

UNC Workgroup 0796 Minutes
Revision to the Determination of National Grid NTS Target Revenue
for Transportation Charging
Tuesday 01 February 2022
via Microsoft Teams

Attendees		
Eric Fowler (Chair)	(EF)	Joint Office
Karen Visgarda (Secretary)	(KV)	Joint Office
Adam Bates	(AB)	South Hook
Alex Nield	(AN)	Storengy
Alsarif Satti	(ASa)	Ofgem
Anna Shrigley	(ASh)	ENI
Anna Stankiewicz	(ASt)	National Grid
Chris Wright	(CWr)	Exxon Mobil
Colin Williams	(CWi)	National Grid
Claire Caple	(CC)	E.ON
Daniel Hisgett	(DHi)	National Grid
Daniel Wilkinson	(DW)	EDF Energy
Dave A Bayliss	(DAB)	National Grid
Davide Rubini	(DR)	Vitol
Debra Hawkin	(DHa)	TPA Solutions
Hannah Reddy	(HR)	Correla
Jeff Chandler	(JCh)	SSE
Julie Cox	(JCx)	Energy UK
Kieran McGoldrick	(KM)	National Grid
Laura Johnson	(LJo)	National Grid
Lauren Jauss	(LJa)	RWE
Nick Wye	(NW)	Waters Wye Associates
Nigel Sisman	(NS)	Sisman Energy Consulting
Oliver Weston	(OW)	Ofgem
Pavanjit Dhesi	(PD)	Interconnector
Richard Fairholme	(RF)	Uniper
Terry Burke	(TB)	Equinor

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0796/010222>

The Workgroup Report is due to be presented at the UNC Modification Panel by 17 February 2022.

1.0 Introduction and Status Review

1.1. Approval of Minutes (11 January 2022)

Eric Fowler (EF) explained that Nigel Sisman (NS) had sent some amendments to the minutes which had required clarification from National Grid. Colin Williams (CWi) confirmed that the amendments has been discussed and accepted.

The minutes were subsequently approved.

1.2. Approval of Late Papers

EF highlighted there had two late papers: the amended Modification and the draft Legal Text. EFR reiterated the deadline for papers to be published was 21 January 2022 as noted on the meeting page, all these papers were received after this date.

EF reiterated once again the need for timely publishing of papers prior to any meeting for parties to have sufficient time to express views and gather opinions from constituencies.

Julie Cox (JCx) raised the point that the draft Legal Text had been published the night before the meeting, which did not give sufficient time for assessment and full understanding. Colin Williams (CWi) apologised for the lateness issue.

1.3. Review of Outstanding Actions

No outstanding actions

2.0 Issues and Questions from Panel

2.1. Issues and Questions from Panel

2.1.1. Consider Consumer Impact

CWi proposed the changes in this Modification were expected to provide a more stable and predictable Reference Price (and therefore a more stable and predictable Reserve Price) for Capacity, compared to the status quo hence Users would 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.

3.0 Consideration of Amended Modification

CWi provided an overview of the amendments within the Modification, and he explained the proposal in terms of the solution for Transmission Services and said this applied to both Entry and Exit.

Nigel Sisman (NS) indicated that he felt the legal drafting was not consistent with NG's explanation. He indicated that the first reference to Formula Year $t+1$ in 1.6.2 (e) implied that the calculation of the proportion defined therein used a denominator based on Formula Year $t+1$ rather than the Gas Year. A general discussion took place regarding the complexity of Section e) and some participants said that this was difficult to understand on first reading and CWi said he would look to add more clarification into this section.

CWi then summarised the overall solution as detailed below:

Terminology: Gas Year runs from October to September, inclusive. Formula Year runs from April to March, inclusive.

The same approach applies to Entry and for Exit. Here we will follow the Entry approach but this can be followed for Exit.

In order to determine the target or allowed revenue for a Gas Year (Tariff Period) there are a several steps to follow with references to the terms in the proposal/legal text.

The allowed revenue for the Gas Year ($ATSEnR_y$). It is the sum of two elements.

- 1. The revenue required in the period of the Formula Year that falls in the Gas Year being priced (i.e., October to March). ($AFTSEnR_t - TSEnR_{pt}$)*
- 2. A proportion of the Formula Year's revenue that starts in the Gas Year being priced (i.e., April to September). ($AFTSEnR_{t+1} * F_{NTS}$)*

With a focus on (1) this represents the difference between:

- $AFTSEnR_t$ which is the Formula Year Allowed Revenue for the period ending in March of the Gas Year being priced; and
- $TSEnR_{pt}$ which is the Estimated revenue that is expected in the period of the Formula Year up to the end of September prior to the Gas Year being priced.

