



Making a positive difference
for energy consumers

National Grid Gas Plc; and all
interested parties

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Date: 5 August 2021

Dear Colleague,

Modification of Special Condition 7.14 of the Gas Transporter Licence held by National Grid Gas Plc (NGG)

We¹ have decided 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_t)) of NGG's Gas Transporter Licence ("the Licence").² This modification was proposed in our Statutory Consultation published on 18 June 2021, to which we invited responses by 19 July 2021.³ The modification decision is published on our website alongside this letter. The changes, outlined below, will take effect from 30 September 2021.

The modification

The modification will recalculate NGG's Capacity Constraint Management (CCM) incentive revenue associated with performance for the final year of RIIO-GT1, by amending the definition of the R1CMIR_t term in Part A 'Formula for calculating the RIIO-GT1 Constraint Management incentive revenue close-out term (LCMIR_t)' of Special Condition 7.14. NGG's CCM incentive performance value is determined based on a two year lag, such that its performance 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). A modified Part A of Special Condition 7.14 is contained in Appendix 1 of the modification decision document published alongside this letter.

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

² 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>

³ The link to this Statutory Consultation is here: <https://www.ofgem.gov.uk/publications/statutory-consultation-proposed-changes-part-special-condition-714-national-grid-gas-plc-ngg-gas-transporter-licence>

The modification will 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 on 18 June 2021.⁴

Responses to our Statutory Consultation

We received one response to our statutory consultation from NGG (“the Licensee”), which has been published on our website.⁵ The Licensee stated that it supported our proposal to amend the definition of R1CMIR_t with the change to the CMOpPM_{2020/2021} term value to - (minus)£2.629m. It also commented on the way the calculation of the adjustment had been done, highlighting some specific points where its views diverged from ours, and additionally agreed with us that there was a need for a reasonable and pragmatic adjustment, given the unique set of circumstances in the final year of RIIO-GT1. The Licensee suggested some minor changes to the text of the proposed licence modification. We have incorporated two of these changes to correct two small typographical errors in referencing the previous RIIO-GT1 licence.

If you have any questions regarding this letter or the modification decision, please contact Max Lambert at 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

⁴ This letter can be found at the link here: <https://www.ofgem.gov.uk/publications/statutory-consultation-proposed-changes-part-special-condition-714-national-grid-gas-plc-ngg-gas-transporter-licence>

⁵ The one non-confidential response can be found at the link here: <https://www.ofgem.gov.uk/publications/statutory-consultation-proposed-changes-part-special-condition-714-national-grid-gas-plc-ngg-gas-transporter-licence>