







UNC Modification	At what stage is this document in the process?
<h1>UNC 0748 (Urgent):</h1> <h2>Prospective Removal of Entry Capacity Revenue from Capacity Neutrality Arrangements</h2>	<div style="display: flex; flex-direction: column; align-items: flex-start;"> <div style="border: 1px solid green; background-color: #008000; color: white; padding: 5px; margin-bottom: 5px;">01 Modification</div> <div style="border: 1px solid blue; background-color: #e6f2ff; padding: 5px; margin-bottom: 5px;">02 Workgroup Report</div> <div style="border: 1px solid purple; background-color: #f2e6ff; padding: 5px; margin-bottom: 5px;">03 Draft Modification Report</div> <div style="border: 1px solid orange; background-color: #fff9e6; padding: 5px;">04 Final Modification Report</div> </div>
<p>Purpose of Modification:</p> <p>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.</p>	
	<p>The Proposer recommends that this Modification should be:</p> <ul style="list-style-type: none"> treated as urgent and should proceed as such under a timetable agreed with the Authority
	<p>High Impact: All parties that hold NTS Entry Capacity and National Grid NTS</p>
	<p>Medium Impact: None</p>
	<p>Low Impact: None</p>

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Timetable		
The Proposer recommends the following 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: <ul style="list-style-type: none"> (i) no reserve price is applied, or (ii) that reserve price is set at a level - <ul style="list-style-type: none"> (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and (II) best calculated to promote competition between gas suppliers and between gas shippers; 	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 will be provided by National Grid and will be published alongside this report in time for the start of consultation here: <https://www.gasgovernance.co.uk/0748>

Text Commentary

To be provided ahead of consultation

Text

To be provided ahead of consultation

10 Recommendations

Proposer's Recommendation

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

11 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 RRC 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.