With a focus on (2) this represents the product of:

- $AFTSEnR_{t+1}$ which is the Formula Year Allowed Revenue for the for the period Starting in April of the Gas Year being priced; and
- F_{NTS} which represents a ratio to apply to the term $AFTSEnR_{t+1}$ to provide a proportion of revenue. This ratio is determined from:
 - Estimate of revenue to be earned in the six months of the Formula Year (FY) Starting in the Gas Year (i.e., April to September); divided by
 - The target / allowed revenue for the Gas Year (GY) as a whole that is being priced (i.e., October to September).

Some participants requested that a Flow Diagram would be very advantageous to help clarify the summary above and CWi said he would explore that in more depth.

A brief general discussion took place in relation to the formulas, of the gas year and the formula year, in respect of percentages and allowed revenue. CWi said this aspect was not reflected within the solution and said the prices needed to be relative to the gas year.

Dave Baylis (DAB) confirmed any changes were accounted for and built in, and he added that a price for the formula year did not reflect the gas year price. NS said it was regrettable that what he considered to be the most appropriate method of calculating the second half year revenue target contribution would not be used. Nevertheless he noted that NG's intended approach should represent an improvement, however he felt a better result could be achieved if an approach consistent with the proposed legal drafting i.e. reflecting a proportion based upon the formula year were to be used.

4.0 Review of Legal Text

CWi apologised again for the very late publishing of the draft Legal Text and said that he would be supplying the Explanatory Table in due course.

CWi provided a summary of the Legal Text, although a few of the participants said that due to the late publication the night before the meeting, they had not had sufficient time to assess and pass comment on it.

CWi provided the following example in relation the Solution within the Legal Text as detailed below:

At the high level if pricing for October 2022 this would mean for either Transmission Services Entry or Exit;

The allowed revenue for the Gas Year October 2022 to September 2023 would be the sum of two elements.

1. The revenue required in the period of the April 2022 to March 2023 ($AFTSEnR_t$) minus the amount expected in the period April 2022 to September 2022 ($TSEnR_{pt}$). Resulting calculation ($AFTSEnR_t - TSEnR_{pt}$)

2. A proportion of the Formular Year that starts April 2023 ($AFTSEnR_{t+1}$) to give a value to apply for the period April 2023 to September 2023. The ratio ($FNTS$) is calculated as the

*estimate of revenue to be earned in the six months April 2023 to September 2023 divided by the target / allowed revenue for the period October 2022 to September 2023. Resulting Calculation (AFTSE_nR_{t+1} * FNTS)*

3. Adding (1) plus (2) provides the Gas Year allowed / Target revenue for either Transmission Services Entry or Transmission Services Exit to apply from October 2022.

Whilst there are some changes to the algebra for Non-Transmission Services, this is considered helpful to simplify how it is included in Section Y and also avoid any confusion on the approach. There is no change to the outcome of the calculations for non-Transmission, they are the same as they are now.

NS remarked that it was strange that the proposal would only change Transmission Services price determination. The current approach to price determination based on extrapolation of a revenue requirement based solely upon Formula Year t was creating a structural deficiency in price setting that was not limited to Transmission Services. Given the likely price shock anticipated in October 2022 Non-Transmission prices he felt it strange that this proposal was not advocating a change to Non-Transmission price determination to mitigate the price shock.

EF asked the Workgroup if the Legal Text had met the intent of the Solution, and no responses were forthcoming.

EF proposed in order to allow the Workgroup time to digest and understand the Legal Text in conjunction with the Solution, an additional meeting should be held on Monday 07 February 2022 at 10.00am to review and confirm the Legal Text and finalise the Workgroup Report, all agreed with this proposal.

EF suggested that if individuals were not able to dial into the meeting, they should email their acceptance of the Legal Text and content of the Workgroup Report, via email to the Joint Office prior to close of play Monday 07 February 2022; enquiries@gasgovernance.co.uk

EF also confirmed that he would seek special dispensation from Panel to submit the Workgroup Report at short notice for the February Panel.

CWi thanked all for their cooperation and confirmed the documents would be made available on the Joint Office website by 1:00pm on 02 February 2022 in readiness for the meeting on Monday 07 February 2022 at 10:00am.

5.0 Completion of Workgroup Report

EF provided a walkthrough of the Workgroup Report and encompassed specific comments raised by various participants.

EF confirmed he would conduct a cross check exercise between the amended Modification and the Workgroup Report to ensure all was completed for the extra meeting on Monday 07 February at 10.00am.

6.0 Any Other Business

None.

7.0 Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/events-calendar/month

Workgroup meetings will take place as follows:

Time / Date	Paper Publication Deadline	Venue	Workgroup Programme
10:00 Monday 07 February 2022	1:00pm on Wednesday 02 February 2022	Via Microsoft Teams	Standard Workgroup Agenda <ul style="list-style-type: none"> • Review of Legal Text • Completion of Workgroup Report

Action Table (as at 01 February 2022)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
No outstanding actions					