

# Charging Guide

An introduction to the basics of Charging

October 2023

Issue: 1.0

Version: Final



## Version control

Version/revision number	Date of issue	Notes
1.0	October 2023	Published on the National Gas Transmission website as a general guide to Charging

## Disclaimer

The information found within this document is provided by National Gas Transmission in good faith for general guidance only, and has not been independently verified. These guidelines do not constitute legal or commercial advice and should not be relied upon for any purposes. National Gas Transmission makes no express or implied, warranty, or representation concerning this information, including but not limited to its accuracy or completeness. We have provided links to external sites that may be useful or relevant. However, we have no control over the content, nature and availability of those sites. We are not responsible for any material contained on those websites and are not endorsing or recommending any views that may be expressed. In the event there is a discrepancy or conflict between any part of the guide and applicable law, rules, or regulations including National Gas Transmission's gas transporter Licence (whether or not referred to in the guide), then the provisions of such applicable law, rules, regulations or Licence shall take precedence.

# Contents

---

<b>Welcome</b>	<b>6</b>
<b>Introduction</b>	<b>7</b>
Background	7
Our Regulatory Framework	8
Charging Summary: Key Themes	8
Uniform Network Code	10
Gas Transporter Licence	11
Revenue Overview	11

---

<b>Setting Transportation Charges</b>	<b>13</b>
Revenue Types Overview	13

---

<b>Transmission Services Revenue</b>	<b>15</b>
NTS Transmission Charges	15
Determining Transmission Services Revenue	15
Gas Year Target Revenue	17

---

<b>Setting Transmission Services Charges</b>	<b>19</b>
Forecasted Contracted Capacity	19
Postage Stamp Methodology	19
Existing Contracts	19
Storage Discount	20
Conditional NTS Capacity Charge Discount	20
Transmission Services Model	21
Revenue Recovery Charges	22
NTS Entry Capacity Retention Charges	22

---

<b>Non-Transmission Services Revenue</b>	<b>23</b>
NTS Shrinkage	23
Determining Non-Transmission Services Revenue	23
Target Revenue	25

---

<b>Setting Non-Transmission Services Charges</b>	<b>26</b>
St Fergus Compression Charges	26
NTS Meter Maintenance Charges	26
DN Pensions Deficit Charges	26

Shared Supply Meter Point Administration Charges	27
Allocation Charges at Interconnector	27
General Non-Transmission Services Charges	27
Subsequent Revision of Non-Transmission Services Charges	28
<hr/>	
<b>Other Topics</b>	<b>29</b>
Overruns	29
Entry Overruns	29
Exit Overruns	29
Non-Obligated Capacity	30
<hr/>	
<b>Additional Information</b>	<b>31</b>
<b>Appendix 1. Mapping Licence to UNC</b>	<b>33</b>
<b>Appendix 2. Glossary of Key Terms</b>	<b>35</b>
<hr/>	

# Welcome

Welcome to our Gas Transportation Charging Guide. Here we provide information relating to our gas network and more specifically gas charging arrangements to support you in understanding how the regime works. We hope this guide is concise, easy to follow and that you find this document useful.

If you still have questions, or any thoughts on how we can improve this document please email us at: [box.ntscharges@nationalgrid.com](mailto:box.ntscharges@nationalgrid.com)

If you have any general regulatory queries, please email us at:  
[box.gsoconsultations@nationalgrid.com](mailto:box.gsoconsultations@nationalgrid.com)

For any capacity queries, please email us at: [box.capacityauctions@nationalgrid.com](mailto:box.capacityauctions@nationalgrid.com)

## Markets

Gas System Operation

National Gas Transmission

[www.nationalgas.com](http://www.nationalgas.com)

National Gas Transmission

National Grid House

Warwick Technology Park

Gallows Hill, Warwick

CV34 6DA

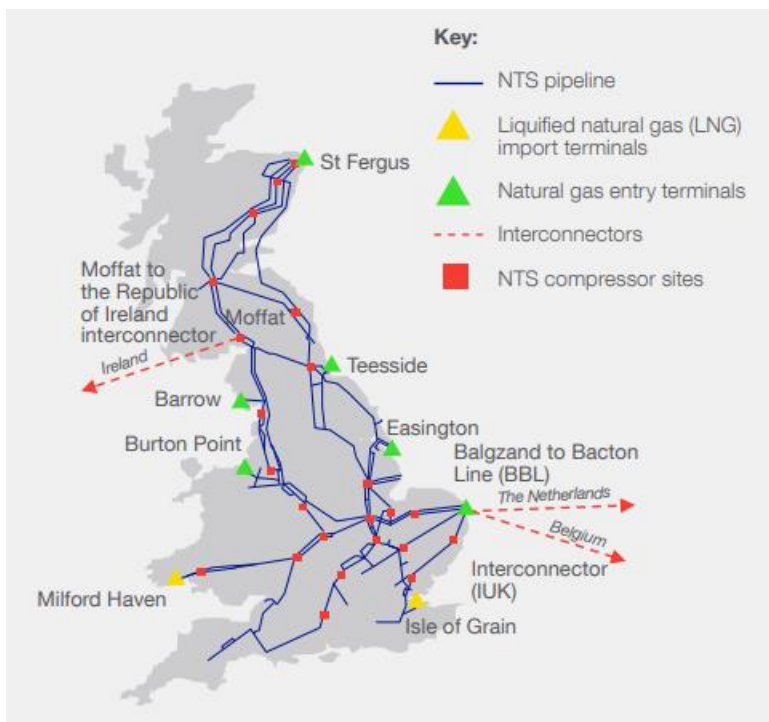
# Introduction

## Background

National Gas Transmission plays a fundamental role in Great Britain’s gas market. We own and operate the gas National Transmission System (NTS), a high-pressure gas network that transports gas throughout England, Scotland and Wales. Our network includes approximately 7,600km of pipelines.

The NTS network is a crucial link in the gas market supply chain; once upstream natural gas produced in offshore gas fields reaches our shores, the NTS takes it to lower-pressure distribution networks (DNs). The gas is then delivered to the businesses and homes that use it.

Natural gas arrives in GB from many sources, such as offshore gas fields in the North Sea, direct pipelines from Belgium and the Netherlands, and large liquefied natural gas (LNG) tankers.



Our primary responsibility is to transport gas from supply points to exit offtake points safely, efficiently and reliably. We manage the day-to-day operation of the network. This includes balancing supply and demand, maintaining system pressures and ensuring gas quality standards are met. This document outlines how we determine the charges for shippers for using our network to transport gas.

## Our Regulatory Framework

So, how do we charge for our services? First, it is important to gain a brief understanding of how we are regulated.

As the owner of the NTS in Great Britain, we are a natural monopoly. We're regulated by the energy regulator, Ofgem. Ofgem simulates the effects of competition by setting price controls. The price control regime ensures network companies can, through efficient operation, earn a fair return on their activities while controlling the end cost to consumers. Ofgem also set performance targets too, covering things like customer service, network reliability and environmental performance. The regulatory framework which determines the amount of revenue we can collect is called RIIO.

The RIIO (Revenue = Incentives + Innovation + Outputs) regulatory framework was implemented by Ofgem in 2013/14. The model offers network companies incentives for innovation and securing investment. This is so sustainable energy networks can be developed for the lowest cost for current and future customers.

To encourage us to provide additional benefits for consumers, Ofgem uses financial incentives. These can either be penalties or additional revenue (funded by our customers), depending on whether or not we meet Ofgem's targets.

As part of the RIIO framework, there are funding mechanisms that encourage innovation across the energy industry. The aim is to help make the energy networks smarter, accelerate the development of low carbon solutions and deliver financial benefits for consumers.

The Outputs that we deliver are clearly articulated and linked to the calculation of our Allowed Revenue. These are determined through an extensive consultation process, which has given stakeholders a greater opportunity to share their views.

If you would like to find out more about RIIO and our business plan, please refer to the [How we're regulated](#) and [RIIO2](#) sections of our [website](#).

Allowed Revenue is the amount of money that a network company can earn on its regulated business and is determined by RIIO.

## Charging Summary: Key Themes<sup>1</sup>

To aid your understanding and set the scene, there are some key topics/ themes that would be useful to outline before getting into further detail. A summary of which are outlined below.

**The Licence:** National Gas Transmission hold a Gas Transporter Licence which is issued by Ofgem under the Gas Act 1986. This allows us to Transport gas through the NTS, a high-pressure gas pipeline network, to other pipeline systems (such as Distribution Networks) and to large directly connected customers, such as Power Stations and large industrial consumers.

---

<sup>1</sup> This document aims to give you a broad overview of our revenues and charging structure. It may not reflect more recent changes to the Licence and UNC



In relation to charge setting, the Licence defines how our Allowed Revenues are set. This is the amount of revenue that we are allowed to recover. This is detailed in Special Conditions Part C, section 2. Further details about our Transporter Licence can be found on Ofgem's website: <https://www.ofgem.gov.uk/licences-and-licence-conditions>.

**Allowed Revenue:** Our Licence specifies two revenue streams: Transport Owner (TO) Allowed Revenue, referred to as  $AR_t$  in the Licence, and System Operator (SO) Allowed Revenue, referred to as  $SOAR_t$  in the Licence. Broadly speaking, the TO Allowed Revenue allows us to recover the costs associated with maintaining and investing in our network. SO Allowed Revenue allows us to recover the costs of operating the network, such as the running of our compressor fleet. These are two distinct revenue streams and are accounted for independently of each other.

