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

UNC 0765:

New retrospective debit and credit charges to reflect changes to the treatment of Entry Capacity Revenue between October and December 2020

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

Purpose of Modification:

The purpose of the Modification is to create new debit and credit charges to reflect the removal of revenues recovered from daily interruptible and within-day Entry Capacity (obligated only) from Capacity Neutrality arrangements between 01 October 2020 and 31 December 2020 (inclusive), consistent with the prospective change introduced from 01 January 2021 by UNC Modification 0748.

Following implementation of UNC Modification 0678A on 01 October 2020, inappropriately high cashflows were subject to the Capacity Neutrality Arrangements (c. £0.5m per day). This Proposal seeks to create a charge to reflect removal of daily interruptible and within-day Entry Capacity (obligated only) revenue from Capacity Neutrality, within the relevant period so that these cashflows contribute to recovery of National Grid NTS' Allowed Revenues rather than redistribution across Entry Users.

This Draft Modification Report is issued for consultation responses at the request of the Panel. All parties are invited to consider whether they wish to submit views regarding this Modification.

The close-out date for responses is 20 September 2021, which should be sent to: enquiries@gasgovernance.co.uk. A response template, which you may wish to use, is at: https://www.gasgovernance.co.uk/0765.

The Panel will consider the responses and agree whether or not this Modification should be made.

High Impact:

All parties that hold NTS Entry Capacity and National Grid NTS

Medium Impact:

None

Low Impact:

None

Contents

Timetable

Modification timetable:	
Initial consideration by Workgroup	04 May 2021
Workgroup Report presented to Panel	19 August 2021
Draft Modification Report issued for consultation	20 August 2021
Consultation Close-out for representations	20 September 2021
Final Modification Report available for Panel	23 September 2021
Modification Panel recommendation	21 October 2021
Final Modification Report issued to Ofgem	22 October 2021

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Any questions?

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1 Summary

What

From 01 October 2020 until the implementation of UNC Modification 0748 - *Prospective Removal of Entry Capacity Revenue from Capacity Neutrality Arrangements* on 01 January 2021, National Grid observed a material increase in revenue levels (from specific Entry Capacity auction processes) that were redistributed to Entry Users via the Capacity Neutrality Arrangements. These arrangements historically[1] redistributed circa £100k per month to Users, however within this period 01 October 2020 to 31 December 2020, the redistribution increased to approximately £15m per month. Therefore, these revenues did not contribute towards the collection of National Grid NTS' Allowed Revenue.

These specific revenues - within day Daily NTS Entry Capacity (obligated only) and Daily Interruptible NTS Entry Capacity - were removed from Capacity Neutrality arrangements from 01 January 2021 through the implementation of UNC Modification 0748. As a consequence, such revenue now contributes to National Grid's Allowed Revenue collection. However, this did not address the material quantity of revenue redistributed to Entry Users *prior* to implementation of UNC Modification 0748 (i.e. 01 October 2020 to 31 December 2020).

Why

In its decision letter for UNC Modification 0748[2] Ofgem concluded that the arrangements that provided for material amounts of capacity revenue to be redistributed to firm entry capacity holders were discriminatory, were not objectively justified and had unintended consequences with regards to the existing Capacity Neutrality arrangements. It further observed that this redistribution adversely impacted competition between Shippers and concluded that implementation of the change would stop these undue cross-subsidies.

The combination of the new charging regime and existing Capacity Neutrality arrangements that resulted in these undue cross-subsidies was in place for a three month period between October 2020 and December 2020. It led to an overall value of circa £47m being inappropriately redistributed back to Users via Capacity Neutrality. This was inappropriate as there are Users that received significant payments from this neutrality process who made little or no contribution to the neutrality mechanism (and vice-versa). This has effectively created windfall gains and losses for individual Users.

Whilst recognising that a retrospective change *in principle* is not desirable and is detrimental to overall confidence in the integrity of the market arrangements, in this case National Grid believes such concerns are outweighed by the adverse impacts on competition of the inappropriate revenue redistribution actioned in this period. It should be noted that the retrospective period concerned is relatively short in duration (3 months).

If no action is taken to address the issue, the inappropriate revenue redistribution highlighted above will not be resolved thereby retaining the identified detrimental impact on competition between Shippers.

How

It is proposed that two additional 'transitional' debit and credit charges are levied to effectively recover and re-distribute the revenues received (and re-distributed by National Grid NTS) from within day Daily NTS Entry Capacity (obligated only) and Daily Interruptible NTS Entry Capacity charges from the Capacity Neutrality arrangements between 01 October 2020 and 31 December 2020 inclusive. This will rectify the defect identified

[1] i.e. prior to 01 October 2020
[2] Decision letter for UNC Modification 0748

in the historic arrangements. For the avoidance of doubt this defect has now been prospectively addressed (from 01 January 2021) by the implementation of UNC Modification 0748.

Proposed transitional charges:

- The debit charge will recover from relevant Users part of the revenue which was distributed to them as a consequence of the Capacity Neutrality mechanism. These Users inadvertently received a payment arising from the treatment of that part of the Capacity Revenue Neutrality Charges associated with interruptible and within day obligated Entry capacity during the period October to December 2020;

- The credit charge will re-distribute the revenue collected via the transitional debit charges to all holders of Fully Adjusted Available Entry Capacity (except Existing Available Holding) over the period 01 February 2021 to 30 September 2021 (inclusive). Each relevant User will receive transitional credit charges proportional to their capacity holdings over that period.

For the avoidance of doubt, the total amount of revenue received by National Grid would not be affected by the implementation of this Proposal. The impacts of Implementation are limited to the redistribution of Capacity Revenues to Users on a more equitable and appropriate basis.

2 Governance

Justification for Authority Direction

This Modification Proposal is recommended to be sent for Authority direction as it is likely to have a material effect on commercial activities relating to the shipping, transportation and supply of gas because, if implemented, it will result in the re-distribution of approximately c.£47m revenue (that was initially subject to Capacity Neutrality arrangements) from a retrospective period (i.e. between October and December 2020).

Recognising that retrospective change to the regime *in principle* is not desirable, in this case this principle must be balanced against the adverse impacts on competition of the revenue redistribution actioned in this period if this issue remains un-addressed. The decision as to whether such adverse impacts are sufficiently material to outweigh concerns regarding retrospective change justifies the proposed approach of seeking a decision from the Authority in respect of this Proposal.

Requested Next Steps

This Modification should:

- be considered a material change and not subject to Self-Governance
- be assessed by a Workgroup for a period of 3 months.

