise a new Modification, and that any new Modification could request Urgent procedures or proceed as normal to Workgroup.

Panel Members noted that the Notice Period appears to be the most contentious element and questioned as to why 01 February 2021 had been selected, rather than allowing the standard notice period with a 01 March implementation.

National Grid noted that in relation to the notice period, the Modification is aiming for 01 February 2021 because implementing the amendment as soon as possible, should improve cashflows for Parties and the Modification is aiming to mitigate the effects of the current situation. National Grid confirmed it is not intending to withdraw the Modification. In conclusion, National Grid informed the Modification Panel that it believed the combined effect of the change in Charging Methodology on 01 October 2020 combined with the effects of Capacity Neutrality and the need for a change to the RRC, meant that delaying the change is not an option.

A Panel Member challenged the assertion that reducing the RRC has a positive impact on all Parties and stated that this may well not be the case. Further they stated that businesses operate by planning ahead and mitigating their risks.

National Grid stated that in relation to charging notifications in their view, a month is ideal is a month and that is their aspiration, however when constrained they are proposing 5 days to be used in an emergency. National Grid also stated that in their view the longer the wait, the higher the price will become and as such timings within the Modification are aiming to bring down the revenue recovery charge. National Grid also highlighted that the RRC targets a small part of the market because of the legacy contracts at Entry.

A Panel Member asked National Grid whether the changes proposed for RRC notification timings would also apply to capacity neutrality i.e. 30 day notice. A Panel Member stated that notification timings may require positions to be unwound and as such this requires a reasonable period of notice.

National Grid as Proposer stated that the Modification included two elements of change:

1. RRC change, and
2. The removal of some capacity from capacity neutrality.

National Grid confirmed that if an Authority decision came in December 2020 to implement from 01 January 2021, then capacity neutrality changes would start from 01 January 2021, however the implementation of a change to RRC would be from 01 February 2021. National Grid stated that this was mentioned at the NG-led workshops.

A Panel Member asked whether there was an option for a variation to the Modification at this stage.

The Joint Office stated that the Modification Rules do not allow for changes to the Urgency timetable once approved by the Authority, unless the Authority determines otherwise.

The Ofgem representative stated that the Authority has the discretion to send any Urgent Modification back to the Modification Panel and would decide on timescales and actions following this.

Some Panel Members noted the potential consequential effects of the precedent of charging notice pricing changes and stated that these could have a variety of broad potential consequences on the dynamics of the market.

A Panel Member felt that the compliance or otherwise of the duration of the RRC application (remainder of regulatory year or Gas Year) is not in the scope of this Modification.

A Panel Member noted if, in setting prices originally (notice of a RRC to apply for a specific period rather than the remainder of the Gas Year) National Grid was not compliant with EU TAR NC, they believed this to be of great concern. It is now known to the Modification Panel that this matter is under discussion with Ofgem but consultation respondents did not know this.

Some Panel Members noted that compliance with TAR NC was cited as a key driver when considering previous charging Modifications, yet it appears to be of lesser consideration here according to the Proposer of 0748.

National Grid noted that compliance remains an important element of the regime and was clearly considered in the raising of this Modification.

All Panel Members agreed that Capacity Neutrality has been affected by the changes to the Charging Methodology and that Capacity Neutrality is not producing the results as intended, though its not yet clear that this solution in this Modification is the correct one.

Panel Members noted the application of the RRC following on from the Modification means there are consequential effects on Gas Storage (relating to the Charging Methodology) and with it Security of Supply.

A Panel Member noted the views from BBLC and IUK highlight a positive effect on Security of Supply.

A Panel Member noted a reduction in the RRC from 01 February appears to be driving this risk through compressing the recovery period whilst in a winter period.

Panel Members noted that an Ofgem decision on Modifications 0727 and 0729 are still awaited.

A Panel Member representing Domestic consumers asked how this Modification helps consumers.

A Panel Member noted that in essence and from first principles, recovery of Allowed Revenue is needed. The impact on consumers will depend on the contracts they have. At a high level there should be no impact as a group (including no impact on consumers as a group) but individual impacts will vary. Over the course of the year the total amount does not change.

A Panel Member representing consumers stated that it follows that prices if prices go up at some place in the market, the under-recovery created must be drawn from somewhere.

