

Max Lambert
Policy Manager
The Office of Gas and Electricity Markets
10 South Colonnade
Canary Wharf
London E14 4PU
Gas.TransmissionResponse@ofgem.gov.uk

Tony Nixon
Regulation Director, Gas Transmission
tony.nixon@nationalgrid.com
Tel: +44 (0) 7973 236 122
www.nationalgrid.com

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Dear Max,

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 (LCMIRt)) of National Grid Gas plc's Gas Transporter Licence.

This response is provided on behalf of National Grid Gas plc (NGG).

Part A of Special Condition 7.14 is concerned with calculating the RIIO-1 Constraint Management revenue close out term for Gas Transmission, and the modification being consulted upon proposes to amend the calculation of this term for the Regulatory Year commencing on 1 April 2022 which relates to NGG's Allowed Revenues for that Financial Year. This would then reflect a change in the calculation of Constraint Management revenue arising from the performance associated with Regulatory Year commencing 1 April 2020.

In February 2021, due to the implementation of UNC Modification 678A (UNC678A) "Amendments to Gas Transmission Charging Regime (Postage Stamp)", Ofgem published an open letter signalling an intent to review the Capacity Constraint Management (CCM) scheme for both regulatory year 2020/21 and for RIIO-2 which we welcomed and supported. UNC678A removed the zero priced reserve price for certain capacity products that feed into the CCM incentive as revenue components, meaning the CCM incentive revenue resulting from the sale of these products would potentially increase when compared to the CCM incentive revenue for those same products for the period pre-October 2020.

Since the implementation of UNC678A we have been monitoring and analysing the impacts on the CCM incentive scheme performance, supplying data and proactively engaging with Ofgem with a view, if necessary, to amend the CCM incentive to ensure there are no undue benefits or consequences as a direct result of its implementation.

We agree with Ofgem's conclusion that increased revenues have occurred for the last 6 months of the RIIO 1 form of control between October 2020 and March 2021 as a direct result of the implementation of UNC678A and that this has impacted the CCM incentive performance for 2020/21. We therefore also agree that the 2020/21 CCM incentive performance should be amended to neutralise the impacts arising from the implementation of UNC678A.

Ofgem's calculation of the adjustment to overall CCM incentive reward for 2020/21 performance

As part of our engagement with Ofgem we sought to agree a set of principles that any CCM scheme adjustment should ideally adhere to, namely;

- that any adjustments should aim to neutralise the effect of the October 2020 charging changes on the incentive scheme;
- that any adjustments should not fundamentally change the purpose of the CCM scheme;
- and

- that any adjustments should be transparent and understandable.

We are therefore pleased to note that Ofgem's proposed CCM scheme adjustment is based upon this set of principles.

In determining the scheme adjustment, Ofgem have recalculated the CCM incentive performance for the whole of the regulatory year 2020/21 using historic data supplied by ourselves, excluding a number of data points which Ofgem view as outliers. We note that the 2020/21 CCM scheme performance up to and including September 2020 has not been impacted by the implementation of UNC678A, however this 6-month period has been adjusted under the Ofgem proposal. We also note that certain incentive components, such as locational energy actions, that are not impacted by the implementation of UNC678A have not been retained as-is for the last 6 months of the year in determining the adjusted scheme performance. Whilst we do not agree with on these specific points, we do agree with Ofgem that, on this occasion, there is a need to be reasonable and pragmatic given the unique set of circumstances and known position for the final year of RIIO 1 for CCM incentive performance year 2020/21. We therefore support Ofgem's proposal to adjust the CCM scheme by amending the final year of RIIO 1 (2020/21) CMOpPM value to -£2.629m on this basis. We believe that this is a specific one-off adjustment relating to the final year of RIIO 1 for CCM performance only and is therefore not directly applicable to any future scheme review.

We have suggested some minor changes to the proposed licence amendment giving effect to this adjustment and these are set out in the Annex to this letter.

We have reviewed the mechanistic flow through to allowed revenues of this proposed change and do not foresee any issues at this point. We will revert to Ofgem if any unforeseen issues arise in this regard.

We look forward to continuing working proactively with Ofgem on the CCM incentive for RIIO-2.

I confirm that this response can be published on Ofgem's website.

Yours sincerely,

[By email]

Tony Nixon
Regulation Director, Gas Transmission
National Grid

Annex: Proposed amended drafting to 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 National Grid Gas plc's Gas Transporter Licence

7.14.3 For the Regulatory Years commencing on 1 April 2021 to 1 April 2022, the value of LCMIR_t is derived in accordance with the following formula:

$$LCMIR_t = R1CMIR_t \cdot RPIF_t$$

Where:

R1CMIR_t has, for the Regulatory Year commencing on 1 April 2021, the value of CMIR_t derived in accordance with Part ~~EG~~ of Special Condition 3B (Entry Capacity and Exit Capacity Constraint Management) of this licence as in force on 31 March 2021.

For the Regulatory Year commencing on 1 April 2022, has the value of CMIR_t derived in accordance with Part EG of Special Condition 3B (Entry Capacity and Exit Capacity Constraint Management) of this licence as in force on 31 March 2021 provided that reflecting a CMOpPmt-2 shall have the value of £-(minus)2.629m for the purposes of such calculation.

RPIF_t has the value of RPIF_t as determined in accordance with Part D of Special Condition 3A (Restriction of NTS System Operation Revenue) of this licence as in force on 31 March 2021.