3 Why Change?

Capacity Neutrality Arrangements in place between October and December 2020

Between October and December 2020, the UNC TPD Section B2.13.2 detailed the 'Relevant Capacity Revenues' which were subject to the Capacity Neutrality mechanism as set out in B2.13.3 to B2.13.7. The UNC EID Section B11.5 added into Relevant Capacity Revenues certain revenues from the equivalent Entry Capacity at Interconnection Points.

Relevant Capacity Revenues for this period included amounts payable to National Grid NTS (before the implementation of UNC Modification 0748) 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 meant that National Grid NTS was 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 implementation of UNC Modification 0678A from 01 October 2020 changed how reserve prices are determined, including for short term Capacity and this, allied to the likelihood of revenues associated with them, provides justification to review this aspect of Capacity Neutrality for the period 01 October 2020 to 31 December 2020 inclusive.

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

The implementation of UNC Modification 0748 removed the following from the list of Relevant Capacity Revenues[3] from 01 January 2021:

- Daily NTS Entry Capacity. Note this does not include Non-obligated Daily NTS Entry Capacity;
- Daily Interruptible NTS Entry Capacity;
- NTS Entry Capacity allocated in any Interruptible Rolling Day-ahead Auction or Within-Day Auction. Note this does not include Non-obligated Daily NTS Entry Capacity.

Recovery of National Grid's 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

[3] For the avoidance of doubt this includes references to Non-Interconnection Point Capacity and Interconnection Point 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 the recovery of National Grid's Allowed Revenue at that time.

UNC Modification 0678A introduced a new NTS Charging Methodology ('*the new Methodology*') from 01 October 2020 in order to comply with the newly introduced EU Tariff Code. This change was also the consequence of a review of multiple elements of the charging framework for GB, which included assessment of the most suitable Reference Price Methodology for Capacity.

In order to comply with the EU Tariff Code, the new Methodology provides for a principally capacity-based charging regime through which National Grid NTS aims to recover the majority of its Allowed Revenue via capacity charges. Where in the Tariff Year (Gas 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 an additional Transmission Services Revenue Recovery Charge (TSRRC) to be applied to reconcile the two values.

Impacts of Capacity Neutrality Arrangements in place between October and December 2020

From 01 October 2020 National Grid observed a material increase in revenues (from specific Entry Capacity auction processes) that were redistributed to Entry Users via the Capacity Neutrality Arrangements. These arrangements saw increased revenues between 01 October 2020 and 31 December 2020 inclusive[4], the redistribution of these specific costs and revenues across Entry Users totalling approximately £15m per month within this period, compared to circa £100k per month prior to this point (i.e. an increase by a factor of 150). Therefore, these revenues did not contribute towards the collection of National Grid NTS' Allowed Revenue.

This issue needs to be addressed as this revenue distribution via Capacity Neutrality for this period was not consistent with the objectives of the charging methodology as set out in Standard Special Condition A5(5) of the NTS Licence. Specifically, it was not consistent with relevant methodology objectives:

b) *to take account of developments in the transportation business;* on the basis that the Capacity Neutrality arrangements in place between October and December 2020 were not fit for purpose as they did not take account 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 Capacity Neutrality arrangements between October and December 2020 did not effectively target costs to those Users that accrued the benefit of the procurement of capacity.

This revenue distribution was not consistent with the above objectives. Aggregate revenues from Users contributing to Capacity Neutrality were not redistributed to such Users in the equivalent proportions to which they were received. Specifically, the increased scale of the relevant revenues (as described in this proposal) flowing through Capacity Neutrality from October 2020 following implementation of UNC Modification 0678A. The Capacity Neutrality process is designed to collect costs and revenues and redistribute them and whilst there is never an even balance between what is 'paid in' and 'paid out' to individual Users, the size of revenues flowing through from October 2020 creates an unfair distribution across Users. (Note that this unfair distribution was corrected from January 2021 with the implementation of UNC Modification 0748).

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[4] Implementation of UNC Modification 0748 from 01 January 2020 removed a material proportion of these revenues from Capacity Neutrality Arrangements meaning these revenues contributed to National Grid NTS' Allowed Revenue from this point.

This is because Capacity Neutrality as an overall 'pot' is redistributed in the proportions of a User's Fully Adjusted Firm Available NTS Entry Capacity and this presents cases where some Users will receive far more out of this 'pot' than they contributed to it. Therefore, in summary there were distributional impacts on all Users as the method by which neutrality payments are returned to Users differs to the way any National Grid NTS revenue shortfall is recovered via TSRRCs.

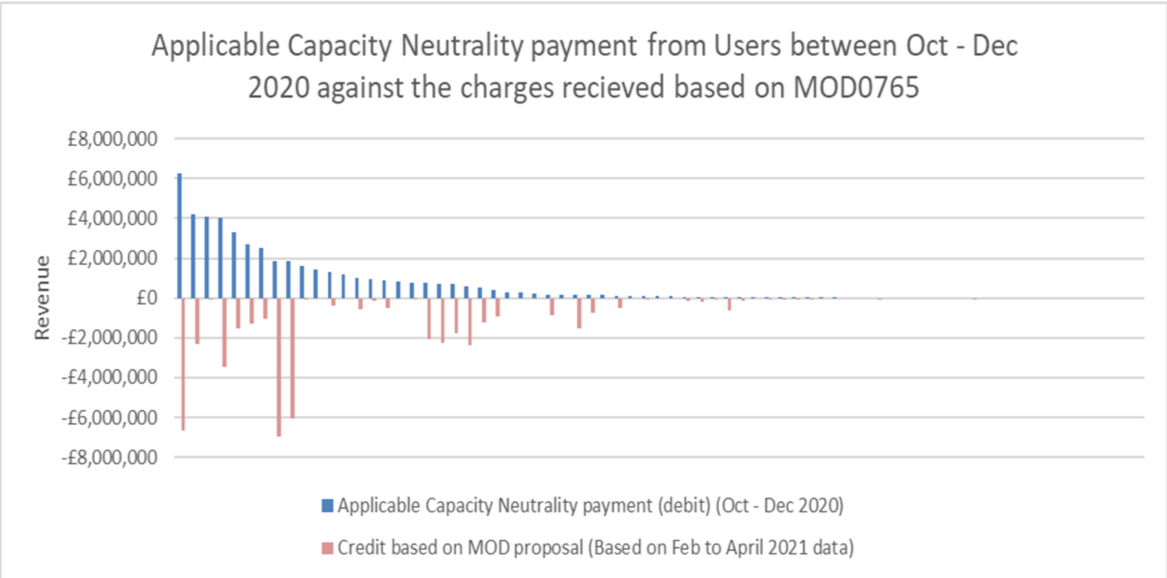
By way of illustration to use two potential scenarios:

- A User may not have had Capacity secured by auction (i.e. by trading the capacity in, where the liability remains with the original holder) and therefore did not pay any Capacity Charges directly to National Grid NTS however this User will have received a proportion for the Capacity Neutrality redistribution;

- a User that only purchased Interruptible Capacity via an auction, however this User would have received no proportion of the Capacity Neutrality redistribution as the redistribution is based on the percentage of firm capacity held by a User.

