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for energy consumers

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Date: 4 June 2021

Dear Chris,

Re: Future of Gas Transmission Charging

This open letter is in response to your setting of charges for the coming gas year and your accompanying open letter on further charging reform.

We welcome your decision to defer the recovery of £45m of revenue from Financial Year 2021/22 to the subsequent Financial Year 2022/23. To the extent the underlying assumptions are accurate this this will promote short-term price stability and predictability. For this reason, we concluded that we will not apply a penal interest on any under-recovery attributable to the deferral of this £45m to 2022/23. For transparency, we are publishing a letter we sent to Ian Radley on 27 May 2021 setting out that decision¹.

This deferral does not guarantee longer term price stability and predictability. We agree that some areas of the transmission charging regime may need further changes to ensure stable and predictable prices and promote effective competition, which are core principles of the Tariff Network Code². So, we welcome your commitment, in your open letter of 28

¹ Letter to National Grid Gas on revenue deferral and the penal interest rate, published as a subsidiary document on our website alongside this letter.

² Now 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.

May 2021,³ to develop Uniform Network Code (UNC) changes to further transparency, predictability and stability within the charging regime.

We are committed to supporting the necessary work on further changes, within the context of our broader role including our role in making decisions on certain UNC modifications. We support your call for discussion and cooperation from stakeholders in progressing the consideration of changes to the charging regime and we encourage you and stakeholders to progress the following at pace:

- i. identifying the areas where change is needed using the lessons learnt following the implementation of the UNC678A 'Amendments to Gas Transmission Charging Regime (Postage Stamp)'⁴⁵;
- ii. leading discussion on options for change;
- iii. committing to an ambitious and realistic timetable for the completion of the necessary steps to effect change.

We also encourage you to continue to consider the impact of any interventions, as we set out in our open letter on 23 December 2020⁶. In particular, you should aim to avoid interventions that could undermine market confidence, including when considering Transmission Services Entry and Exit Revenue Recovery Charges.

Yours sincerely,

David O'Neill
Head of Gas Markets and Systems

³ <https://www.nationalgrid.com/uk/gas-transmission/charging/gas-charging-discussion-qcd-papers> ("May 2021 - Open Letter on the Future Of Gas Transmission Charging").

⁴ Amendments to Gas Transmission Charging Regime: Decision and Final Impact Assessment (UNC678/A/B/C/D/E/F/G/H/I/J) <https://www.ofgem.gov.uk/publications-and-updates/amendments-gas-transmission-charging-regime-decision-and-final-impact-assessment-unc678abcdefghij>)

⁵ Implemented on 1 October 2020.

⁶ Open letter to National Grid Gas Transmission on Transmission Services Revenue Recovery Charges (23 December 2020) <https://www.ofgem.gov.uk/publications-and-updates/open-letter-national-grid-gas-transmission-transmission-services-revenue-recovery-charges>