A Panel Member noted that market efficiency will be negatively impacted with shorter notice periods.

A Panel Member noted that gas prices increased when the RRC increase was announced in November, this has also had an effect on electricity prices. The impact is a re-distributional impact on some parts of the market which may have cost impacts on some parts and will inevitably flow through to consumers at some point.

A Panel Member noted that some groups of consumers may be more proportionately impacted than others.

Panel Members noted that consultation responses from others relating to:

- Liquidity in forward trading markets reduced, relating to cost uncertainty (Gazprom M&T)
- Several responses highlighted the positive impact of the implementation of the modification relating to Security of Supply

Some Panel Members believed that Ofgem should have consulted the Modification Panel on the timetable, given the scale of the change and noted that a potential Ofgem decision during its moratorium period, when there is less market liquidity, would be disruptive.

Panel Members noted that the short consultation length meant that there was likely to be a lack of potential responses.

Panel Members noted there were several calls in responses for wider reviews though these are outside the Modification:

- TS/Non-TS and SO/TO revenue flows (Equinor/SEEL)
- Methodology for Forecasted Contracted Capacity (SEEL)
- Definition of the roles and responsibilities of the SO, especially looking at alignment of activities, revenues and incentives (Energy UK/SSE/Uniper)
- Fundamental industry review of capacity neutrality (Uniper)

Consideration of the Relevant Objectives

Panel Members noted there was a great number of divergent views in the consultation responses.

Some Panel Members and a number of consultation responses noted there was insufficient analysis to support assertions made by the Proposer in relation to Relevant Objectives .

Panel Members noted that according to the Proposer, three standard Relevant Objectives were indicated to be positively impacted by this Modification, namely standard Relevant Objectives c), d), and g). In consultation responses Relevant Objective f) was also covered. Therefore, these four are considered first, followed later in this section by the charging Relevant Objectives.

<u>Panel Members considered relevant objective *c) Efficient discharge of the licensee's obligations*</u>

> Some Panel Members agreed with the Proposer that implementation would have a positive impact because the proposed changes in this Modification better align the treatment of entry capacity revenues with the new Methodology and arrangements. Implementation of this Proposal would enable more efficient collection of Allowed Revenue (as provided for in the Special Conditions of National Grid's Licence) as opposed to the alternative approach of recovering a material proportion of National Grid NTS' Allowed Revenue via the TSRRC.

Some Panel Members noted that there is insufficient analysis to agree that Relevant Objective c) is positively impacted.

Some Panel Members noted that there appeared to be a general view that something needs to be done however this Relevant Objective relates to the license obligations and the A5 obligation in respect of charging is relevant here – there is a lot of disagreement on the charging notice period.

Some Panel Members said there is an argument that the change in capacity neutrality arrangements does positively impact Relevant Objective c) but this may not be true of the charging element of the Modification.

Some Panel Members said there was an argument that the change in capacity neutrality arrangements does positively impact Relevant Objective c).

Other Panel Members noted that the charging element of the Modification could be seen to be negative on this Relevant Objective c).

Panel Members considered Relevant Objective *d) Securing of effective competition between Shippers and/or Suppliers*

A Panel Member agreed that implementation would have a positive impact because the proposed changes in this Modification are expected to provide a more stable and predictable price setting regime (specifically in respect of Entry Capacity and TSRRC), 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 there is a positive impact on Relevant Objective d) through implementation removing some of the differing re-distributional effects (different basis) seen from the impact of capacity neutrality, (consider the scenarios given in the Modification).

Some Panel Members noted that the assertions above by the Proposer in relation to the 5 day notice period do not appear to generate stability and predictability. This is negative for Relevant Objective d). Some Panel Members noted the negative impact on gas fired electricity at margins through upward price pressure which negatively affects competition and this Relevant Objective d).

Some Panel Member noted the positive effect of the changes to capacity neutrality are outweighed by the changes to the notice periods and therefore this is negative for Relevant Objective d).

Some Panel Members disagreed with the above noting that a number of respondents supported the Modification overall. This indicates support for the capacity neutrality aspect.

Panel Members considered Relevant Objective f*) 'Promotion of efficiency in the implementation and administration of the Code'*,

Some Panel Members agreed with some consultation responses that the Modification reduces the notice period for changes in Transportation Charges and creates an unwelcome precedent. This is negative for Relevant Objective f).

