

National Gas Transmission plc and other stakeholders

Email: joe.draissey@ofgem.gov.uk

Date: 12 December 2023

Notice of a statutory consultation under Section 23 of the Gas Act 1986 to modify the special conditions of the gas transporter licence held by National Gas Transmission plc to align the calculation of some indirect costs with other transmission network operators

1. Special Condition 3.18 'Opex escalator (OEt)' is used to calculate the opex escalator term, which calculates some of the indirect costs expected to be incurred by network operators and contributes towards the calculation of the Total expenditure (Totex) Allowance.
2. We have discovered an inconsistency in the scope of the opex escalator term between National Gas Transmission plc (the Licensee) and other licenced network transmission operators. This inconsistency currently has no impact, but future changes in totex allowances could potentially lead to discrepancies in how the term is calculated for the Licensee compared to other licenced network transmission operators.
3. To rectify this and ensure that indirect costs are calculated consistently across transmission network operators on Re-opener mechanisms, the Authority is proposing to amend Special Condition 3.18 to align the scope of the opex escalator with other licensees.
4. The effect of this proposed modification would be that we would assess the indirect costs of proposals submitted under the three Re-opener mechanisms (Physical Security, Net Zero, and Non-operational IT Capex), rather than the costs being calculated automatically via a formula. We expect that the effect of this modification on NGT's allowances would be relatively small.

5. We have set out the proposed licence changes as part of the draft modification in Appendix 1.
6. Any representations with respect to the proposed modification must be made on or before 21 January 2024. These should be sent to Joe Draisey, Office of Gas and Electricity Markets, 10 South Colonnade, Canary Wharf, London, E14 4PU or by email to Joe.Draisey@ofgem.gov.uk.
7. We will publish the non-confidential responses we receive on our website. If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

Yours faithfully,

Nathan Macwhinnie
Deputy Director Price Control Operations

For and on behalf of the Authority

Appendix 1 – Draft modification

Notice of a modification under Section 23 of the Gas Act 1986 to modify the special conditions of the gas transporter licence held by National Gas Transmission plc to align the calculation of some indirect costs with other transmission network operators.

A1.1 National Gas Transmission Plc is the holder of a licence granted or treated as granted under s.6(1)(b) of the Gas Act 1986 (the 'Act').

A1.2 Special Condition 3.18 'Opex escalator (OEt)' is used to calculate the opex escalator term, which calculates some of the indirect costs expected to be incurred by network operators and contributes towards the calculation of the Total expenditure (Totex) Allowance.

A1.3 The Gas and Electricity Markets Authority ('the Authority') is enacting this modification because of an inconsistency in the scope of the opex escalator term between National Gas Transmission plc (the Licensee) and other licenced network transmission operators. This inconsistency currently has no impact, but future changes in totex allowances could potentially lead to discrepancies in how the term is calculated for the Licensee compared to other licenced network transmission operators.

A1.4 To rectify this and ensure that indirect costs are calculated consistently across transmission network operators on Re-opener mechanisms, the Authority is amending Special Condition 3.18 to align the scope of the opex escalator with other licensees.

A1.5 The effect of this proposed modification will be that we will assess the indirect costs of proposals submitted under the three Re-opener mechanisms (Physical Security, Net Zero, and Non-operational IT Capex), rather than the costs being calculated automatically via a formula. We expect that the effect of this modification on NGT's allowances will be relatively small.

A1.6 The Authority published a consultation on this modification on 12 December 2023 in accordance with Section 23 of the Gas Act 1986. The notice, published on the Authorities website, included the text of the proposed modification to issue, the reasons for the proposed modification and provided for representations to be made on or before 21 January 2024.

A1.7 The Authority received [x] non-confidential [representation(s)] and has placed it on ofgem.gov.uk. Having considered [this/these] [representation(s)], the Authority has decided to [proceed / not proceed] with making this modification. This document constitutes notice of the Authority's reasons for the modification.

A1.8 This modification will implement the Authority's decision to amend Special Condition 3.18.4 as follows:

3.18.4 The value of $UMTERM_t$ is derived in accordance with the following formula:

$$UMTERM_t = \cancel{PSUPRE_t} + \cancel{NZ_t} + \cancel{NOIT_t} + BTRE_t + CEPRE_t + KLSRE_t + FIOCRE_t + AH_t$$

where

~~$PSUPRE_t$~~ has the meaning given in Part A of Special Condition 3.4 (Physical security Re-opener and Price Control Deliverable);

~~NZ_t~~ has the meaning given in Part A of Special Condition 3.6 (Net Zero Re-opener);

~~$NOIT_t$~~ has the value zero unless directed otherwise in accordance with Special Condition 3.7 (Non-operational IT Capex Re-opener);

$BTRE_t$ has the meaning given in Part A of Special Condition 3.10 (Bacton terminal site development Re-opener and Price Control Deliverable);

$CEPRE_t$ has the meaning given in Part A of Special Condition 3.11 (Compressor emissions Re-opener and Price Control Deliverable);

$KLSRE_t$ has the meaning given in Part A of Special Condition 3.12 (King's Lynn subsidence Re-opener and Price Control Deliverable);

$FIOCRE_t$ has the meaning given in Part A of Special Condition 3.13 (Funded incremental obligated capacity Re-opener and Price Control Deliverable); and

AH_t has the value zero unless directed otherwise in accordance with Special Condition 3.14 (Asset health Re-opener).

A1.9 The Authority hereby directs the changes to Special Condition 3.18 as set out in this modification. This decision will take effect after 56 days.

Yours faithfully,

Nathan Macwhinnie
Deputy Director Price Control Operations

For and on behalf of the Authority