**Price Control Financial Model:** The authority publishes a [price control financial model](#) (PCFM) prior to the start of each Regulatory Year which runs April to March (sometimes referred to as a Formula Year), which sets out the amount of TO Allowed Revenue and SO Allowed Revenue we can recover in that year. The PCFM is published in December prior to the Regulatory Year commencing in April. The model can be updated and re-published as part of an annual iteration process up until the end of May. This is to enable the most up to date information as possible to be available for charge setting<sup>2</sup>.

The PCFM is available on Ofgem's website and can be found here: [GT2 Price Control Financial Model | Ofgem](#). Note that there are separate tabs for TO and SO Allowed Revenues.

**Uniform Network Code:** Under the conditions of our Licence, we are obligated to set out our transportation arrangements within a Uniform Network Code (UNC). The Licence sets out how much we can set to recover from Gas Transportation charges, the Uniform Network Code determines the methodology of how we can recover our Allowed Revenues. The UNC Transportation Principal Document, Section Y (Charging Methodologies) outlines the methodology we use when setting Transportation charges. Section B (System Use and Capacity) outlines how the charges are applied. The UNC can be found on the Joint Office of Gas Transporters website (the Code Administrator) here: <https://www.gasgovernance.co.uk/UNC>

**Top-down Approach:** The Licence sets out the process for how the Allowed Revenues are set. The UNC determines that we set charges in order to recover our SO and TO Allowed Revenues. We apply various denominators, as set out in the methodology, to the Allowed Revenues to determine a unit price. This is a top-down approach to charge setting. Details of how we derive Transportation charges are discussed in more detail further on in this guide.

**Mapping:** The Licence determines a TO Allowed Revenue and an SO Allowed Revenue, whereas the UNC defines a "Transmission Services Revenue" and a "Non-Transmission Services Revenue." Although the determination of these revenues broadly align to the TO and SO respectively, there is a process we follow to divide the TO and SO Allowed Revenues into the associated Transmission Services and Non-Transmission Services revenue streams. We have Transmission Services Charges

---

<sup>2</sup> The PCFM used at time of Charge-setting can be found here: <https://www.ofgem.gov.uk/publications/republication-riio-gt2-price-control-financial-model-following-annual-iteration-process-2022>

which aim to recover Transmission Services Revenue and Non-Transmission Services Charges which aim to recover Non-Transmission Services Revenue. These are determined by the methodology set out within UNC, section Y. This will be discussed in more detail throughout this guide.

**Gas Year:** The Licence determines our Allowed Revenues are set over a Regulatory Year (1<sup>st</sup> April through 31<sup>st</sup> March). The UNC determines that charges are applied to a ‘Gas Year’ – this is the period from 1<sup>st</sup> October through 30<sup>th</sup> September. Therefore, there is a discord between the timeframe charges are applicable for, in that they span two Regulatory Years. This is discussed in more detail throughout this guide.

**Under/Over Recovery:** We set Gas Transportation Charges in order to recover our TO and SO Allowed Revenues. Any under or over recovery is carried forward into the next Regulatory Year. Any TO under/ over recovery, referred to as ‘K<sub>t</sub>’ in the Licence will be applied to the following year’s TO Allowed Revenue, and will be accounted for independently to the Entry and Exit target revenues based on the respective Entry and Exit under/ over recovery from the previous year. Any SO under/ over recovery, referred to as ‘SOK<sub>t</sub>’ in the Licence will be applied to the following year’s SO Allowed Revenue.

**EU Tariff Network Code:** The Tariff Network Code ensures a transparent process for setting charging methodologies that are non-discriminatory, reflect actual costs and facilitate competition. It is embedded into UK law. A new Postage Stamp Charging Regime was introduced on 1<sup>st</sup> October 2020 in order to better meet these objectives. In this guide we cover current charging arrangements and do not discuss the previous charging regime.

## Uniform Network Code

The UNC forms the contractual framework between National Gas Transmission (the National Transmission System (NTS) owner), Distribution Networks (DN), and the shippers whose gas is transported. The UNC is divided into four main sections:

- General
- Transportation Principal Document (TPD)
- Offtake Arrangements Document (OAD)
- European Interconnection Document (EID)

The UNC defines the rights and responsibilities for users of gas transportation systems and provides for all system users to have equal access to transportation services. TPD Section Y – Charging Methodologies, is the primary area of the UNC that determines our obligations in respect of charges and the methodology of how we set Gas Transportation charges. TPD Section B – System Use and Capacity details how charges are applied.

The UNC has an effective modification process in place to enable change. Therefore, the UNC will continue to develop in response to market requirements.

The UNC is available on the Joint Office of Gas Transporters website and can be found [here](#).

## Gas Transporter Licence

National Gas Transmission hold a Gas Transporter Licence. The Licence defines how our Allowed Revenues are set. This is the amount of revenue that we are allowed to recover. This is detailed in Special Conditions Part C, section 2 of our Licence.

The Allowed Revenue we can recover is set out into two distinct revenue streams: Transmission Owner (TO) and System Operator (SO). These two revenue streams are accounted for independently of each other. The Licence sets out our obligations in respect of setting TO and SO charges, including we must use best endeavours to ensure that our recovered revenues do not exceed Allowed Revenues. However, we are allowed to deliberately over-recover TO and SO revenues as a result of the applicable charging methodology as detailed in TPD, section Y of the UNC, and the Authority (Ofgem) have given consent. This is set out in sections 2.1.4 and 2.3.4 of Special Conditions Part C of our Licence.

Further details about our Transporter Licence can be found on Ofgem's website [here](#).

## Revenue Overview

The Licence sets out the process to define the amount of Allowed Revenue we can recover. This is split into two distinct revenue streams, Transportation Owner (TO) and System Operator (SO). Details of our Allowed Revenues are contained in the Price Control Financial Model (PCFM), determined by the Special Conditions C of our Gas Transporter Licence.

The PCFM is initially published in November, for the Regulatory Year commencing in April. The PCFM can be re-published up to the end of May with Ofgem's permission. Once the final PCFM has been published, it cannot be changed outside of the usual iteration process. The impact of this resubmission process is that the PCFM (which sets out our Allowed Revenues) will be updated with actuals and forecasts that will be more reflective and up to date ahead of the charge setting process. This should lead to greater confidence in the Allowed Revenues and a reduction in year on year under or over recovery.

In simple terms, the Licence details what Allowed Revenue we can recover, the PCFM details the how much and UNC sets out the methodology by which we can recover our Allowed Revenues. The methodology is set out in TPD, Section Y.

We collect two types of Revenue as determined by UNC;

- **Transmission Services Revenue** (a UNC term), which broadly aligns to the Transmission Owner revenue (a Licence term), and will be recovered by Transmission Service Charges, and
- **Non-Transmission Service revenue** (a UNC term), which broadly aligns to the System Operator revenue (a Licence term) and will be recovered by Non-Transmission Services Charges.

The diagram below illustrates the high-level structure from Allowed Revenue to Gas Transportation Charges .

## Allowed Revenue

Transmission Owner (TO) Allowed Revenue  
(Licence)

System Operator (SO) Allowed Revenue  
(Licence)

Transmission Services Revenue  
(UNC)

Non-Transmission Services Revenue  
(UNC)

Entry Capacity Charges  
Entry Revenue recovery  
charges

Exit Capacity Charges  
Exit Revenue Recovery  
Charges

General Non Transmission Entry & Exit Charges  
St Fergus Compression  
Pensions & Metering Charges

Although the revenue categorisation between the Licence and UNC broadly aligns, there are some exceptions. Please see [Appendix 1](#) 'Mapping Licence to UNC' for further details.

We set charges to recover our Allowed Revenue in line with UNC and Licence obligations.

# Setting Transportation Charges

The regulator (Ofgem) sets the amount of revenue we can recover. For example, in Regulatory Year (RY) 2023/24 this is £816.8m (including  $K_t$ ) for Transmission Operator Allowed Revenue and £926.5m (including  $SOK_t$ )<sup>3</sup> for System Operator Allowed Revenue. This is detailed in the PCFM as published by Ofgem and can be found [here](#). Note the PCFM is updated and re-published at various points in the year. The numbers quoted above were the numbers published at the time of price setting for October 2023 charges.

The UNC determines the methods and principles on which transportation charges are derived. This includes charges being set for a Gas Year.

So, there is a discord where the charges we set fall into two Regulatory Years. There is a process we follow to determine the amount of Allowed Revenue that we are able to collect in a Gas Year and this is published in a Revenue Model. The Transmission Services Revenue Model and the General Non-Transmission Services model can be found in the 'NTS Charging Supporting Information' section of the Charging section of our [website](#). This is something we will discuss further in this guide.

## Revenue Types Overview

As discussed, the Licence sets out the amount of revenue we can recover through two distinct streams; TO and SO Allowed Revenue. The UNC determines two revenue streams (which broadly align to TO and SO); Transmission Service Revenue which is collected through Transmission Services Charges and Non-Transmission Services Revenue which is collected through Non-Transmission Services Charges.

You can think of **Transmission Services Revenue** as the revenue we recover for the costs associated with maintaining and investing in our network. These are predominantly generated from shippers using our network by purchasing capacity. **Non-Transmission Services Revenue**, is revenue to cover the additional costs we incur in operating the network, such as the gas and electricity we purchase to operate our compressor fleet.

