



Making a positive difference  
for energy consumers

To: Ian Radley  
Head of Gas System Operations  
National Grid Gas plc

Email:

[Gas.TransmissionResponse@ofgem.gov.uk](mailto:Gas.TransmissionResponse@ofgem.gov.uk)

Date: 27 May 2021

Dear Ian,

### **Revenue deferral and the penal interest rate**

We wrote to you on the issue of gas transmission charging on 23<sup>rd</sup> December 2020.<sup>1</sup> In that letter we encouraged National Grid Gas (“**NGG**”) to act in a way that promotes price stability and consider a flexible approach in addressing under-recovery, such as having regard to licence flexibilities in respect of the timing of revenue recovery.

We recently received information from NGG suggesting that the tariffs for future Gas Years will be volatile. This volatility would be to the detriment of the market and consumers. It would also be at odds with the principle of stable and predictable tariffs, which is a core principle of the Tariff Network Code.<sup>2</sup>

We understand that if no action is taken, the reserve prices for Gas Year 2021/22 will be set at a very high level, particularly on entry, and this would represent a significant increase in entry tariffs relative to the current level. A significant driver of the high entry tariff is the historical under-recovery carried over from the Financial Year 2020/21. We are concerned that this would have a negative impact on the Great Britain (“**GB**”) market and consumers and could act as a barrier to gas trading.

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<sup>1</sup> Open letter to National Grid Gas Transmission on Transmission Services Revenue Recovery Charges (23<sup>rd</sup> December 2020) <https://www.ofgem.gov.uk/publications-and-updates/open-letter-national-grid-gas-transmission-transmission-services-revenue-recovery-charges>

<sup>2</sup> Incorporated in UK law by the European Union (Withdrawal) Act 2018 and the European Union (Withdrawal Agreement) Act 2020, as amended by Schedule 5 of the Gas (Security of Supply and Network Codes) (Amendment) (EU Exit) Regulations SI 2019/531.

Tariff setting depends upon allowed revenues and anticipated capacity bookings and throughputs. Consistent with our December 2020 open letter, it is crucial that NGG explores options to smooth the price volatility and mitigate the negative impacts that would arise from a very high entry tariff in Gas Year 2021/22. We have shared these concerns with NGG.

On 25 May 2021, NGG informed us that it has decided to defer the recovery of £45m of revenue from Financial Year 2021/22 to the subsequent Financial Year 2022/23, in order to reduce the volatility of tariff levels that would otherwise occur and reduce the otherwise very high entry tariff in Gas Year 2021/22. We welcome this commitment.

Under its licence, NGG may be subject to a penal rate of interest when its recovered revenue exceeds or falls short of certain limits.<sup>3</sup> Given that your decision to defer £45m may give rise to a shortfall in Financial Year 2021/22 revenues, Ofgem will not apply a penal interest on any under-recovery attributable to this deferral, recognising the legal requirements regarding stable and predictable prices. This letter is to inform you of our decision ahead of the imminent publication of tariffs, which will take into account the deferral.

Ofgem will continue to closely monitor the situation. In the interests of transparency, we will publish this letter on our website, shortly after the publication of tariffs.

**David O’Neill**  
**Head of Gas Markets and Systems**

Signed on behalf of the Authority and authorised for that purpose

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<sup>3</sup> Special Condition 2.1, Part H of National Grid Gas plc licence.