Other Panel Members did not believe this Relevant Objective was impacted.

Other Panel Members noted this change to notice periods may also have a negative effect on competition Relevant Objective d)

Panel Members considered Relevant Objective *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,*

A Panel Member agreed with the Proposer agreeing that implementation would have a positive impact because the proposed changes in this Modification will ensure that the revenue recovery arrangements better align with the EU Tariff Code principles relating to the purposes of the Reference Price Methodology and the TSRRC and reduce the disproportional impact of Capacity Neutrality seen since October 2020.

Some Panel Members noted that, unlike 0678A, there was no compliance statement nor assessment of compliance against EU TAR NC. This was referenced by some respondents. This makes assessment against Relevant Objective g) difficult, in addition to Panel Members feeling that they are not qualified to judge on this.

Panel Members noted that the Modification Panel and Panel Members individually are not legally qualified to give an absolute opinion on compliance with TAR NC.

Some Panel Members noted the importance of taking into account the key phrase "remainder of the Gas Year" which appears to affect compliance with EU TAR NC.

Some Panel Members noted that the 5 days notice in the Legal Text appears to some respondents to not be compliant with 30 days notice required by EU TAR NC. This appears negative for Relevant Objective g).

Consideration of the Relevant Charging Methodology Objectives

Panel Members noted there was a great number of divergent views in the consultation responses.

Panel Members noted that according to the Proposer, three charging Relevant Objectives were indicated to be positively impacted by this Modification, namely charging Relevant Objectives a), b) and c). Panel Members agreed to discuss these three charging Relevant Objectives in turn, as follows:

Panel Members considered Relevant Charging Methodology objective 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; agreeing that implementation would have a positive impact.*

Some Panel Members agreed with the Proposer that this Modification that revenues should be recovered from capacity charges which means this is positive for Relevant Objective a).

Some Panel Members noted that there is a lack of evidence that this is the most accurate reflection of costs which makes it difficult to say whether this Relevant Objective a) is impacted.

Some Panel Members noted the interaction of the licence and EU Tar NC regarding TO and SO revenues and there was a general discussion around this.

Panel Members considered relevant Charging Methodology objective *b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;*

Some Panel Members agreed with the Proposer that implementation would have a positive impact on Relevant Objective b) because the re-allocation of revenues is being addressed by this Modification.

Some Panel Members were unsure whether this was a development or whether it could have been foreseen and believed this Relevant Objective is not of the highest importance for this Modification.

Panel Members considered relevant Charging Methodology *objective 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;*

Panel Members referred back to the comments captured above in relation to standard Relevant Objective d) relating to competition.

Determinations

Panel Members voted with 4 votes in favour (out of a possible 14), and therefore did not agree to recommend implementation of Modification 0748.

12 Recommendations

Panel Recommendation

Panel Members recommended that Modification 0748 should not be implemented.

13 Appendix 1

Potential impacts of the proposals on the TSRRC for Entry

Two scenarios are considered here for this Modification. These are presented to provide an estimate of the potential impacts.

1. A decision in December 2020 to implement the prospective proposal that would cease certain revenues from being part of Capacity Neutrality for 1 January 2021, with TSRRC adjusted from 1 February 2021.
2. A decision in December 2020 to implement the prospective proposal that would cease certain revenues from being part of Capacity Neutrality for 1 February, with TSRRC adjusted from 1 February 2021.

	Implementation of Capacity Neutrality change	£m adjustment^	TS Entry RRC effective from*	TS Entry RRC pre change	TS Entry RCC post change
1	Jan 21	£41m	Feb 21	0.0717	0.0578
2	Feb 21	£25m	Feb 21	0.0717	0.0632

Assumptions:

- Rates are in p/kWh/d
- *Assumes same period of recovery as per those issued on 30 November 2020 (https://www.nationalgrid.com/uk/gas-transmission/charging/transmission-system-charges under Final Notices).
- ^The "£m adjustment" represents the amount forecasted to not go through Capacity Neutrality with implementation dates as per the table (i.e. under (1) the value forecast for January, February and March 2021).

- Any changes to these assumptions would impact the calculated rates.