Transmission Services Charges are comprised of:

- Entry & Exit Capacity Charges as determined by Auction or Allocation process (these form the majority of Transmission Services Revenue)
- NTS Entry Capacity Retention Charges
- Transmission Services Revenue Recovery Charges

---

<sup>3</sup> Any under or over recovery is carried forward into the next Regulatory Year

Transmission Services charges are determined separately for Entry Points and Exit Points.

Non-Transmission Services Charges comprise of:

- General Non-Transmission Services Charges
- St Fergus Compression Charge
- NTS Meter Maintenance Charges
- DN Pensions Deficit Charges
- Shared Supply Meter Point Administration Charge
- Interconnection Point Allocation Charge

NTS Transportation Charges are updated on 1<sup>st</sup> October each year in line with our Licence obligations. We publish the Transportation Statements on the Charging section of our [website](#). This covers both Transmission Services Charges and General Non-Transmission Services Charges.

Further details on the methodology to derive the Transmission and Non-Transmission Charges are discussed later in this guide.

# Transmission Services Revenue

Users can obtain commercial rights to flow gas onto (or take gas off of) the NTS by buying NTS pipeline ‘capacity’. NTS Entry capacity delivers gas and NTS Exit capacity offtakes gas. A User needs to hold one unit of capacity in order to flow one unit of energy onto (or off) the system. This is known as the ‘ticket to ride’ principle<sup>4</sup>. Capacity for NTS entry points and exit points is sold in units of kWh/day. For Interconnection Points, capacity can be sold in kWh/day or kWh/hour.

Within the Licence, we have obligations to make available for sale certain quantities of capacity at each and every system point. Transmission Services Revenue is primarily derived from the sale of Entry Capacity and Exit Capacity.

If you would like to find out more about capacity, please visit the Capacity pages on our [website](#). There is also a useful guide available to [download](#).

## NTS Transmission Charges

NTS Transmission charges are calculated through two main drivers:

- Transmission Owner Allowed Revenue (The Target Revenue set by the Regulator) and
- Forecasted Contracted Capacity (FCC)

At the simplest level, the Target Revenue is divided by the FCC to drive a capacity reference price<sup>5</sup>. Transmission Service Charges are determined separately for Entry Points and Exit Points.

**Target Revenue** is applicable for a Regulatory Year i.e., April to March. However, charges are applicable for a Gas Year, i.e., October to September. This means that Revenues collected in the first six months of the Regulatory Year are based on the previous Gas Year’s prices. Transmission Services Charges are applicable for one year from 1<sup>st</sup> October.

## Determining Transmission Services Revenue

Our Transporter Licence determines revenue between TO and SO. The UNC determines revenues for setting charges between Transmission Services and Non-Transmission Services. TO broadly aligns to Transmission Services Revenue, and SO broadly aligns to Non-Transmission Services Revenue. For more information on the mapping between the Licence and UNC, please see [Appendix 1](#).

So, how do we determine the Transmission Services Target Revenue we need to set charges to recover? We start with the TO Target Revenue and take a number of steps to get to a Transmission Services Target Revenue. The steps required are discussed below:

---

<sup>4</sup> Users do not need to acquire capacity to flow gas onto (or take gas off of) the system. However, if a User does not have capacity rights to cover the gas they have flowed, they will be charged additional fees. These fees are referred to as capacity overrun charges.

<sup>5</sup> There are a number of other considerations (such as discounts) which are discussed further in the Setting Transmission Services Charges section of this guide.

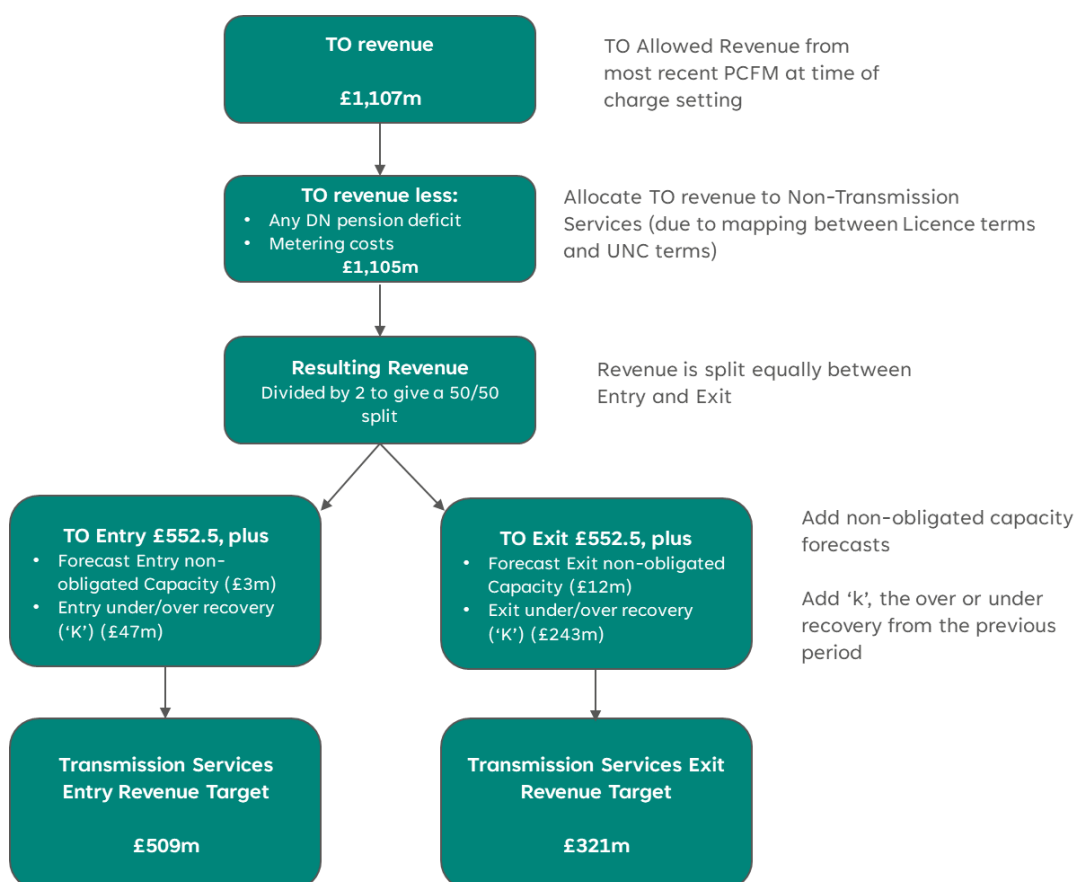
TO Target Revenue set by the regulator for Regulatory Year 23/24 is £1,107m, as determined by the latest [PCFM](#) at the time of charge setting. (This is referred to as the Allowed Revenue “AR<sub>t</sub>” in the Licence). A correction factor is then applied; this is to account for any under or over recovery in the previous Regulatory year. This is referred to as ‘K’ in the Licence<sup>6</sup>. This brings the TO Target Revenue for the Regulatory Year to £816.8m.

Transmission Services Revenue and Non-Transmission Services charges are set out within UNC. Although TO Allowed Revenue broadly aligns with Transmission Services Revenue, an allocation exercise is undertaken to align any SO Allowed Revenue that sits in Transmission Services, and TO revenues that sit in Non-Transmission Services Revenue.

For Regulatory Year 23/24 this brings the Target Revenue for Transmission Services to £830.5m.

For the purpose of Transmission Services, charges for Entry points and Exit points are treated separately. We aim to recover a 50/50 split of Allowed Revenue from each<sup>7</sup>. The correction factor (referred to as ‘K’) to account for any under or over recovery in a previous year is accounted for between Entry and Exit separately, not at an aggregated level (i.e., an over-recovery for Exit revenue will be applied to the following year’s Exit Allowed Revenue).

The following chart shows the high-level steps taken to get from TO Allowed Revenue to Transmission Services Revenue for Entry and Exit based on Regulatory Year 23/24.



<sup>6</sup> Note that ‘K’ is determined separately for Entry and Exit. This is the net of the two ‘K’ values for Entry and Exit.

<sup>7</sup> This is currently set as a 50/50 split in UNC, section Y (Charging Methodologies, Section 1.5)



The Allowed Revenue for Transmission Services is £-830.5m; £509m to be collected in respect of Entry Revenues and £321m to be collected in respect of Exit revenues.

## Gas Year Target Revenue

The Licence defines Allowed Revenues for a Regulatory Year (April – March), but the UNC determines that Charges are to be set for a Gas Year (October – September). This creates a disconnect between the Revenues and the Charges as they span two different periods. There is a process we follow to determine the Gas Year Allowed Revenue, which will feed in to the Charge calculations, based on the Regulatory Year Allowed Revenues.

So, how do we determine the Target Revenue for the Gas Year when Allowed Revenues are set for a Regulatory Year? The next step is to determine the Target Revenue for the Gas Year. This will then be used to set Transmission Services Charges for the period from 1<sup>st</sup> October. Entry and Exit Target Revenues are determined separately. The **NTS Transmission Services Revenue Model** calculates the Target Revenues for each Gas Year. This is updated annually and published on our website in September. This can be found in the ‘NTS Charging Supporting Information’ section of the Charging section of our [website](#).

UNC Modification<sup>8</sup> [0796](#) was raised to revise the method of determination of Allowed Revenue for Transmission Services for a Gas Year and was implemented on 1<sup>st</sup> October 2022. The key aim of Modification 0796 was to reduce the level of revenue related year-on-year volatility in Capacity Reserve Price rates. The previous mechanism for determination of Allowed Revenue for the Gas Year only considered the Allowed Revenue for the Regulatory Year which ends in the relevant Gas Year, without taking account of the Allowed Revenue for the following Regulatory Year. From Gas Year 2022/23, the determination of Allowed Revenue will account for both Regulatory Years that coincide with the Gas Year.