Analysis of the distributional impacts of how the charge would be distributed along with an illustration of how the credit would be apportioned is shown below which is based on the data which is currently available, using the calculations and principles specified within this Modification.

Within the graph below the red bars represent the amount that would be redistributed to Users (each bar represents User, corresponding to the blue) under UNC0765 based on February 2021 to April 2021 (inclusive) data. This represents a way to show the mechanics of how the distribution proposed in this modification works.



UNC Modification 0748 'Prospective Removal of Entry Capacity Revenue from Capacity Neutrality Arrangements'

National Grid raised UNC Modification 0748 to prospectively address the defect it had identified in the Capacity Neutrality arrangements and Ofgem directed the implementation of this Proposal with effect from 01 January 2021. In its decision letter, Ofgem concluded that the arrangements that provided for material amounts of interruptible capacity revenue to be redistributed to firm entry capacity holders (highlighting added):

- were discriminatory; Ofgem stated

"…*the proposed modification would end the current discriminatory arrangements, whereby holders of within day and daily interruptible entry capacity contribute significant sums to the Capacity Neutrality arrangements which are thereafter paid to holders of firm entry capacity*."

- were not objectively justified and were unintended consequences of the existing arrangements; Ofgem stated
"…*different users face very different costs for the same service of gas transmission. Some users are currently being paid to use the NTS, while others face very high costs. These differences are not objectively justified and are not based on informed commercial decisions but they are the unintended consequence of the Capacity Neutrality mechanism*."

- adversely impact competition between shippers; Ofgem stated
"*The current operation of the Capacity Neutrality arrangements…has adverse consequences for competition…[and] are unduly discriminatory*." "*…continuation of the current arrangements would maintain the distortive redistributional effects…whereby one category of network users cross-subsidises another category of network users*"

Ofgem concluded that implementation of the change in UNC Modification 0748 (to remove the stated charges from Capacity Neutrality) would stop these undue cross-subsidies. It stated:

"*Removing these…would stop these undue cross-subsidies, which have an adverse impact on shipper competition, on a prospective basis*."v

It also noted alignment with the specific EU Regulations (which, for the avoidance of doubt, have been incorporated in UK law in accordance with the provisions of the European Union (Withdrawal) Act 2018[5]). It stated:

"*…the principles of … Regulation (EU) 2017/460 …("TAR NC") do not envisage that charges for capacity will be treated other than as part of the allowed revenue. Article 3 explicitly states that transmission services revenue is one of the revenue components comprising 'allowed revenue'. Therefore, treating interruptible and within day firm entry capacity as part of the allowed revenue is consistent with TAR NC*"

"*…Article 13…of Regulation (EC) No 715/2009 … ("Gas Regulation") states that tariffs shall be applied in a non-discriminatory manner, shall facilitate efficient gas trade and competition, while at the same time avoiding cross-subsidies between network users and providing incentives for investment and maintaining or creating interoperability for transmission networks...also…that tariffs … shall neither restrict market liquidity nor distort trade across borders…The proposed modification would further the legal requirements set out…above*."

Given that the deficiencies in the market arrangements (as a consequence of the material increase in revenue subject to neutrality arrangements) recognised above were apparent from October 2020, such deficiencies equally apply to the arrangement in place between this point and 31 December 2020.

The Case for Retrospective Application

The arrangements identified as resulting in undue cross-subsidies were in place for a three-month period between October 2020 and December 2020, resulting in an overall value of circa £47m being redistributed back to a number of Users. Due to the size of revenues from within day and interruptible entry capacity contributing

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[5] This legislation (as amended by the European Union (Withdrawal Agreement) Act 2020) incorporated EU law existing immediately prior to the Implementation Period completion day (i.e. 31 December 2020) into UK law. This included EU Regulations 2017/460 and 715/2009 as they stood as at this date.

to the Capacity Neutrality (when they should be contributing to collection of revenues thereby not requiring collection from other Users), this was inappropriate, as a number of Users that received significant payments from this neutrality process made little or no contribution to it (and vice-versa). Further, in some cases beneficiaries from these arrangements do not pay TSRRCs, the charges needed to collect the resulting revenue collection shortfall. This has effectively created windfall gains and losses for some Users as a consequence.

Historically, National Grid NTS has recognised that retrospective changes *in principle* are not desirable and that they are detrimental to overall confidence in the integrity of the market arrangements. However, in this case National Grid NTS believes such concerns are outweighed by the adverse impacts on competition of the revenue redistribution actioned in this period.

In this case, National Grid NTS notes that the retrospective period concerned is relatively short in duration (the 3 month period between October and December 2020).

Ofgem View of UNC Changes that have Retrospective Impacts

Ofgem's Guidance on Code Modification Urgency Criteria (as published on Ofgem's website) includes its views on the inclusion of changes that have retrospective effect in Urgent Modification Proposals. This narrative includes its wider views on UNC Modification Proposals that advocate retrospective change, stating "*it is our view that retrospective modifications should be avoided as they undermine market confidence… However, despite the general principle against retrospective rule changes, we believe that there may occasionally be exceptions that could give rise to the need for a modification which would have retrospective effect.*"

It further states "*it is appropriate to consider any retrospective modifications on a case by case basis…the need for a retrospective change could, for instance, include:*

- *… the fault or error … was directly attributable to central arrangements;*
- *… could not have been reasonably foreseen; or*
- *where the possibility of a retrospective action had been clearly flagged to the participants in advance…"*

National Grid NTS first raised the existence of an issue it had identified with the Capacity Neutrality 'central' arrangements at the Transmission Workgroup on 05 November 2020. This noted the adverse impacts of the arrangements observed from October 2020 and highlighted the potential to seek retrospective change to address this. Further engagement was undertaken with industry via the subsequent Transmission Workgroups, the NTS Charging Methodology Forum (NTSCMF) and a number of subject specific webinars over the following months.

Options Considered to Address the Identified Defect

The increase in Entry Capacity Revenue subject to Capacity Neutrality arrangements from 01 October 2020, and the consequential shortfall in National Grid collected Revenue, necessitated the utilisation of TSRRC charges to recover the projected Gas Year-end shortfall compared to Allowed Revenue. The unit rate of this shortfall recovery ('TSRRC rate') was reduced as a consequence of the implementation of UNC Modification 0748 from 01 January 2021 recognising that this change prospectively addressed the issue, thereby reducing the expected scale of the shortfall.

