

## Representation - Draft Modification Report UNC 0796

### Revision to the Determination of National Grid NTS Target Revenue for Transportation Charging

Responses invited by: **5pm on 11 March 2022**

To: [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)

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

<b>Representative:</b>	Colin Williams
<b>Organisation:</b>	National Grid
<b>Date of Representation:</b>	11/03/2022
<b>Support or oppose implementation?</b>	Support
<b>Relevant Objective:</b>	d) Positive
<b>Relevant Charging Methodology Objective:</b>	aa) Positive c) Positive

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

As proposer of this UNC Modification 0796, which looks to manage some of the potential revenue volatility that can result due the misalignment between the Regulatory Year and the Transportation Charging Tariff Period, National Grid NTS supports its implementation. The Regulatory Year or Formula Year runs from April to March and the Tariff Period (that aligns to the Gas Year) runs from October to September.

UNC Modification Proposal 0796 is 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. This would be positive for standard Relevant Objective (d) and charging Relevant Objectives (aa) and (c).

The current methodology of calculating a target revenue for the Tariff Period (that aligns the Gas Year) does not take into consideration the forecast of Allowed Revenue for the Regulatory Year that starts in that Tariff Period, only focusing on the Regulatory Year that ends in the Tariff Period. This has been a source of revenue driven volatility into the Transportation charges for some time. UNC Modification 0796 is a means by which this revenue volatility can be reduced, not removed, without changing the Regulatory Year or Tariff Period.

This UNC Modification Proposal changes the Gas Year target revenue such that the Formula Year revenue in both the Formula Years that span part of the relevant Gas Year are used to determine it. By making this change it will manage some of the potential for

revenue driven changes (resulting from Regulatory Year revenues changing from year to year) that can impact Transmission Services Entry and Exit charges.

It will not mitigate impacts such as those sought to be managed by UNC Modification Proposal 0790 "Introduction of a Transmission Services Entry Flow Charge". UNC Modification Proposal is complementary to the measures proposed in UNC Modification Proposal 0790 but can also operate in isolation in the event that the Authority directs that UNC Modification 0790 should not be implemented.

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

As noted in UNC Modification 0796, implementation of this Proposal should take effect in time to be reflected in the Transportation Charges which will apply from 01 October 2022 (our preference) or the next 01 October following the Authority direction to implement. Reserve Prices need to be published one month before the Annual Yearly Auction ahead of the commencement of the following Gas Year, hence a decision would be required before the end of May 2022 to facilitate implementation in the following October 2022.

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

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

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

Yes

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

*Q1 Would the solution proposed produce the desired result under all paths of NTS allowed revenue?*

- a) Constant level of allowed revenue for each year*
- b) Allowed revenue rising or falling steadily year on year*
- c) Other scenarios.*

UNC Modification Proposal 0796 will deliver a benefit compared to the current approach in any scenario of revenues, as the revenues vary from year to year. The proposal reduces (not removes) the potential volatility driven by revenue changes from one Regulatory Year to the next and considering the mismatch for the Regulatory Year/Formula Year (April – March) to the Tarif Period/Gas Year (October – September).

This UNC Modification Proposal takes into account of the Formula Year revenue in both Formula Years that coincide with the relevant Gas Year. The current process only takes the Allowed Revenue due to be collected in the Formula Year which ends in the relevant Gas Year and does not take account of the Allowed Revenue for the following Formula Year (the first half of which coincides with the latter half of the relevant Gas Year) which can be a source of volatility when revenues fluctuate year to year.

When considering all potential scenarios then Licence obligations will need to be reviewed on revenue recovery linked to setting Transportation charges. For example, to deliver the full benefit of UNC Modification 0796, this requires the ability to under or over recovery relative to a Regulatory Years revenue. Should this proposal be implemented then, to manage the case of an over recovery when setting Reserve Prices, a Licence change should be sought at the earliest opportunity regarding recovery of Regulatory Years revenue within the Regulatory Year to permit such an outcome.

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

No

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

None