Modification 0796 also removed the existing Transmission Services Entry Rebate Charge<sup>9</sup>.

An example of determining Entry Target Revenue for Gas Year 23/24 is provided below to walk you through the process:

---

<sup>8</sup> There is a robust modification process to enable UNC to develop in response to market requirements

<sup>9</sup> The implementation of UNC Modification 0796 will deliver a more stable Capacity Reference Price. Therefore, the Transmission Services Entry Rebate Charge was removed. Any over or under recovery against Allowed Revenues will (from 1<sup>st</sup> October 2022) be accounted for in the following Gas Year.

		GY 23/24			
		FY 23/24		FY 24/25	
		Apr-Sep	Oct-Mar	Apr-Sep	Oct-Mar
Entry Target Revenue FY 23/24. As per the PCFM allowed revenues (including 'K')	Target Revenue (FY)	509.3		505.5	
Revenue collection projection from Apr-Sep, collected under charges for GY 22/23	Forecast Revenue Collection (GY-1)	310.7			
	Revenue to be Collected		198.5		
Difference to be collected (Difference between FY 23/24 Target Revenue and Forecast Revenue Apr-Sep)	Derived 'K'			12.7	
	Target Revenue including 'K'			492.8	
	Seasonal Profile Revenue (GY)		0.45	0.55	
% Split of GY revenue collected across the 6 months (Driven by FCC and levels of existing contracts)	6 Monthly Target Revenue (Apr-Sep 24/25)			271.1	
	Gas Year Target Revenue		469.7		
	Forecast Revenue Collection	310.7	211.2		
GY 23/24 target revenue (469.7) multiplied by Seasonal Revenue profile (0.45) to forecast actual revenue collection Oct-Mar	Forecast Revenue Collection (FY)		522.0		
	Revenue Variance to Target ('K')		12.7		
	Sum of Forecast Revenue Collection for FY 23/24				
	Difference between Forecast and Target Revenue for the FY. This value becomes the derived 'K'				

The Target Revenue for Entry for GY 23/24 is £469.7m. The same process is followed to determine Exit Target Revenue and is £254.4m for GY 23/24. Details are contained in the **Transmission Services Revenue Model** which is published on the [Charging](#) pages of our website, under NTS Charging Supporting Information.

# Setting Transmission Services Charges

Now that the Target Transmission Services Revenue we are looking to collect in a Gas Year has been determined, we can set the Transmission Services Reference charges for Entry and Exit capacity. NTS Transportation Charges are updated on 1<sup>st</sup> October each year in line with our Licence obligations. We publish details on our [website](#), NTS charging statements. This covers both Transmission Services Charges and General Non-Transmission Services Charges.

## Forecasted Contracted Capacity

The Forecasted Contracted Capacity (FCC) Methodology forecasts the volume of capacity that will be purchased at Entry points & Exit points for the forthcoming gas year. The purpose of this methodology is to determine an annual value for each Entry and Exit point that will be used as part of the capacity reference prices and reserve prices calculations. To simplify, Target Revenue (for the applicable Gas Year) is divided by the FCC to drive the reference price for capacity to collect Allowed Revenues<sup>10</sup>.

If you want to find out more, our FCC Methodology is published on our website, and can be found [here](#).

## Postage Stamp Methodology

Capacity reserve prices are based on a Postage Stamp methodology. A Postage Stamp methodology is a straightforward method for cost allocation that supports the entry-exit access methodology; it is a single uniform tariff applied to entry points and a single uniform tariff applied to exit points. As the tariffs should recover the Allowed Revenue for Entry and Exit, the costs are allocated in proportion to the booked capacity.

All capacity prices for Entry Points are the same apart from a 10% discount on the reference price for Interruptible capacity<sup>11</sup> and an 80% discount on the reference price for Storage points. One exception to this is the Entry Capacity which was booked before 06 April 2017 (Existing Contract (EC) Capacity), that has the fixed price when it was booked.

All capacity prices for Exit Points are the same apart from a 10% discount on the reference price for Off-Peak capacity and an 80% discount on the reference price for Storage points.

## Existing Contracts

1<sup>st</sup> October 2020 saw a significant change to the Charging methodology<sup>12</sup>, moving to a primarily Capacity based regime to ensure compliance with the EU Tariff Network Code. There has been a notable difference between the Reserve Prices for Entry Capacity and the Existing Contract Prices. (Note that Existing Contracts only apply to Entry Capacity) As the reserve prices are recovered

---

<sup>10</sup> There are other considerations, such as Existing Contracts, Conditional NTS Capacity Charge Discount and storage discount. These are discussed later in this guide.

<sup>11</sup> Firm Capacity is financially and contractually guaranteed to be available, whereas Interruptible and Off-Peak Capacity can be withdrawn by us if the system cannot provide it on the Gas Day.

<sup>12</sup> Through UNC Modification [0678](#)

across a smaller proportion of Entry Capacity (due to the high levels of Existing Contracts and the low revenues they contribute) the disparity between Existing and ‘new’ capacity has been sizeable. For Gas Year 22/23 approximately 35% of forecasted capacity is ‘new’ capacity and yet this generates approximately 90% of Allowed Revenue for Entry Capacity.

We explored this topic in more depth in a Gas Charging Discussion document (GCD13), which is available via the National Gas website [Charging Pages](#) for those who would like to delve deeper.

## Storage Discount

Storage sites receive an 80% discount on the reference price for Capacity, as detailed in UNC, TPD, Section Y. This is a discount for both Entry Capacity and Exit Capacity.

The same discount would also be applicable to any Revenue Recovery Charges levied.

## Conditional NTS Capacity Charge Discount

Essentially, the Conditional NTS Capacity Charge Discount, (CNCCD, previously known as Shorthaul) is a discount available for users who are located near an Entry point. This is to encourage the use of the NTS as opposed to the construction of a separate and privately owned pipeline, often referred to as ‘inefficient bypass.’ UNC Modification [0728A](#) introduced CNCCD and the following eligibility criteria apply:

- Shippers must nominate an Eligible Route: Entry Point / Exit Point
- Eligible Entry Points are Beach Terminal, Biomethane Plant, Interconnection Point, LNG Importation Terminal and Onshore Field
- Eligible Exit Points are DC (‘Direct Connect’) and Interconnector
- The maximum eligible route distance permitted between the nominated Entry and Exit Points is 28km

The following conditions apply:

- The maximum distance where a discount is available is 28km
- The maximum discount available is 90%, reducing as distance increases
- The minimum discount available is 10%<sup>13</sup>
- The discount applies to Registered Firm Capacity Holdings. Interruptible or Off-Peak capacity is not eligible for discount, neither is any Capacity Transferred in or out.
- No discount is applicable to Existing Contracts
- The discount applies to the Transmission Services Capacity Entry and Exit Reserve Price only
- The user is required to apply for the discount, it is not automatically granted

The Capacity eligible for the discount (the Eligible Quantity or EQ) is calculated based on the minimum of four values:

- Entry Firm Capacity

---

<sup>13</sup> If the calculation of the CNCC discount is less than 10%, then the discount shall be 0. (UNC, TPD, section Y, Section 5)

- Exit Firm Capacity
- Entry Flow
- Exit Flow

A simple example is detailed below. For more detailed worked examples, please see the analysis appendix attached to [UNC Modification 0728A](#).

Shipper:	Shipper X
Entry Point:	En <sub>1</sub>
Exit Point:	EX <sub>A</sub>

Route:	X1A
--------	-----

Value	Volume	Units
Entry Firm Capacity	100	kWh
Exit Firm Capacity	50	kWh
Entry Flow	95	kWh
Exit Flow	45	kWh

Initial Eligible Quantity	45	kWh
---------------------------	----	-----

Further details can be found in UNC, [TPD](#) Section B (System Use and Capacity - section 9) and TPD Section Y (Charging Methodologies - section 5).

## Transmission Services Model

Entry and Exit Capacity reserve prices are calculated in accordance with section Y of the UNC. The **“October 20XX Transmission Services Model”** is made available to all users and is published annually on the National Gas Transmission website. The model can be found on the [Charging](#) section of the website, then navigate to NTS Charging Supporting Information.

Once we have determined the Target Revenue for the Gas Year, (separate values for Entry and Exit) and the forecasted capacity (as per the FCC methodology) for Entry and Exit, we can determine the Capacity Reserve prices. For the Entry Allowed Revenue, the value of Existing Contracts is firstly deducted from the Target Revenue, and the volume of Existing Contract capacity holdings from the Entry FCC. Using the postage stamp methodology the model calculates the reserve prices to collect the remaining Target Revenue from the remaining forecast of capacity. We calculate an initial reference price, we then apply discounts (Interruptible and Off-Peak capacity, Storage & CNCCD) and adjust the Reserve Prices to compensate. This process is repeated until the adjustment is zero, allowing us to calculate the Entry Capacity Reference Prices. The same process is followed for the Exit Capacity Reference Prices, without the need to account for Existing Contract revenue and capacity, as this is only applicable for Entry.

Full details of the capacity reserve prices are available in our Transportation Statement which is published on the [charging](#) section of our website.

Capacity is sold through various open electronic auctions. The basic capacity product is the same in every auction; the right to flow one unit of capacity (Kilowatt hour, kWh) on a particular Gas Day (D). Units sold are in kWh/d. Auctions are pay as bid, subject to the reserve price. Auction premiums are not forecasted. Any auction premiums paid will contribute to our Allowed Revenues.