In respect of a solution for the period October 2020 to December 2020, as part of initial discussions with industry (referred to above), National Grid NTS tabled a draft solution which proposed recovery of the associated capacity revenues from the relevant Users for the period October 2020 to December 2020. In absence of any further arrangements this would have necessitated further reduction of the TSRRC rate on the basis that the projected revenue shortfall will have been recovered from the relevant Users as opposed to via the TSRRC.

However, the solution proposed:

- in response to feedback received and in line with Ofgem's open letter to National Grid NTS dated 23 December 2020, provides for an alternative solution which does not necessitate further change to the TSRRC rate;
- provides for redistribution (via a new charge) of the relevant Entry Capacity revenue to those Users holding capacity that attracts the TSRRC charge in the period February 2021 to September 2021 (inclusive); and
- does not adjust any published Transportation Charge rates.

The net impact of these two elements meets the objective of addressing the previous inappropriate redistribution of the relevant revenues via Capacity Neutrality whilst avoiding further revision of the TSRRC rate.

4 Code Specific Matters

Reference Documents

UNC TPD Section B

UNC EID Section B

UNC TPD Section Y

UNC Modification 0678A

UNC Modification 0748

Knowledge/Skills

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

5 Solution

Principle

It is proposed that a **Transitional Entry Adjustment Charge (TEAC)** is established to create charges which facilitates that between 01 October 2020 and 31 December 2020 (inclusive) ('the relevant period') the following sources of revenue relating to provision of Entry Capacity were not treated as Relevant Capacity Revenues and were not therefore subject to Capacity Neutrality:

- Daily NTS Entry Capacity. Note this does not include Non-obligated Daily NTS Entry Capacity;
- Daily Interruptible NTS Entry Capacity;
- NTS Entry Capacity allocated in any Interruptible Rolling Day-ahead Auction or Within-Day Auction. Note this does not include Non-obligated Daily NTS Entry Capacity.

It is proposed that the TEAC is invoiced and payable in accordance with UNC TPD Section S and is determined as follows:

- **Receipts: Debit TEAC**
  Users that received payments from Capacity Neutrality which reflected redistribution of revenue from charges associated with provision of the above capacity types (in respect of the relevant period) will be required to pay to National Grid NTS the TEAC.

The Debit TEAC will be payable by Users over a period of three consecutive months from implementation (M1, M2 and M3). For each User, the amount it received from the revenue redistribution (referred to above) for the Billing Period of:

- October 2020, will be invoiced in month M1;
- November 2020, will be invoiced in month M2; and
- December 2020, will be invoiced in month M3.

- **Payments: Credit TEAC**

  National Grid NTS will make Credit TEAC to Users that, in aggregate, are equal to the aggregate Debit TEAC payable by Users. Credit TEAC will be payable to Users over a period of the same three consecutive months from implementation (i.e. M1, M2 and M3).

  The amount payable to each User for each month ($TEAC_u$) will be determined on the basis of the following:

$$TEAC_u = TEACR_m \times \left(\frac{FAEC_u}{AFAEC}\right)$$

where:

$TEACR_m$ means the aggregate of Debit TEAC payable by all Users as invoiced the relevant month;

$FAEC_u$ means the aggregate of the relevant User's Fully Adjusted Available Entry Capacity (excluding Existing Available Holdings) for each day within the period 1st February 2021 to 30th September 2021 (inclusive); and

AFAEC means the aggregate of all Users' Fully Adjusted Available Entry Capacity (excluding Existing Available Holdings) for each day within the period 1st February 2021 to 30th September 2021 (inclusive).

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

Proposer's view:

There will potentially be an impact on different consumer groups (as different Users are impacted based on their individual positions) but the total Allowed Revenue (determined in line with National Grid's 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 believes is fairer, more proportionate and better aligned to the EU Tariff Code principles than the previous arrangements (in place from October to December 2020) 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 Proposal would align (in principle) the treatment of capacity revenue recovered over the relevant period with the arrangements in place from 01 January 2021, following the implementation of UNC Modification 0748.

This proposal makes no changes to any published Transportation charges. Fairness within Transportation charges should support filtering down ultimately to consumers. Any consumer-based impacts would necessitate a range of assumptions that would be too complex to make certain. Decisions related to how Transportation charges are impacting downstream from UNC arrangements are wholly in the gift or obligations of those charging them via their contractual relationships.

Whilst no UNC remedy can ensure that costs feed through accurately to end consumers, this proposal seeks to address the effects of the windfall that has arisen to some Users (via the payments to some Users of the Capacity Revenue Neutrality Charge) at the cost to other Users (via the inflated Entry TSRRC that will be applied to Users during the February – September 2021 period) and restore fairness through the Transportation Charges. Thus, it seeks to address the obvious, and material, distortion that otherwise will occur between Users. Ultimately, 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.

For those paying Entry TSRRCs currently, where the impact of the £47m may have been factored in to their reciprocal charges, the redistribution they receive from an approved Modification, provides certainty to this amount, which can in turn be accommodated into their charges This should provide some benefit, depending on the timing of how this is ultimately catered for, assuming it is passed on over time through the market.

At 06 July 2021 meeting Workgroup Participants filled out the following table.

Consumer Impact Assessment

(Workgroup assessment of proposer initial view or subsequent information)

Criteria	Extent of Impact
Which Consumer groups are affected?	Some Workgroup Participants agreed: Due to the retrospective nature of this Modification, consumers will not be affected. It is not possible to draw a line between this Modification and the way in which customers may be impacted. Other Workgroup Participants did not agree with the above and felt that this could not be stated absolutely. Any impact will depend on individual Shippers and any bilateral contracts downstream.
What costs or benefits will pass through to them?	n/a
When will these costs/benefits impact upon consumers?	n/a
Are there any other Consumer Impacts?	On principle, and in regard to the retrospective nature of this Modification, uncertainty might cause an increase in risk and therefore potentially an increase in costs seen by the market.

***General Market Assumptions as at December 2016** (to underpin the Costs analysis)*

Number of Domestic consumers	*21 million*
Number of non-domestic consumers <73,200 kWh/annum	*500,000*
Number of consumers between 73,200 and 732,000 kWh/annum	*250,000*
Number of very large consumers >732,000 kWh/annum	*26,000*

Cross Code Impacts

No cross-code impacts have been identified.

EU Code Impacts

Proposer's view:

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*").

