

FAO Joseph Glews
Ofgem 10 South Colonnade
Canary Wharf
London
E14 4PU

Email: Gas.TransmissionResponse@ofgem.gov.uk

Date 9th January 2023

Dear Joseph,

Re: Statutory consultation on proposed licence changes to amend Part A of Special Condition 2.1, Part A of Special Condition 2.3, and Part B of Special Condition 8.2 of the Gas Transporter licence and the GT2 Price Control Financial Handbook (PCFH)

This response is made on behalf of National Grid Gas (NGGT) in relation to the proposed modifications to the Gas Transporter Licence Special Conditions and the GT2 Price Control Financial Handbook. We welcome the opportunity to respond to this consultation that would amend the Gas Transporter Licence in respect to two areas:

1. The Price Control Financial Model (PCFM) re-publication backstop being changed from January to May; and
2. Updating the limitations on revenue recovery (addressing the need to over-recover on occasion) when setting charges, accommodating appropriate UNC charging methodology changes and subject to Ofgem approval.

PCFM Republication

NGGT agree with the proposed changes to Special Condition 8.2 and the PCFH, extending the deadline for notification and republication of the PCFM, from the current date of January to May.

Amendment of this date will provide the opportunity to reflect an updated forecast of material costs (e.g., Shrinkage costs) and capture any unexpected developments into our Allowed Revenue and consequent charges. NGGT have observed material changes to key costs over recent years and having the opportunity to submit a re-publication request, closer to the time of setting charges, is vital step in managing potential volatility. Whilst we recognise costs will naturally still change, providing a more up-to-date presentation of expected costs will act to reduce, not remove, the likelihood of significant reconciliations and impact on charges in subsequent years.

The current Licence wording dictates the latest date to request and re-publish the PCFM is January. NGGT will work in line with the existing deadline and, should this Licence amendment come into effect, will look to submit a further re-publication request, reflecting any subsequent material changes (as defined in the Licence), if required.

NGGT note that the Licence wording does not preclude more than one resubmission request, and this provides additional scope to re-publish within the given timeframe, subject to Ofgem's approval and meeting the materiality threshold specified in the Licence.

The text under paragraphs 2.1.5 and 2.3.5 of Special Condition 2.1 'Transportation owner revenue restriction (AR_t)' states that the published values for ADJR_t, AR_t, SOADJR_t, SOAR_t must be used when setting

network charges. For awareness, in the calculation of any indicative charges, covering years beyond t ($t+1$, $t+2$, etc.), updated estimates of allowed revenues (e.g., to better reflect shrinkage forecasts) may be used.

Revenue Restriction Modification

NGGT see the proposed amendments to Part A of Special Condition 2.1 and Part A of Special Condition 2.3 as essential to fully implement UNC 0796, allowing revenue over-recovery when explicitly approved by Ofgem. The modifications would enable charges to be set to mitigate year-on-year fluctuations and in accordance with the charging methodology.

UNC 0796 (Revision to the Determination of National Grid NTS Target Revenue for Transportation Charging) enables the setting of charges to under- and/or over-recover in line with the methodology laid out in the UNC Section Y. With the existing Licence clause preventing over-recovery, the proposed changes are required to allow the over-recovery scenario envisaged under UNC0796 to be catered for. We support the change to both the TO and SO Revenue Restriction Licence Conditions, facilitating flexibility to enable SO over-recovery in the future; providing there was a corresponding UNC charging methodology to do so.

NGGT look forward to working with Ofgem to establish this new process.

Yours sincerely,

Kelvin Bradbury

Head of Regulatory Finance, National Grid Gas Transmission