## Revenue Recovery Charges

The Revenue Recovery Charge is a mechanism to manage any under or over recovery of revenues at Entry and Exit within the Gas Year. These Capacity charges will be applied to the Fully Adjusted Capacity at all points, apart from that capacity classified as Existing Contracts.

The Revenue Recovery Charge can be either a debit or a credit and is a means to recover a large forecasted under/ over recovery. It can be re-adjusted within a Gas Year. Charges are calculated separately for Entry and Exit.

If a Revenue Recovery Charge is introduced, notice will be given setting out the reasons for the revision, the proposed revision month and an estimate of the revised charge. Notice of at least two months will be given.

By default, the Revenue Recovery Charge is set to zero. This is because we aim to collect all our Allowed Revenue.

## NTS Entry Capacity Retention Charges

Entry Capacity Substitution (ECS) is a process by which National Gas Transmission moves unsold non-incremental Obligated Entry Capacity (Baseline Capacity) from one Aggregated System Entry Point (ASEP) to meet the demand for incremental Obligated Entry Capacity at a different ASEP. A “retainer” as an annual product can be taken out at any ASEP with unsold Capacity. When requested ahead of the Quarterly System Entry Capacity (QSEC) auction, the retainer allows the specified volume of Capacity to be excluded from the substitution process during the QSEC or in any other QSEC auction during the next twelve months.

The costs of taking out a retainer on Entry Capacity may be refunded to the party that takes out a retainer if that Capacity is subsequently purchased by any user in subsequent QSEC or AMSEC auctions, as detailed by the ECS Methodology Statement. If you want to find out more, the ECS methodology statement is published on the [capacity](#) section of our website.

Published prices are available in our Transportation Statement which is published on the [charging](#) section of our website.

# Non-Transmission Services Revenue

We are incentivised to operate the NTS in the most efficient way and the regulator sets the amount of revenue we can recover. SO Allowed Revenue (which broadly aligns to Non-Transmission Services Revenue) is derived from a number of incentives, allowances and costs associated with running the NTS - these are detailed in our Licence. This includes NTS shrinkage, which is one of the main cost drivers regarding SO Allowed Revenue.

## NTS Shrinkage

As Shrinkage provider, we are responsible for managing the end-to-end service of forecasting, accounting for, procuring and supplying energy to satisfy the NTS shrinkage components (and we are incentivised to do this in the most cost-efficient way possible.)

NTS shrinkage energy is procured for three components:

- **Compressor Fuel Use** is the energy used to run compressors to manage pressures on the NTS. We operate both gas and electric compressors
- **Calorific Value Shrinkage** is gas which cannot be billed due to application of the Gas (Calculation of Thermal Energy) Regulations 1996
- **Unaccounted for Gas** is the remaining gas which is unallocated after taking account of all measured inputs and outputs on the system

In recent years, we have seen unprecedented rises in the cost of wholesale energy which has had a significant impact on our Shrinkage costs. These costs ultimately get converted into Allowed Revenue and are passed on through charges to our customers.

We pay all the shrinkage costs we incur and only recover in line with our Allowed Revenues. This protects consumers. Where shrinkage costs are higher than the value allowed to be recovered, collection is deferred to a future year. This will affect prices for future years and can lead to volatility in prices.

Non-Transmission Services Revenue is derived from targeted charges as set out within UNC, and a 'General-Non-Transmission charge'. The General Non-Transmission charge has been driven predominantly by the cost of procuring energy for NTS Shrinkage in recent times.

## Determining Non-Transmission Services Revenue

Our Transporter Licence specifies two revenue types, TO and SO. For the purposes for charging, UNC determines two revenues - Transmission Services Revenues and Non-Transmission Services Revenues. TO broadly aligns to Transmission Services Revenue, and SO broadly aligns to Non-Transmission Services Revenue. For more information on the mapping between the Licence and UNC, please see [Appendix 1](#).

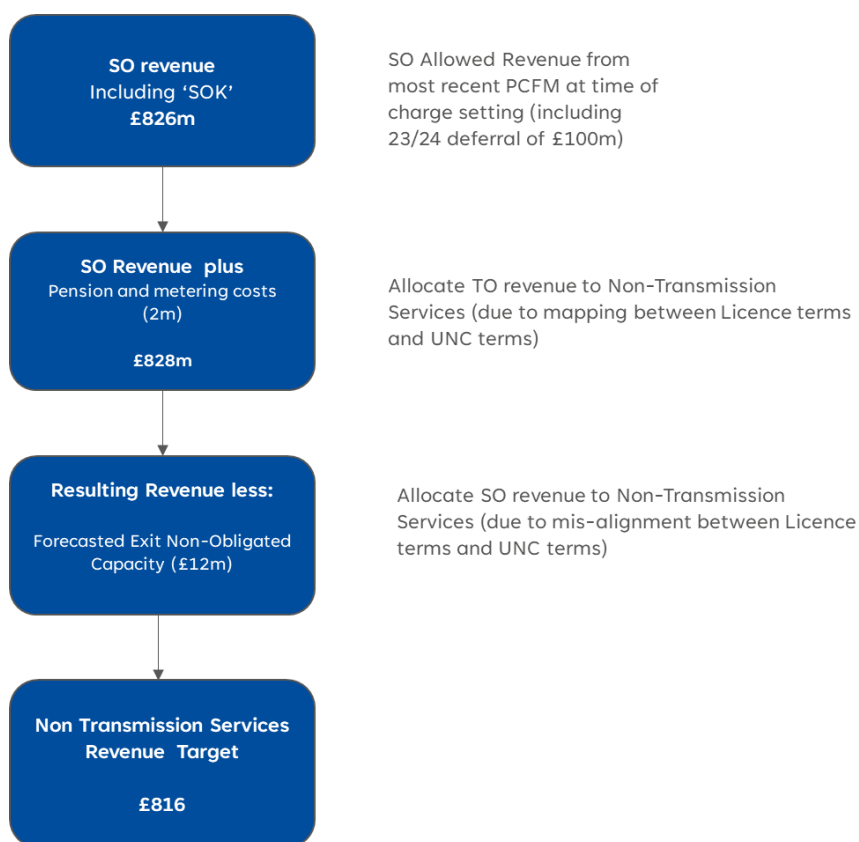
So, how do we determine the Non-Transmission Services Target Revenue and how do we set charges to recover that Target Revenue? We start with the SO Allowed Revenue and take a number of steps to get to a Non-Transmission Services Target Revenue. The steps required are discussed below:

The SO Allowed Revenue set by the regulator for Regulatory Year 23/24 is £926.5m, as determined by the latest [PCFM](#) at the time of charge setting. This includes a correction factor to account for any under or over recovery in the previous Regulatory year. The correction factor is referred to as ‘SOK’ in the Licence. For Regulatory Year 23/24, National Gas Transmission will be deferring £100m<sup>14</sup> revenue from the SO Allowed Revenues to 24/25. This will have the effect of reducing the SO Allowed Revenue to £826.5m – this is the Target Revenue.

Transmission Services Revenue and Non-Transmission Services Revenues are set out within UNC. Although SO Revenue broadly aligns with Non-Transmission Services Revenue, an allocation exercise is undertaken to align any TO Allowed Revenue that sits in Non-Transmission services, and SO revenues that sit in Transmission Services Revenue.

For Regulatory Year 23/24 this brings the Target Revenue for Non-Transmission Services to £816m.

The following chart shows the high-level steps taken to get from SO Allowed Revenue to Non-Transmission Services Allowed Revenue based on Regulatory Year 2023/24<sup>15</sup>.



<sup>14</sup> As outlined in the Non-Transmission notice for Oct 23 prices: <https://www.nationalgas.com/gas-transmission/document/144016/download>

<sup>15</sup> For Regulatory Year 23/24, National Gas Transmission will be deferring £100m revenue from the SO Allowed Revenues to 24/25. This will have the effect of reducing the SO Allowed Revenue to £826.5m



## Target Revenue

In addition to the above, the Licence sets our Allowed Revenues for a Regulatory Year (April-March). UNC determines that charges are set for a Gas Year (October-September). Therefore, there is a discord between the Licence and UNC, and charges we set for a Gas Year fall into two Regulatory Years. There is a process we follow to determine the amount of Allowed Revenue that we are able to collect.

So, how do we determine the Non-Transmission Services Target Revenue when Allowed Revenues are set for a Regulatory Year? The **NTS General Non-Transmission Services Model** calculates the Target Revenues for in respect of charge setting. This is updated annually and published on our website in September. This can be found in the 'NTS Charging Supporting Information' section of the Charging section of our [website](#).

The process to get the Target Revenue for the Non-Transmission Services charges is different to that for Transmission Services as described in the previous section. For Transmission Services Allowed Revenues, the determination of Allowed Revenue will account for both Regulatory Years that coincide with the Gas Year. For Non-Transmission Services, charges are set to recover the Allowed Revenues for the Regulatory Year ending in March, by March.

The expected revenue for the first half of the Regulatory Year (April 23- September 23, £264m) is deducted from the Non-Transmission Services Revenue Target (£816m) to give an Allowed Revenue to be recovered by March of £552m.

# Setting Non-Transmission Services Charges

Now that the Non-Transmission Services Revenue we are looking to collect has been determined, we can set Non-Transmission Service Charges.