As the deficiencies in the market arrangements date back to October 2020, the compliance aspects noted by Ofgem in its decision letter in respect of UNC Modification 0748 are also relevant to the arrangements that were in place between October and December 2020. Therefore, implementation of this Proposal would better align historical arrangements with the identified aspects of the two following Regulations:

"…*the principles of … Regulation (EU) 2017/460 …("TAR NC") do not envisage that charges for capacity will be treated other than as part of the allowed revenue. Article 3 explicitly states that transmission services revenue is one of the revenue components comprising 'allowed revenue'. Therefore, treating interruptible and within day firm entry capacity as part of the allowed revenue is consistent with TAR NC*"

"…*Article 13…of Regulation (EC) No 715/2009 … ("Gas Regulation") states that tariffs shall be applied in a non-discriminatory manner, shall facilitate efficient gas trade and competition, while at the same time avoiding cross-subsidies between network users and providing incentives for investment and maintaining or creating interoperability for transmission networks...also…that tariffs … shall neither restrict market liquidity nor distort trade across borders…The proposed modification would further the legal requirements set out…above.*"

Workgroup Participants views on compliance are captured within the Relevant Objectives section.

Central Systems Impacts

There will be impacts on Gemini and UK Link invoicing systems. These impacts can be seen within the ROM.

Rough Order of Magnitude (ROM) Assessment

Rough Order of Magnitude (ROM) Assessment *(Workgroup assessment of costs)* Based on change reference 5353 dated 20 May 2021.

Cost estimate from CDSP	£80,000 – £110,000
Insert Subheading here	10 – 12 weeks plus 3 month lead time for startup etc.

On 01 June 2021 Workgroup reviewed the ROM change reference 5353 dated 20 May 2021 and sought some further information from the Proposer. Some Participants were concerned that the delivery time might be further extended following a decision to implement. It was confirmed that this could be up to 6 months. Ofgem may also undertake an impact assessment which may add to the time for a decision.

Workgroup Impact Assessment

Panel Questions to be addressed in Workgroup:

Q1. Seek confirmation that there are no leakage effects across to Exit charges

At Workgroup on 04 May, National Grid confirmed this Modification 0765 has no impact on Exit charges. Workgroup Participants had nothing further to add.

Q2. Consider justification for retrospectivity

On 01 June 2021, Workgroup Participants discussed retrospectivity breaking down the issues as follows:

Whether the criteria for retrospectivity[6] have been met

- Some Participants disagreed with the Proposer's points. Parties noted that this was not a system error in the central arrangements so the first bullet on justification is dismissed. The likelihood of higher prices was foreseen and identified by some parties responding to the earlier modification proposal; the implemented arrangement chose not to factor in representations made, thereby essentially dismissing the second bullet as the proposer had been alerted to the possibility of an adverse effect.
- In respect of bullet point 3, a Participant pointed out that the problem was not flagged by National Grid before October 2020. Furthermore, the Participant suggested that the notes of the November 2020 meetings are not explicit on this point so it may be difficult for National Grid to rely on the third leg of the justification in support of this proposal. Some Workgroup Participants felt that the Proposal may need to be amended if the proposer was obliged to rely upon a different date in support of the third leg of justification.
- Ofgem confirmed that the criteria stated in its guidance for considering retrospectivity would be considered and that it would also note the views being expressed.
- A Workgroup Participant noted that the Capacity Neutrality mechanism has been in Code for many years. Given that this was the case even before October 2020, should the Modification be aiming to tackle distortions before October 2020?
- Given that the issue was raised with industry in mid-November 2020 this does not tally with Ofgem's criteria for retrospection.

Redressing previous outcomes

- The Workgroup agreed that this Modification would have no effect on NBP prices already experienced. Furthermore, some parties believe that the market has settled out the positions that occurred during the period in question and that there is no mechanism for the market to reopen and pass money on to consumers.
- Some Participants argued that consumers will have been affected as a result of impact on the NBP and that the implementation of the proposals will do nothing to address that occurrence.
- Some Participants wondered if the effect might have been greater than reported because notification of the revised prices in November indicated a higher RRC. The Proposal may have merit in as far as it is addressing that effect.
- A Participant argued that failure to implement the Modification and address what had occurred would potentially allow a distortion (between Shippers) to perpetuate. A counter to this point was offered stating that not all affected Shippers will be supplying the domestic market, and some may not supply to consumers at all, so there is limited consumer benefit.

[6] Ofgem guidance on Urgency including for retrospectivity https://www.ofgem.gov.uk/publications/ofgem-guidance-code-modification-urgency-criteria-0

- Some parties believe that the Modification will not affect the marginal price of gas and given the likely implementation date may have effect across financial years, further diluting the effect.
- A Workgroup Participant noted that the Capacity Neutrality mechanism has been in Code for many years (potentially 19 years). Given that this was the case even before October 2020, should the Modification be aiming to tackle distortions before October 2020?

Risk of introducing prospective uncertainty

- Some Workgroup Participants felt that on the more general academic context of retrospectivity, under any legal or regulatory regime, retrospectivity is considered to have a negative effect for a market on the grounds that it introduces an uncertainty that any settlement may be re-opened at a future date. This might have a consequence of increasing costs for consumers.

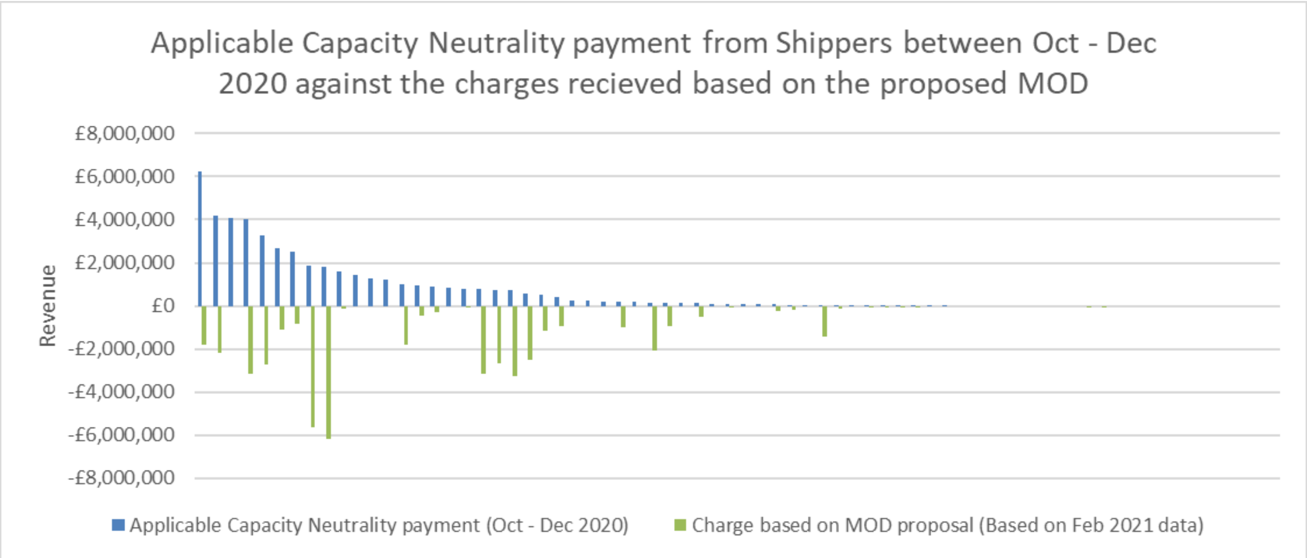
Analysis

Workgroup Participants reviewed the analysis data as it was updated each month from April – August 2021.

