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for energy consumers

National Grid Gas Plc; and all interested parties

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Dear Colleagues,

## **Statutory Consultation on a proposal to modify Special Condition 7.14 of the Gas Transporter Licence held by National Grid Gas Plc (NGG)**

Today, we<sup>1</sup> published a Statutory Consultation on a proposal to modify Part A of Special Condition 7.14 (Close out of the RIIO-GT1 Entry Capacity and Exit Capacity Constraint Management incentive revenue (LCMIR<sub>t</sub>)) of NGG's Gas Transporter Licence.<sup>2</sup>

Part A of Special Condition 7.14 is concerned with calculating the RIIO-GT1 Constraint Management revenue close out term, and the modification proposes to amend the calculation of this term for the Regulatory Year commencing on 1 April 2022 (which would reflect a change in the calculation of Constraint Management revenue arising from the performance associated with Regulatory Year commencing 1 April 2020).

### **Proposed change to NGG's Gas Transporter Licence**

The Authority is proposing this modification to amend the calculation of NGG's Capacity Constraint Management (CCM) incentive revenue for the final year of RIIO-GT1. Following the implementation of UNC678A 'Amendments to Gas Transmission Charging Regime (Postage Stamp)'<sup>3</sup> on 1 October 2020, there has been a significant increase in the price of certain capacity products, which in turn has led to significantly higher revenues for NGG

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<sup>1</sup> The terms "we", "us" and "our" and "the Authority" are used to refer to the Gas and Electricity Markets Authority.

<sup>2</sup> National Grid Gas Plc, Gas Transporter Licence, Special Conditions.  
<https://epr.ofgem.gov.uk/Content/Documents/National%20Grid%20Gas%20Plc%20-%20Special%20Conditions%20Consolidated%20-%20Current%20Version.pdf>

<sup>3</sup> Amendments to Gas Transmission Charging Regime: Decision and Final Impact Assessment (UNC678/A/B/C/D/E/F/G/H/I/J) (28 May 2020) <https://www.ofgem.gov.uk/publications-and-updates/amendments-gastransmission-charging-regime-decision-and-final-impact-assessment-unc678abcdefghijkl>.

from its CCM incentive. This has distorted NGG's CCM incentive performance value for Regulatory Year 2020/21, and will result in a substantial windfall gain for NGG.

The proposed modification will seek to remove the windfall earnings based upon the "reasonable expectation" of NGG's performance value derived through calculations outlined in our letter 'Adjustment of National Grid Gas Plc (NGG) Capacity Constraint Management performance value for 2020/21 as part of NGG's incentive for RIIO-GT1' published alongside the Statutory Consultation. The proposed solution serves to neutralise the impacts from the implementation of UNC678A, applying a more appropriate incentive performance value for NGG based on recent years experience.

NGG's CCM incentive performance value is determined based on a two year lag, such that incentive revenue in the final year of RIIO-1 (2020/21) is reflected in calculations in Special Condition 7.14 of the RIIO-GT2 licence two years later (2022/23). So, we are proposing to amend Part A of Special Condition 7.14 to input the performance measure that we calculated based on our analysis, for the relevant Regulatory Year.

## **Consultation**

Please send any views on the issues raised in this letter and the accompanying statutory consultation on or before 19 July 2021 to: Max Lambert by email to [Gas.TransmissionResponse@ofgem.gov.uk](mailto:Gas.TransmissionResponse@ofgem.gov.uk).

Any responses to the consultation will be published on our website unless marked as confidential. You can ask for your response to be kept confidential and we will respect this subject to any obligations to disclose information, for example under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

If you would like your responses to be kept confidential, clearly mark your documentation to that effect and include the reasons for confidentiality.

If you have any questions regarding this letter or the statutory consultation, please contact Max Lambert at [Gas.TransmissionResponse@ofgem.gov.uk](mailto:Gas.TransmissionResponse@ofgem.gov.uk) or telephone 0207 901 3105.

Yours sincerely,

**David O'Neill**

**Head of Gas Markets and Systems**

For and on behalf of the Gas and Electricity Markets Authority