The Non-Transmission Services Charges consist of a number of specific charges; St Fergus Compression Charge, NTS Meter Maintenance Charge, DN Pensions Deficit Charges, Shared Supply Meter Point Administration Charge and Interconnector Point Allocation Charges. An estimate of the revenues associated with these specific charges is taken from the Non-Transmission Services Revenue to be collected, with the remainder to be recovered by the General Non-Transmission Services Charge. The General Non-Transmission Services Charges accounts for the majority of Non-Transmission Services Revenue. Details of these charges are contained in UNC, section Y (section 4)

NTS Transportation Charges are updated for 1<sup>st</sup> October each year, with two months' notice in line with our Licence obligations. We publish details on our [website](#), NTS charging statements. This covers both Transmission Services Charges and Non-Transmission Services Charges.

## St Fergus Compression Charges

The St Fergus Compression Charge is a charge in respect of the delivery of gas to the NTS at the North Sea Midstream Partners (NSMP) sub-terminal. As the gas that is delivered onto the NTS is at a lower pressure than that required, additional compression is needed. This charge is to reflect the costs of this additional compression. This is a directly targeted charge to users of the NSMP based on throughput.

Published prices are available in our Transportation Statement which is published on the [charging](#) section of our website.

## NTS Meter Maintenance Charges

There are a number of sites directly connected to the NTS where National Gas owns and provides metering equipment used. National Gas NTS charges these specific end users for the provision and maintenance of this equipment.

Published prices are available in our Transportation Statement which is published on the [charging](#) section of our website.

## DN Pensions Deficit Charges

The DN Pension Deficit Charge is a charge payable by a DN to allow us to recover pension deficit costs associated with former employees of the DN Operator.

The charge is currently zero.

## Shared Supply Meter Point Administration Charges

Shared Supply Meter Point Administration Charges are charges payable by users of shared supply meter points. Shared Meter Points are where (up to 6) shippers/ suppliers supply gas through a shared supply point meter.

These comprise of a charge for establishing a Supply Meter Point as a Shared Supply Meter Point, a charge for a change in the registered user, and a daily charge.

Published prices are available in our Transportation Statement which is published on the [charging](#) section of our website.

## Allocation Charges at Interconnector

The Allocation charges that apply at Interconnectors are charges for initial set up for a user, and ongoing charges.

Published prices are available in our Transportation Statement which is published on the [charging](#) section of our website.

## General Non-Transmission Services Charges

The General Non-Transmission Services Charges aims to collect the residual amount of Non-Transmission Services Target Revenue after the estimates for the targeted charges (as detailed above) have been deducted.

The Target Revenue to be collected from General Non-Transmission Services Charges is £537m - this is the Net Allowed Non-Transmission Services Revenue. This is detailed in the General Non-Transmission Serves Model which can be found on the [charging](#) section of our website.

General Non-Transmission Services Charges are payable on all gas flows allocated to shippers at Entry and Exit. General Non-Transmission Service Charges on gas flows at storage facilities are effectively zero as they are exempt<sup>16</sup>. The charge is a uniform rate applied evenly to all Entry and Exit points (excluding storage). These charges are sometimes referred to as commodity charges.

The General Non-Transmission Services Charge is calculated by firstly forecasting the aggregate NTS quantity, which is the sum of:

- The aggregate quantity of gas we estimate will be delivered by Users to the NTS at all Entry points, and
- The aggregate quantity of gas we estimate will be offtaken by Users from the NTS at all Exit points

The net Allowed Non-Transmission Services Revenue is then divided by the aggregate NTS quantity to give the General Non-Transmission Services Charge.

---

<sup>16</sup> Charges do however apply to own use gas utilised as part of the operation of any NTS Storage Facility.

Published prices are available in our Transportation Statement which is published on the [charging](#) section of our website.

## **Subsequent Revision of Non-Transmission Services Charges**

In relation to the St Fergus Compression Charge and the General Non-Transmission Service Charge, if we believe any of the forecasting estimates are materially inaccurate, we may revise our estimates and therefore determine and apply a new St Fergus Compression Charge or General Non-Transmission Services Charge.

Notice will be given setting out the reasons for the revision, the proposed revision month and an estimate of the revised charge. Notice of at least two months will be given.

## Other Topics

### Overruns

Users do not need to acquire capacity to flow gas onto (or take gas off) the system. However, if a User does not have capacity rights to cover the gas they have flowed, they may be charged additional fees. These fees are referred to as capacity overrun charges. Whilst overruns are not a Transportation Charge, Entry and Exit overrun charges are linked to the capacity reserve prices. The charge is set at a multiple of the bid or application prices that have already been accepted for acquiring capacity to encourage Users to acquire sufficient capacity for their intended flows. Overrun Charges are detailed in UNC, TPD, Section B (2.13 for Entry & 3.13 for Exit). Entry and Exit Overrun charges are treated differently.

Entry and Exit Overruns are not forecasted. This is because we assume shippers will flow gas on or off the NTS in the most efficient way – which is through the purchasing of Capacity. Entry and Exit overruns are not accounted for as part of setting our Allowed Revenues.

### Entry Overruns

If the quantity of gas delivered onto the NTS at an Aggregate System Entry Point by a user on a day exceeds their booked Entry capacity, overrun charges will apply to any overrun quantity. The overrun quantity is the amount of gas brought onto the system in respect of each Entry Point that exceeds the user's NTS Entry Capacity. The System Entry Overrun charge is calculated as the amount of overrun quantity charged at 3 times the highest price paid.

System Entry Overrun Charges are invoiced and payable by the individual user. However, overrun charges have a net neutral impact for our recovered revenues; we do not 'keep' the revenue these charges generate. Any values for Entry Overruns are returned to shippers via the capacity neutrality process, as described in UNC TPD Section B (2.14).

### Exit Overruns

In relation to an NTS Exit Point on a given gas day:

- If the quantity of gas offtaken by a User at an NTS Exit point on the day exceeds the user's booked Exit capacity and
- The aggregate quantity of gas offtaken by all users at the NTS Exit Point on the day exceeds the sum of the Users' NTS Exit (Flat) Capacity

Then there is a Chargeable NTS Exit Overrun and the User will pay an NTS Exit Overrun Charge. The amount chargeable is based on the individual User's overrun charged at 6 times the highest price paid.

System Exit Overrun Charges are invoiced and payable by the individual user. Exit Overrun Charges will be treated as SO Recovered Revenue.

## Non-Obligated Capacity

At National Gas' discretion, extra temporary Firm Capacity can be released, a type of Incremental capacity - this is Non-Obligated Capacity.

Non-Obligated Entry Capacity does not contribute towards the collection of our Recovered Revenues but is collected as part of the Transmission Services Capacity Charges. This is because revenue associated with Entry Non-Obligated Capacity is returned to shippers via Capacity Neutrality. The forecast of revenues and capacity for Entry Non-Obligated Entry Capacity is added to our forecasts for the Target Revenue and FCC. There is a neutral impact for our recovered revenues.

Non-Obligated Exit Capacity contributes towards the collection of our SO Recovered Revenues. We forecast and Non-Obligated Exit Capacity as part of Transmission Services Target Revenue and FCC when setting the Exit Capacity Reference Price, and account for this forecast revenue as part of our Non-Transmission Services Target Revenue setting process.

## Additional Information

Area	Description	Link
Capacity Guidelines Document	A helpful overview to Capacity	<a href="https://www.nationalgas.com/capacity">https://www.nationalgas.com/capacity</a>
Charging Website	Details of charges and supporting information are published on our website	<a href="https://www.nationalgas.com/charging">https://www.nationalgas.com/charging</a>
Gas Capacity Methodology Statements	Details of how NTS manage capacity	<a href="https://www.nationalgas.com/capacity/capacity-methodology-statements">https://www.nationalgas.com/capacity/capacity-methodology-statements</a>
Gas Transmission Transportation Statement	Details of the charges for using the NTS	<a href="https://www.nationalgas.com/charging/transmission-system-charges">https://www.nationalgas.com/charging/transmission-system-charges</a>
Gas Transporter Licence	National Gas Transmission's Licence requirements, issued by Ofgem	<a href="https://www.ofgem.gov.uk/licences-and-licence-conditions">https://www.ofgem.gov.uk/licences-and-licence-conditions</a>
Industry Updates	We hold industry webinars and these are published on our website	<a href="https://www.nationalgas.com/contact-us/stakeholder-resources">https://www.nationalgas.com/contact-us/stakeholder-resources</a>
Joint Office (JO)	Code Administrator for the UNC	<a href="https://www.gasgovernance.co.uk/">https://www.gasgovernance.co.uk/</a>
Ofgem	Office of Gas and Electricity Markets, the regulator	<a href="https://www.ofgem.gov.uk/">https://www.ofgem.gov.uk/</a>
PCFM	Price Control Financial Model - this determines our Allowed Revenues and is published by Ofgem	<a href="https://www.ofgem.gov.uk/publications/gt2-price-control-financial-model">https://www.ofgem.gov.uk/publications/gt2-price-control-financial-model</a>
RIIO	The Regulatory Framework implemented by Ofgem in 2013/14	<a href="https://www.nationalgas.com/stakeholder-resources/riio-2-2021-2026">https://www.nationalgas.com/stakeholder-resources/riio-2-2021-2026</a>
The Gas Act 1986	The Gas Act 1986 underpins all contracts and licence obligations in the UK	<a href="https://www.legislation.gov.uk/ukpga/1986/44">https://www.legislation.gov.uk/ukpga/1986/44</a>

	gas industry (apart from EU legislation)	
Uniform Network Code (UNC)	The legal and contractual framework for the supply and transportation of gas in the UK	<a href="https://www.gasgovernance.co.uk/UNC">https://www.gasgovernance.co.uk/UNC</a>



# Appendix 1. Mapping Licence to UNC

We recover revenue through Gas Transmission Transportation Charges, which are set out within our [Gas Transporters Licence](#) and detailed in [Uniform Network Code](#) (UNC). Further information on the methods and principles on which Transmission transportation charges are derived is set out in UNC, Transportation Principal Document, Section Y – Charging Methodologies. A copy of the UNC can be found at [www.gasgovernance.co.uk/TPD](http://www.gasgovernance.co.uk/TPD).