At 01 June meeting the Participants reviewed the further analysis showing the credit and debit positions for a sample of the shippers affected. Participants asked for the analysis to be enhanced to illustrate the net position and a Participant went on to state that it appeared that positions were tending to net off.

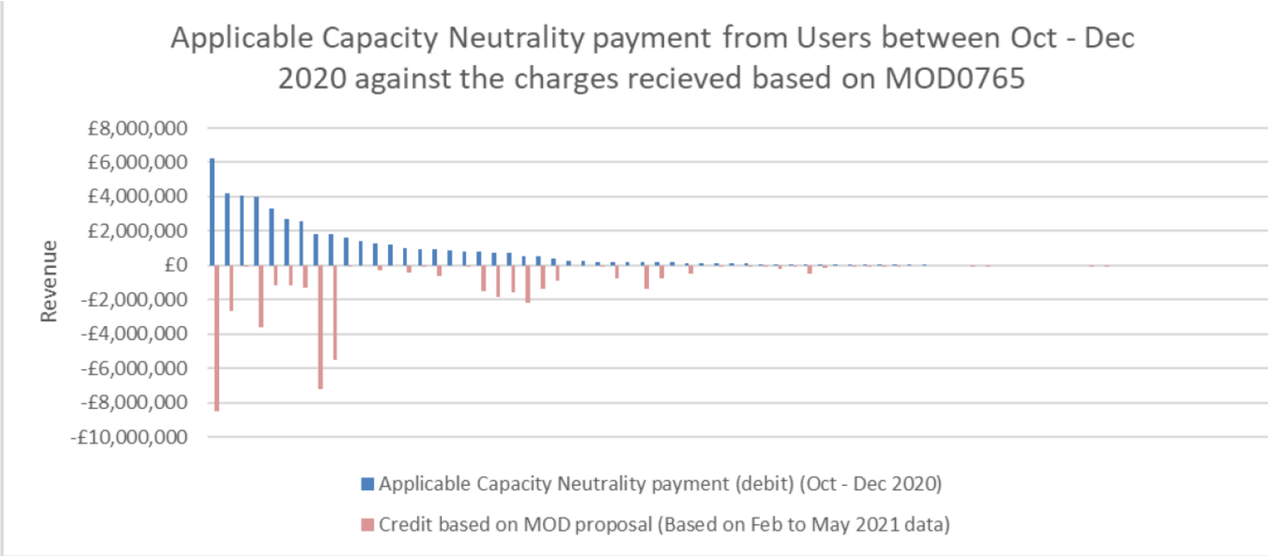
Workgroup Participants observed that the positions appeared to change as the new monthly data was added and that, in practice, an accurate position would not be determinable until September, just before the time when the Workgroup Report is due to report back to the Panel. The Proposer conceded that the final positions would not be resolved until that time.

Figure 1: Analysis graph presented at May 2021 Workgroup which includes data from February to March 2021



At Workgroup on 06 July the following analysis was discussed (see Figure 2). Workgroup Participants noted very little change from the data including May 2021 and the data including June 2021.

Figure 2: Analysis graph presented at July 2021 Workgroup which includes data from February to May 2021



The red bars represent the amount that would be redistributed to Users (each bar represents User, corresponding to the blue) under UNC0765 based on February to May 2021 data only.

At 06 July 2021 Workgroup Participants reviewed the changing picture for particular Shippers (on a sample basis). This is illustrated in Table 1. The right hand column shows the net position relating to each Shipper and their portfolio. At 03 August 2021 National Grid confirmed that there was no change to the Table 1.

National Grid confirmed that the data would be brought to Workgroup each month for as long as the Modification is under discussion, prior to reporting back to Panel, however that in their view there is no need to wait until the end of September to finalise the Modification.

A Workgroup Participant confirmed they agreed that there was no need to wait until after September to finalise the Modification.

Table 1: Example positions of top 7 Shippers as at 06 July 2021

User	Oct – Dec 2020 Capacity Neutrality (REV) Credit Already Received	Oct – Dec 2020 Debit to pay (aggregate over 3 months)	Credit to pay (aggregate over 4 months)	Net position (Credit minus Debit)
A	£6m	£6m	£8m	£2m
B	£4m	£4m	£0m	-£4m
C	£3m	£3m	£1m	-£2m
D	£2m	£2m	£7m	£5m
E	£1m	£1m	£2m	£1m
F	£0m	£0m	£2m	£2m
G	£0m	£0m	£0m	£0m

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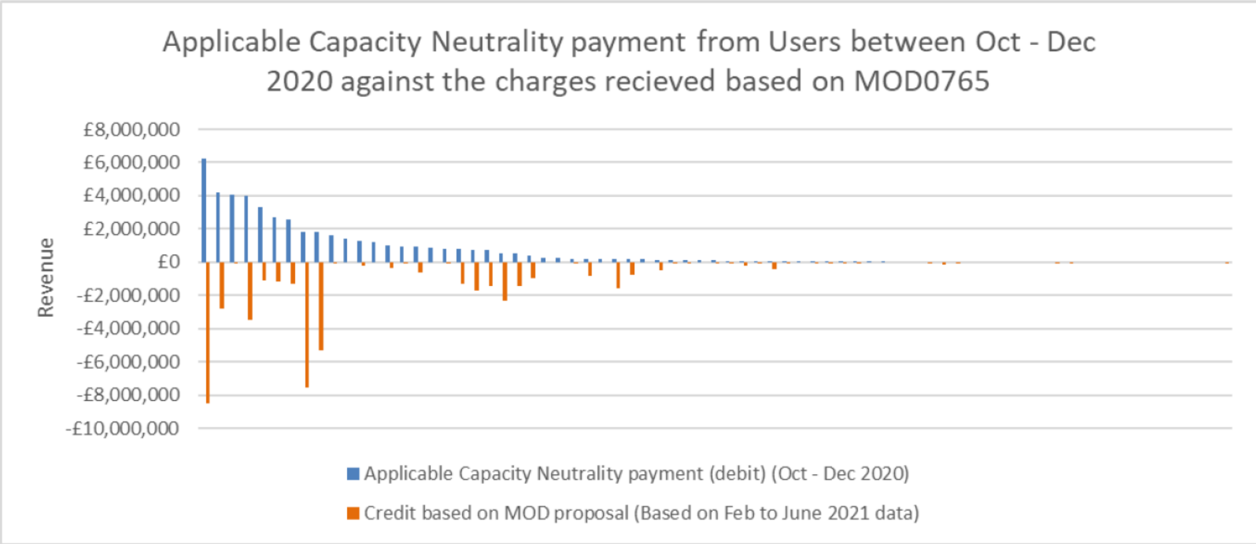
At 03 August 2021 Workgroup Participants reviewed the changing picture for particular Shippers (on a sample basis). This is illustrated in Figure 3.

