

Chris Logue
Head of Markets
National Gas Transmission

Email:
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Date: 26 July 2023

Dear Chris,

General Non-Transmission Services charges in Gas Year 2023/24 and the penal interest rate

In July 2022, National Gas Transmission ('NGT') informed stakeholders that (unless action is taken) there is a risk of General Non-Transmission Services ('GNTS') charges volatility in future Gas Years.¹ NGT stated that "[t]he changes, and oscillation year to year are driven predominantly by significant increasing Shrinkage Costs and the impacts of timing of when revenues can be updated". NGT noted at the time that the GNTS volatility "should not be allowed to materialise due to impacts on Customer charges".

On 20 July 2023, NGT informed us² that it has decided to set its GNTS charges for Gas Year 2023/24 on the basis of a target revenue which is £100m lower than its Price Controls Financial Model ('PCFM') allowed revenue. Specifically, NGT informed us that this decision reflects a reduction of £75m in shrinkage forecast costs for the current Financial Year. In addition, NGT is proposing to voluntarily defer the recovery of £25m of revenue to further smooth GNTS charges and reduce tariff volatility. NGT provided information to us which shows that the proposed approach should lead to more stable tariffs.

¹ NGT Revised NTS Charges to apply from 1 October 2022 (29th July 2022)
<https://www.nationalgas.com/document/140351/download>

² The terms "the Authority", "we" and "us" are used interchangeably in this document.

Under its licence, NGT may be subject to a penal rate of interest when its recovered revenue exceeds or falls short of certain limits.³ We recognise that NGT's decision to purposefully under-collect £100m against the PCFM allowed revenues in order to improve tariff stability may give rise to a shortfall in Financial Year 2023/24 revenues. Ofgem will not apply a penal interest on any under-recovery attributable to this decision, recognising the legal requirements regarding stable and predictable prices.⁴ This letter is to inform you of our decision ahead of the imminent publication of GNTS rates.

NGT should raise a Uniform Network Code ('UNC') modification proposal as soon as possible following the upcoming publication of GNTS charges to ensure that some of the underlying drivers of GNTS charges volatility (ie the disconnect between Gas Year and Financial Year for GNTS charges) are addressed on an enduring basis.

In the interests of transparency, we will publish this letter on our website, shortly after the publication of tariffs.

Kind regards,

Charlotte Friel

Senior Responsible Officer - Security of Supply

Deputy Director - Market Operations and Signals, Ofgem

³ Special Condition 2.1, Part H of NGT's licence

⁴ This decision is consistent with the decision we made in 2021:
https://www.ofgem.gov.uk/sites/default/files/2021-06/letter_on_revenue_deferral_and_the_penal_interest_rate_0.pdf