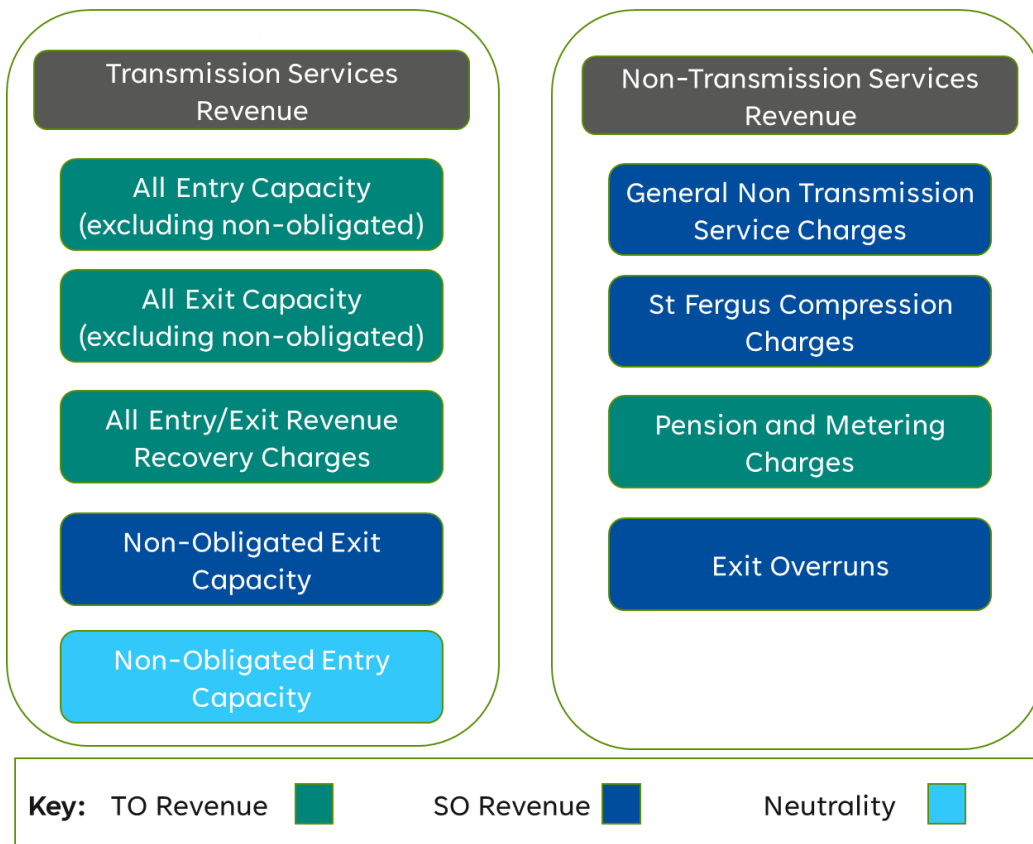
The Licence has two distinct Allowed Revenues it provides the structure to calculate:

- Transmission Owner (TO) Revenue (AR<sub>t</sub>)
- System Operator (SO) Revenue (SOAR<sub>t</sub>)

For the purposes of charging, as detailed in section Y of UNC, there are two revenue types:

- Transmission Services Revenue
- Non-Transmission Services Revenue

Transmission Services Revenue broadly aligns to the Transmission Owner revenue and Non-Transmission Service Revenue broadly aligns to the System Operator revenue. The below diagram illustrates the elements that determine Transmission Services Revenue and Non-Transmission Services Revenue.

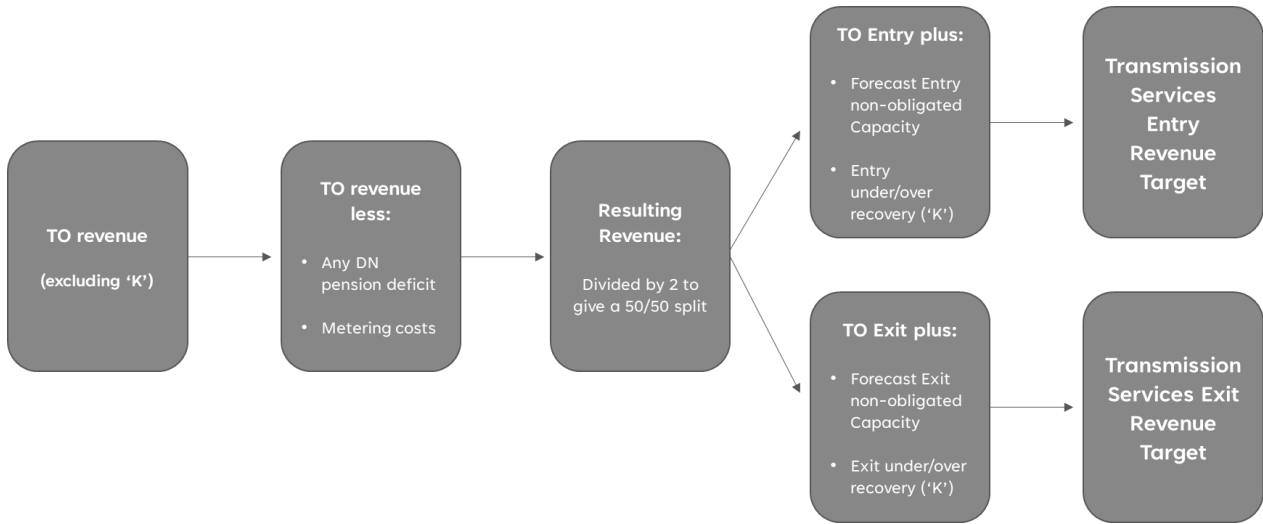


**Non-Obligated Entry Capacity** is part of the Entry Capacity Forecast, and the revenues collected as part of Transmission Services Revenue. Non-Obligated Entry Capacity does not form part of our

Allowed Revenue but is collected as part of Transmission Services Charges. Revenue associated with Non-Obligated Capacity is returned to shippers via Capacity Neutrality.

### Determining Transmission Services Entry and Exit Revenues for a Regulatory Year

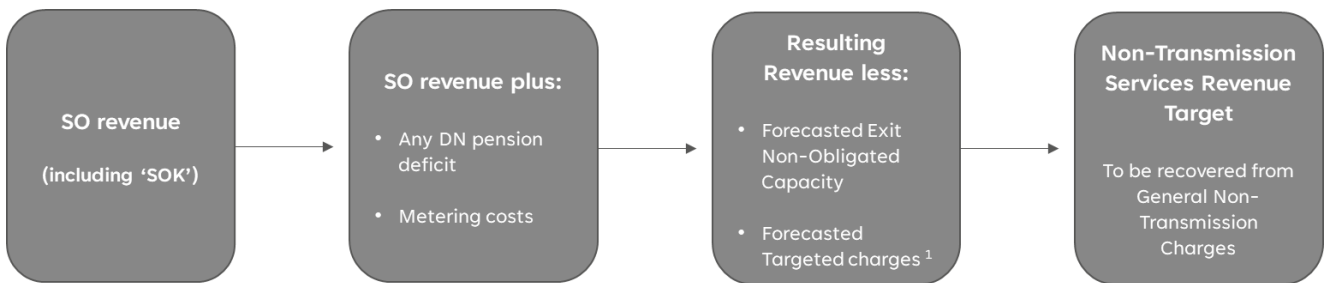
The following diagram illustrates how the Transmission Services Entry & Exit Revenues are determined, starting with the Licence value of the TO. This is applicable for a Regulatory Year.



'K' is the value of the under or over recovery relating to the previous Regulatory Year. For Transmission Services, 'K' is treated separately for Entry and Exit. (There is an Entry over/under recovery and an Exit over/under recovery). The net position for Entry 'K' and Exit 'K' totals the Licence value of 'K'.

### Determining Non-Transmission Services Revenues for a Regulatory Year

The following diagram illustrates how the Non-Transmission Services Revenues are determined, starting with the Licence value of the SO. This is applicable for the Regulatory Year.



1. Metering, St Fergus Compression, DN Pension Deficit Charges

The 'SOK' under/ over recovery value is not split between Entry and Exit; General Non-Transmission Charges are applied equally between Entry and Exit.