Figure 3: Analysis graph presented at August 2021 Workgroup which includes data from February to June 2021



Some Workgroup Participants at 03 August 2021 continued to assert that the graphs in Figures 1, 2 and 3 do not accurately show the final effect of the Modification should it be implemented. The data shown in Figures 1-3 are only indicative.

At Workgroup on 03 August 2021, further commentary relating to Figures 1-3 was made to observe that for some points there may not be corresponding orange bars where there are blue bars. This was explained by the Proposer:

- Blue bars are fixed based on firm capacity held in the period October to December 2020 and will not change up to September 2021.
- The orange bars represent the payments Users would receive (based on positions up to the end of June 2021), based on their Fully Adjusted Available capacity holdings net of any Existing Available Holdings. Save for some nuances related to trading, this will predominantly apply to new capacity.
- The larger the orange bar, the greater the proportion that User has of the available capacity holdings (excluding existing available holdings) – i.e. the basis of levying Entry Revenue Recovery charges introduced from February 2021.
- It is the Proposer's opinion that whilst this proportion comparing February to June may change when looking at the period February to September, that it is unlikely to materially change the shape of the distribution across the orange bars.

Some Workgroup Participants asserted that any new bookings (made June – September 2021) may change the shape of the distribution of the orange bars.

Other Workgroup Participants noted that the blue bars are likely to be dominated by credits going back to the Existing Contract holders. Whereas the orange bars are related to cashflows associated with non-Existing Contracts.

Note the following 6 topics stem from the initial representation from Energy UK, received on 30 April 2021.

Governance and regulatory risk

Workgroup Participants comments are captured for this topic under the Standard Relevant Objective d).

Market impacts

A Workgroup Participant noted that the market impacts may be a material increase in the perceived risk whilst the effect of the Modification itself is relatively immaterial. The Participant pointed out that there does not appear to be any party actually trading in the market who is actively lobbying in favour of the Modification, even amongst those who might be expected to gain financially.

Shipper impacts and competition

Workgroup Participants comments are captured for this topic under the Standard Relevant Objective d).

Compliance

Workgroup Participants comments are captured for this topic under the Standard Relevant Objective g).

Incentives

At the time this Modification was raised this issue was not being addressed, however as at 03 August 2021, this issue is now being addressed by Ofgem.

Cash flows

Workgroup Participants had no further comments to be made above what has already been captured in this report.

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

Proposer's view of Demonstration of how the Standard Relevant Objectives are furthered:

c) Efficient discharge of the licensee's obligations.

Implementation of this Proposal would charge back most of the capacity neutrality payments between October and December 2020 and redistribute this amount across the specified basis in the solution of this Modification. This continues with the principles established under UNC Modification 0748 that the capacity neutrality payments without change were excessive, effectively driving up the charges for other Shippers. Through this proposal it would charge amounts that should have contributed towards the allowed revenue collection based on the principles established implementing UNC Modification 0678A and return monies more equitably. It avoids necessitating an alternative approach of recovering a material proportion of National Grid NTS' Allowed Revenue via adjusting any published charges (i.e. TSRRC (Entry) or Transmission Services Entry Capacity Reserve Prices).

On 03 August 2021 National Grid clarified that this relates to SSC A5:

> *Except in so far as the Authority consents to the licensee not doing so, the licensee shall, subject to paragraphs 2, 2A, 10A and 10B of this condition and paragraph 10(ab) of Standard Special Condition A11 (Network code and Uniform Network Code) from time to time make such modifications of the methodology established in pursuance of paragraph 5 of Standard Special Condition A4 (Charging – General) ("the charging methodology") as may be requisite for the purpose of achieving the relevant methodology objectives.*

This is an obligation to keep the charging methodology under review and it must further (or achieve) the relevant methodology objectives.

d) Securing of effective competition between relevant shippers;

The proposed changes in this Modification are expected to address the aforementioned revenue re-distributional impacts thus costs will have been targeted at Users in a more appropriate and fair manner. This is more consistent with the principles of the Charging Methodology which was implemented on 01 October 2020, 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 in place between October and December 2020 better align with the EU Tariff Code (Regulation 2017/460 as a component of Retained EU Law) principles relating to the purposes of the Reference Price Methodology and the TSRRC. The revised arrangement will also better align with the requirements of the Gas Regulation (Regulation (EC) No 715/2009 as a component of Retained EU Law) regarding non-discriminatory arrangements and avoiding cross-subsidies.

<u>Workgroup Participants views on Standard Relevant Objectives:</u>

c) Efficient discharge of the licensee's obligations.

Some Workgroup Participants asserted that this Modification effectively swaps one magnitude of Shipper distortion for another. The Modification does not completely reverse the distortion which has happened. In this way the redressing is not perfect. This appears to be negative for Relevant Objective c) and d).

A Workgroup Participant did not agree with the above and asserted that this Modification is compensating back those Shippers who have paid under the original regime which appeared to have been discriminatory.

Workgroup participants debated the extent to which the mechanism in the Modification properly reverses the distortion seen between October – December 2020.

A Workgroup Participant noted that National Grid is effectively disrupting the market by introducing this retrospective Modification, retrospective change appears to be negative for Relevant Objective c).

Most Workgroup Participants did not agree that this Modification was positive for Relevant Objective c) because it is unclear which license obligation the Modification is aimed at furthering. Some Workgroup Participants felt that the additional comments by National Grid on 03 August 2021 would be relevant to every charging modification and therefore render its achievement as irrelevant.

A Workgroup Participant felt that there was clearly something wrong with the cash flows which occurred between October and December 2020. Though it is unclear which license obligation is being furthered (regarding Relevant Objective c), it appears that some consideration should be given to try and address what has clearly been an underlying problem, given the clear detrimental effect. The inter-Shipper distortion apparent in the data presented can be tackled and this Modification is the only option on the table at this moment. This aspect clearly furthers Relevant Objective d).

