

**To: National Grid Gas Plc**

**Gas Act 1986  
Section 23(2)**

**Notice of statutory consultation on a proposal to modify the Special Conditions of the Gas Transporter Licence held by National Grid Gas Plc and the GT2 Price Control Financial Handbook**

1. The Gas and Electricity Markets Authority ('the Authority')<sup>1</sup> proposes to modify the special conditions of the Gas Transporter Licence ('the Licence') held by National Grid Gas Plc ('the licensee') granted or treated as granted under section 7 of the Gas Act 1986 by making amendments to:
  - Part A of Special Condition 2.1 (Transportation owner revenue restriction)
  - Part A of Special Condition 2.3 (System operator revenue restriction).
  - Part B of Special Condition 8.2 (Annual Iteration Process for the GT2 Price Control Financial Model).
  - the GT2 Price Control Financial Handbook.
2. We are proposing modifications to the Licence which would allow the Licensee to over-recover revenues, provided it occurs as a result of the applicable charging methodology and with the explicit consent of the Authority. We are also proposing a modification to enable a later re-publication of the GT2 Price Control Financial Model than is currently allowed. We are proposing to amend the GT Price Control Financial Handbook to bring it in line with these changes and to remove paragraph 2.66 which is inconsistent with the licence. Our rationale for these modifications is provided in the cover letter.
3. In addition, we are proposing to move a sentence requiring the licensee to use published or republished values for the terms  $ADJR_t$ ,  $AR_t$ ,  $SOADJR_t$ , and  $SOAR_t$  to set network charges, from Part B of Special Condition 8.2 of the Licence to Parts A of Special Conditions 2.1 and 2.3. This is because the requirement relates specifically to charge setting and we think it makes more sense to have the two requirements about charge setting together. Subsequent paragraphs will also be renumbered to accommodate the proposed additions.
4. A copy of the proposed modifications and other documents referred to in this Notice have been published on our website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)). Alternatively they are available from [foi@ofgem.gov.uk](mailto:foi@ofgem.gov.uk).
5. Any representations with respect to the proposed licence modification must be made on or before 9 January 2023 by email to [Gas.TransmissionResponse@ofgem.gov.uk](mailto:Gas.TransmissionResponse@ofgem.gov.uk).
6. We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as not for publication. We

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<sup>1</sup> The terms "the Authority", "we" and "us" are used interchangeably in this document.

prefer to receive responses in an electronic form so they can be placed easily on our website.

7. If we decide to make the proposed modification it will take effect not less than 56 days after the decision is published.

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Charlotte Friel

**Deputy Director – Market Operations and Signals**

Duly authorised on behalf of the

Gas and Electricity Markets Authority

**2 December 2022**

We have included the sections of the special conditions we are proposing to amend below. Deletions are shown in ~~strike through~~, and new text is double underlined.

## **Modifications to the Gas Transporter Licence held by National Grid Gas Plc**

### **Chapter 2: Revenue Restriction**

#### **Special Condition 2.1 Transportation owner revenue restriction (AR<sub>t</sub>)**

##### **Part A: Licensee's obligation when setting NTS Transportation Owner Charges**

2.1.3 The licensee must, when setting NTS Transportation Owner Charges, use its best endeavours to ensure that TO Recovered Revenue does not exceed Allowed Revenue<sub>t</sub> ~~unless paragraph 2.1.4 applies.~~

2.1.4 This paragraph applies where:

- (a) the licensee deliberately over-recovers TO Recovered Revenue as a result of the applicable charging methodology in the Uniform Network Code; and
- (b) the Authority has provided its consent to such over-recovery.

2.1.5 The published or republished values for the terms ADJR<sub>t</sub> and AR<sub>t</sub> must be used by the licensee when setting Network Charges.

#### **Special Condition 2.3 System operator revenue restriction (SOAR<sub>t</sub>)**

##### **Part A: Licensee's obligation**

2.3.3 The licensee must, when setting NTS Transportation Owner Charges, use its best endeavours to ensure that SO Recovered Revenue does not exceed Allowed Revenue<sub>t</sub> ~~unless paragraph 2.3.4 applies.~~

2.3.4 This paragraph applies where:

- (a) the licensee deliberately over-recovers SO Recovered Revenue as a result of the applicable charging methodology in the Uniform Network Code; and
- (b) the Authority has provided its consent to such over-recovery.

2.3.5 The published or republished values for the terms SOADJR<sub>t</sub> and SOAR<sub>t</sub> must be used by the licensee when setting Network Charges.

### **Chapter 8: Governance**

#### **Special Condition 8.2 Annual Iteration Process for the GT2 Price Control Financial Model**

##### **Part B: Publication of the value of the terms ADJR<sub>t</sub>, AR<sub>t</sub>, SOADJR<sub>t</sub> and SOAR<sub>t</sub>**

8.2.9 The value of the terms  $ADJR_t$ ,  $AR_t$ ,  $SOADJR_t$ , and  $SOAR_t$  will be published by the Authority no later than 30 November prior to each Regulatory Year. ~~The published or republished values for the terms  $ADJR_t$ ,  $AR_t$ ,  $SOADJR_t$  and  $SOAR_t$  must be used by the licensee when setting Network Charges in accordance with Special Condition 2.1 (Transportation owner revenue restriction) and Special Condition 2.3 (System operator revenue restriction).~~

8.2.10 The Authority may re-publish the values of the terms  $ADJR_t$ ,  $AR_t$ ,  $SOADJR_t$ , and  $SOAR_t$  by the end of ~~January prior to~~ May during the Regulatory Year  $t$ .

## **Modifications to the GT2 Price Control Financial Handbook**

# **2. The RIIO-GT2 PCFM and the Annual Iteration Process**

## **The Annual Iteration Process (AIP)**

### **Re-publication of the RIIO-GT2 PCFM after 30 November**

2.63. Part B of Special Condition 8.2 specifies that the Authority may re-publish the values of  $AR_t$  and  $ADJR_t$  after 30 November in Regulatory Year  $t-1$  and before ~~05 February~~ 31 May in Regulatory Year  $t-1$ .

2.64. This power to re-publish the RIIO-GT2 PCFM after an AIP has been published enables the Authority to update the published values of  $AR_t$ ,  $ADJR_t$ ,  $SOAR_t$  and  $SOADJR_t$  thereby enabling the licensee to reflect the impact of any unforeseen events on the fixed component of  $AR_t$  ( $ADJR^*$ ) and  $SOAR_t$  ( $SOADJR^*$ ) in time for it to set its tariffs for the Regulatory Year  $t$ .

2.65. If the licensee becomes aware of an event which will have or is estimated to have a material effect on its  $ADJR^*$  and  $SOADJR^*$  value for the Regulatory Year  $t$ , it may notify Ofgem requesting a re-publication under Part B of Special Condition 8.2 between 01 December in the year  $t-1$  and ~~10 January~~ 6 May in the year  $t-1$ . A material effect is one which is greater than the licensee's Materiality Threshold as defined in the Special Conditions.

~~2.66. Revising the value of  $K_t$  or  $LAR_t$  prior to charge setting does not require a re-publication~~