

To all interested parties and stakeholders,

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Decision regarding National Gas Transmission Plc's obligation when setting NTS Transportation Owner Charges under Special Condition 2.1.4 of its Gas Transporter Licence

This letter is published pursuant to Special Condition 2.1.4 of National Gas Transmission Plc's ("NGT's") Gas Transporter Licence (the "Licence").¹

This letter sets out our² decision to give consent for NGT to set Transmission-Services Charges in Gas Year 2023/24 in accordance with the applicable charging methodology in the Uniform Network Code ("UNC"). This may lead to NGT's Transportation Owner ("TO") Recovered Revenue in Financial Year 2023/24 to exceed its Allowed Revenue in accordance with Special Condition 2.1.4 of NGT's Licence.

Background

NGT is required to set its transportation charges on a Gas Year basis (i.e. 1 October – 30 September). However, under the price control regime, NGT's allowed revenues are set over the course of a Financial Year (1 April to 31 March). As a result, there are two different Financial Years that fall within each Gas Year period.

To address the disconnect between Gas Year and Financial Year, on 25 May 2022, we decided to approve UNC796: '*Revision to the Determination of National Grid NTS Target Revenue for Transportation Charging*'.³ This modification aimed to reduce the level of year-on-year volatility in Reserve Prices for National Transmission System ("NTS") Capacity by

¹ National Grid Gas plc, Gas Transporter Licence, Special Conditions:
<https://www.ofgem.gov.uk/sites/default/files/2023-04/National%20Gas%20Transmission%20Plc%20-%20NTS%20-%20Consolidated%20Special%20Conditions%20-%20Current%20Version.pdf>

² References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document to refer to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work. This decision is made by or on behalf of GEMA.

³ <https://www.ofgem.gov.uk/publications/unc796-revision-determination-national-grid-nts-target-revenue-transportation-charging>

revising the determination of the Allowed Transmission Services Revenue for each Gas Year by taking into account part of the allowed revenue for each Financial Year that coincides with the Gas Year. This approach means that tariff-setting may lead in some cases to 'deliberate' over- or under-recoveries relative to Financial Year allowed revenues.⁴

Part A of Special Condition 2.1 of the licence details the obligations around setting NTS TO Charges. The licensee is required under paragraph 2.1.3 to "use its best endeavours to ensure that TO Recovered Revenue does not exceed TO Allowed Revenue."

In February 2023, we decided to amend Special Condition 2.1 to improve tariff stability. Under paragraph 2.1.4, the licence was amended to allow (under certain circumstances) the licensee to over-recover TO Allowed Revenue as a result of the applicable charging methodology in the UNC, provided that the Authority has consented to such over-recovery. This modification took effect from 10 April 2023.⁵

Our Views

We have considered information provided to us by NGT, which suggests that the application of UNC796 in Gas Year 2023/24 has the potential to lead to over-recovery of TO Allowed Revenue as a result of intentional tariff smoothing as defined in TPD Section Y of the UNC.⁶ For the avoidance of doubt, this would not entail additional costs for consumers. We have, therefore, decided to provide our consent to such over-recovery.

We stress that any over-recovery should be limited to the minimum level required to achieve tariff smoothing in accordance with the methodology, as set out in paragraph 1.6.1 of TPD Section Y Part A-I.

We expect NGT to continue to maintain a robust charging methodology, including a Forecasted Contracted Capacity ("FCC") methodology, to ensure that revenue recovery is efficient and any under- or over-recoveries are minimised.

We will continue to monitor NGT's revenue recovery and we will act within our licence role to facilitate the objectives mentioned above.

Nothing in this letter should be construed as an indication of how Ofgem will decide in any future decisions (including any future decisions on the level of the PRPt under Special Condition 2.1.16) and nothing in this letter in any way fetters the discretion of the Authority.

⁴ We note, for instance, that the application of UNC796 in Gas Year 2022/23 led to a 'deliberate' under-recovery of NGT's Transmission-Services Allowed Revenue.

⁵ Decision: <https://www.ofgem.gov.uk/publications/decision-modifications-gas-transporter-licence-held-national-grid-gas-plc>

⁶ As set out in paragraph 1.6.1-2 of TPD Section Y Part A-I.

Our decision

In accordance with Special Condition 2.1.4(b), we have decided to grant consent for NGT to set Transmission-Services charges to deliberately over-recover TO Recovered Revenue in Financial Year 2023/24 as a result of the application of the UNC charging methodology in Gas Year 2023/24.

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For and on behalf of the Gas and Electricity Markets Authority