A Workgroup Participant noted in relation to the failure, that the Capacity Neutrality mechanism has been in Code for many years. Given that this was the case even before October 2020, should the Modification be aiming to tackle distortions before October 2020? Why only correct this failure for a very limited period?

d) Securing of effective competition between relevant shippers;

A Workgroup Participant noted that there were no Shippers present at Workgroup on 06 July 2021 who believed the Modification is positive for competition (Relevant Objective d) and Charging Relevant Objective c))

A Workgroup Participant noted that the market impacts may be a material increase in the perceived risk whilst the effect of the Modification itself is relatively immaterial. The Participant pointed out that there does not appear to be any party actually trading in the market who is actively lobbying in favour of the Modification, even amongst those who might be expected to gain financially. This supports the argument that the Modification is negative for competition (Relevant Objective d) and Charging Relevant Objective c)).

A Workgroup Participant noted that the cornerstone of competition is the sanctity of contract and thus this Modification is effectively re-opening the contract and because of this undermining competition, the Modification is negative for competition (Relevant Objective d) and Charging Relevant Objective c))

Some Workgroup Participants wished to note that from a Shipper point of view, and in terms of the relative weighting of Relevant Objectives, the impact of retrospective decisions on competition is paramount. The negative impact on competition as a result of retrospectivity outweighs any particular benefits. The magnitude of the redistribution proposed in this Modification does not appear to warrant the use of retrospectivity.

No Shipper Workgroup Participants at the meeting on 06 July 2021 disagreed with the view above. At the 03 August 2021 there was no change to this position.

A Workgroup Participant wished to draw attention to slide 6 of the slide pack for 03 August 2021 which is the Figure 3 shown above. In relation to competition, the blue bars they represent the monies which will be taken from Shippers and are equivalent to the payments made between Oct – Dec 2020 under the capacity neutrality mechanism. If we were to compare these bars with those which occurred Oct - Dec 2019 they would be approximately 1/150th and would be more in the range £15,000-£40,000 rather than £2m - £6m in 2020. This must have triggered some question as to whether Shippers were expecting this significant change in the payment level. Intuitively this feels like a mistake which should be corrected. The orange bars then show what Shippers would get as a credit as a result of this Modification, if it is implemented. The Modification is attempting to unwind something that was not appreciated or understood to be coming. The Workgroup Participant suggested an additional consultation question could ask Shippers whether they were genuinely expecting the payments made Oct – Dec 2020 under capacity neutrality.

Another Workgroup Participants wished to note that the significant credits Oct – Dec 2020 were indeed noticed. Slide 6 (shown in this report as Figure 3) can only complete the picture once we have seen all of the payment – this will not be seen until October 2021 when the September invoice has been issued. As of 03 August 2021, 3 months remain to be invoiced. The credits seen Oct – Dec 2020 were corrected by a significant change in RRC from February 2021 as shown by Figure 3.

Another Workgroup Participant noted that if a risk premium must be factored in when considering investment in the UK due to an uncertain and a risky regulatory regime, this will reduce investment in the UK as a direct result of any implementation of a retrospective modification.

A further Workgroup Participant did not agree that the payments from capacity neutrality were erroneous, as implied by the commentary above. The payments were correct and in line with the rules as written. There is now a review being undertaken into the change in methodology from 01 October 2020 as a result of the significant price increase in the Entry Capacity prices, though it does not appear that there is an intention to go back and address this retrospectively. The contract works by make incremental changes as it runs.

Another Workgroup Participant noted that Shippers must have known that there may have been a possibility of the large payment being ‘recalled’.

A Workgroup Participants noted that charges and Revenues will be changed in a different financial year to which they relate. This is likely to cause significant distortion of yearly accounts (financial records) for affected businesses, and potentially impact shareholders/valuations.

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.

Some Workgroup Participants asserted that it was difficult to use the arguments in Ofgem’s decision on Modification 0748 in a retrospective argument for this Modification – can retrospective changes be considered positive for compliance and therefore be considered positive for Relevant Objective g)? It is unclear whether this is even possible.

Some Workgroup Participants asserted that it is surely better to correct mistakes where it is clear they occurred.

Some Workgroup Participants noted that it is not clear how this Modification better facilitates compliance and thus the Modification may be neutral at best for Relevant Objective g).

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

Proposer's view of 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 that has already been invoiced and distributed under the operation of the Capacity Neutrality arrangements prior to the implementation of UNC Modification 0748 as these arrangements did not enable National Grid 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 point at which increasing proportions of revenue being subject to neutrality arrangements was observed, this being 1 October 2020 up to 31 December 2020. On this basis, for this period the arrangements will have appropriately taken account of developments in the transportation business observed since 1 October 2020.

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

implementation of this Modification will adjust the retrospective revenue distribution (as a consequence of the operation of the Capacity Neutrality arrangements) from 1 October 2020 up to 31 December 2020 as these arrangements did not effectively target cost incurred by National Grid with the capacity neutrality taking into account the capacity and capacity revenues, the capacity neutrality payments made and the impacts of in terms of recovery from adjusting other charges. Effective targeting of costs and charges is a necessary cornerstone of competition.

Workgroup Participants views on Charging Relevant Objectives:

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

Some Workgroup Participants noted that the costs incurred by National Grid have not changed, the Modification is seeking to recover and re-allocate these costs incurred in a different way. This does not appear to be positive for Relevant Charging Objective a).

b) properly takes account of developments in the transportation business

Some Workgroup Participants asserted that the development in this case appears to be that there was a change in Shipper behaviour and that this was foreseeable. It is unclear what the change in National Grid's Business is to warrant the Modification being considered positive for Relevant Charging Objective b).

A Workgroup Participant noted that the major change was the move from a zero pricing of capacity to a significant price change for capacity, though this appears to be a pricing change rather than a business change.

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

Those Workgroup Participants who had any comments to make agreed that the discussions captured above under standard Relevant Objective d) would apply for charging Relevant Objective c).

8 Implementation

No implementation timescales are proposed. However, implementation is requested as soon as practicable following an Authority direction to do so, noting that implementation is required to take effect from the first calendar day of a month and will need to consider the timelines specified within the ROM.

In respect of the TEAC, month 'M1' will be the calendar month following the month of implementation.

9 Legal Text

Legal Text has been provided by National Grid and is published alongside this report, here: https://www.gasgovernance.co.uk/0765 .

The Workgroup considered the Legal Text at its meeting on 01 June 2021 and is satisfied that it meets the intent of the Solution. National Grid as Proposer assured Workgroup on 03 August 20201 that the changes to Legal Text since 01 June 2021 were minimal and only related to updates in the Modification from v1.0 to v2.0. Workgroup were satisfied with this explanation.

10 Recommendations

Panel's Recommendation to Interested Parties

The Panel have recommended that this report is issued to consultation and all parties should consider whether they wish to submit views regarding this Modification.