## Appendix 2. Glossary of Key Terms

Term	Definition
Allowed Revenue	Allowed Revenue is the amount of money that a network company can earn on its regulated business. This is set by Ofgem. This is derived in accordance with the formula contained in our Gas Transporter Licence (in Part C of Special Condition 2.1 - Transportation owner revenue restriction).
ASEP	Aggregated system entry point. Comprises of one or more system entry points which gas shippers can buy Capacity
Capacity	Commercial rights to flow gas onto, or take gas off, the NTS. A User needs to hold one unit of capacity in order to flow one unit of energy onto (or off of) the system. This is known as the 'ticket to ride' principle
Capacity Auction	NTS Entry Capacity is sold through various open electronic auctions. The basic capacity product is the same in every auction; the right to flow one unit of capacity (Kilowatt hour, kWh) on a particular Gas Day (D). Units sold are in kWh/d
Capacity reserve price	Capacity is purchased through auctions which are 'pay as bid' and subject to a minimum reserve price
Charging Discount	In respect of Capacity charges, all prices for Entry and Exit points are the same, apart from a 10% discount for interruptible capacity and an 80% discount for storage. There is also a Conditional NTS Capacity Charge Discount (previously referred to as shorthaul)
Charging methodology	The Charging Methodology set out what and how we set charges to collect our Allowed Revenues. The methodology is set out in UNC TPD, Section Y.
Charging Regime	The Charging Regime is based on a postage stamp methodology.
Conditional NTS Capacity Charge Discount (CNCCD)	There is a discount available for users who are located near an Entry point. This is to encourage the use of the NTS as opposed to the construction of a private pipeline, often referred to as 'inefficient bypass' and historically known as 'shorthaul'.
DN	Distribution Network. A gas transportation system that delivers gas to industrial, commercial and domestic consumers in a defined geographical boundary. DNs typically operate at lower pressures than the NTS.
Entry Capacity	In order to obtain commercial rights to flow gas onto the NTS, Users can buy NTS pipeline Entry capacity
Entry Capacity Charges	Charges in respect of purchasing Entry Capacity. Capacity is purchased through auctions, with a minimum reserve price
Entry Revenue Recovery Charges	The Entry Revenue Recovery charge is a means to recover a large under or over recovery against our Allowed Revenue in respect of Entry Capacity Charges. By default, it is set to zero.
Existing Contracts	Existing Contracts, or more specifically Existing Registered Holdings or Existing Available Holdings, are capacity contracts booked prior to

	the implementation of the EU Tariff Network Code (TAR NC). These contracts retain a price, fixed at the point the capacity was booked.
Exit Capacity	In order to obtain commercial rights to flow gas off of the NTS, Users can buy NTS pipeline Exit capacity
Exit Capacity Charges	Charges in respect of purchasing Entry Capacity. Capacity is purchased through auctions, with a minimum reserve price
Exit Revenue Recovery Charges	The Exit Revenue Recovery charge is a means to recover a large under or over recovery against our Allowed Revenue in respect of Exit Capacity Charges. By default, it is set to zero.
FCC Methodology	This is the Forecasted Contract Methodology and sets out how we forecast the volume of capacity that will be purchased at Entry & Exit points for the forthcoming gas year.
Financial Year	The year starting 1st April through 31st March.
Fully Adjusted Capacity	The amount of a User's Available NTS Exit (Flat) Capacity at any NTS Exit Point, reduced by; the amount of any capacity surrendered by the User, or any Capacity curtailed as part of National Gas Exit Constraint Management actions. A full definition can be found in <a href="#">Section B 3.8.6</a> of the UNC.
Gas Transporter Licence	Our licence is established under the Gas Act 1986. It requires us to develop, maintain, and operate economic and efficient networks and to facilitate competition in the supply of gas in Great Britain (GB). The licence also gives us statutory powers, including the right to bury our pipes under public highways and the ability to use compulsory powers to purchase land so we can conduct our business.
Gas Year	A gas year is the year starting 1st October through 30th September.
General Non-Transmission Charges	The General Non-Transmission Services Charges aims to collect the residual amount after the estimate for targeted charges have been deducted from Non-Transmission Services Allowed Revenue. The charge is applied evenly to all Entry and Exit points on a commodity basis.
Interruptible capacity	A type of capacity that can be withdrawn should there be a system constraint. There is a 10% discount for the purchasing of this capacity.
Neutrality	Neutrality is the mechanism by which National Gas recover or return any revenues above or below expectations collected due to Market Balancing Actions, Daily Imbalance Charges, Scheduling Charges, or any other charge deemed to be Revenue Neutral by The Licence.
Non-Obligated Entry Capacity	At our discretion, we can release temporary extra Firm Capacity, a type of Incremental capacity - this is Non-obligated Capacity. Non-Obligated Entry Capacity does not form part of our Allowed Revenue but is collected as part of Transmission Services Charges.
Non-Transmission Service Charges	Non-Transmission Service Charges are charges in respect of Non-Transmission services as defined in the UNC. This comprised of a number of targeted charges, and the General Non-transmission charge

Non-Transmission Service Revenue	Non-Transmission Services Revenues (an UNC term) broadly aligns with the SO Allowed Revenue (Licence Term), and is collected through Non-Transmission Services Charges - predominantly through the General Non-Transmission charge
Non-Transmission Services Model	The NTS Non-Transmission Services Model calculates the Target Revenues and charges for each Gas Year in respect of non-transmission service charges. This is updated every year and published on our website in September. This can be found on our website, under “NTS Charging Supporting Information”.
NTS	National Transmission System. A high-pressure gas network that transports gas throughout England, Scotland and Wales.
Ofgem	Office of the Gas and Electricity Markets (Ofgem): an independent energy regulator responsible for National Gas Transmission price controls. It is the primary decision-making body on industry codes. Ofgem protects energy consumers by promoting competition in the industry. It also regulates monopoly energy companies, such as National Gas.
Overrun	If a shipper flows more gas onto or off of the network than they are entitled to (e.g. in excess of their capacity rights) they will be charged as per the Uniform Network Code Transportation Principal Document. These charges are a calculation based on the difference between the flow of physical gas and the capacity rights of the customer.
PCFM	Price Control Financial Model - sets out the amount of revenue NGT can recover in a Regulatory Year. Published by Ofgem and updated throughout the year.
Pensions & Metering charges	Part of the Targeted charges in respect of the Non-Transmission Services Allowed Revenues
Postage Stamp Methodology	It is a single uniform tariff applied to entry points and a single uniform tariff applied to exit points. Costs are allocated to entry and exit points in proportion to the booked capacity.
Price Controls	Our Gas Transmission business operates under one price control, covering our role as transmission owner (TO) and system operator (SO). Our regulatory framework is called RIIO (revenue = incentives + innovation + outputs) and lasts for five years. The current period started on 1 April 2021 and runs through until 31 March 2026.
Regulatory Year	The year starting 1st April through 31st March.
Shipper	Allows the licensee to arrange with a gas transporter for gas to be introduced into, transported, or taken out of the transporter’s pipeline system.
Shrinkage	We purchase energy for the three elements of NTS shrinkage; compressor fuel use, calorific value shrinkage and unaccounted for gas.
St Fergus Compression	Part of the Targeted charges in respect of the Non-Transmission Services Allowed Revenues. A specific charge in respect of the delivery of gas to the NTS at the North Sea Midstream Partners (NSMP) sub-terminal

Storage	Storage sites can be used to store gas to meet variations in gas demand, whether within day or seasonal.
Storage Discount	There is an 80% discount in respect on Entry and Exit Capacity reserve prices for storage.
System Operator (SO) Allowed revenue	System Operator Allowed Revenue is the revenue we are allowed to collect from our SO activities, as specified in the Licence
Targeted Charges	These are specific charges relating to St Fergus Compression charges; Meter Maintenance charges, DN Pension Deficit charge and Allocation at Interconnector Charges. Details of which are set out in UNC, TPD Section Y
Transmission Owner (TO) Allowed Revenue	Transmission Owner Allowed Revenue is the revenue we are allowed to collect from our TO activities, as specified in the Licence
Transmission Service Charges	Transmission Service Charges are charges in respect of Transmission services as defined in the UNC - Entry and Exit capacity charges.
Transmission Services Revenue	Transmission Services Revenues (an UNC term) broadly aligns with the TO Allowed Revenue (Licence Term), and is collected through Transmission Services Charges - predominantly through Entry and Exit Capacity charges
Transmission Services Revenue Model	The NTS Transmission Services Model calculates the Target Revenues for each Gas Year in respect of Transmission Services Revenue. This is updated every year and published on our website in September. This can be found on our website, under “NTS Charging Supporting Information”.
Transporter	Allows the licensee to transport gas through pipes to premises in the area specified in the licence, and another pipeline system operated by another gas transporter.
Tx Charge Model	The Tx Charge Model calculated the Capacity Reference Prices for Transmission Services Charges. This is updated every year and published on our website in September. This can be found on our website, under “NTS Charging Supporting Information”
UAG	Unaccounted for gas. An element of NTS shrinkage.
UNC	The Uniform Network Code (UNC) is competitive gas industry’s legal and contractual framework for the transportation and supply of gas. It defines the rights and responsibilities for users of gas transportation. It has a common set of rules which ensure that competition can take place on equal terms. It governs processes, such as the balancing of the gas system, network planning, and the allocation of network capacity. TPD Section Y, Charging Methodologies, is the primary area of the UNC that determines revenues and set out our obligations in respect of charges. The Joint Office are responsible for administering the code.
UNC Modification	The UNC has an effective modification process in place to enable change. Therefore, the UNC will continue to develop in response to market requirements. A UNC Modification can be raised by any party signed to the UNC. It will be assessed by a workgroup before consideration if it is to be adopted into code. Some Modifications require Ofgem approval.

**Contact:**

Kirsty Appleby

Markets

T: (0)7895 306977

E: [Kirsty.Appleby@nationalgas.com](mailto:Kirsty.Appleby@nationalgas.com)

[nationalgas.com](http://nationalgas.com)

