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By email only to Joe.Draisey@ofgem.gov.uk

18 January 2024

**Aligning the calculation of National Gas Transmission's indirect costs
Consultation response on behalf of National Gas Transmission**

Dear Joe,

We refer to the Ofgem consultation published on 12 December 2023 entitled: 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.

This consultation response is on behalf of National Gas Transmission and is non-confidential.

We support Ofgem's proposal to modify the gas transporter licence to remove the Non-Operational IT, Physical Security, and Net Zero Re-opener terms from the Opex Escalator mechanism. We understand the intended effect of the changes is that Ofgem would assess the indirect costs of proposals submitted by us under these three Re-opener mechanisms, rather than allowances for associated indirect costs being calculated automatically via a formula.

In our January 2023 Non-Operational IT Re-opener submission, we noted that there was a misalignment of treatment of direct and indirect costs between our licence conditions (Opex Escalator) and the Regulatory Instructions and Guidance (RIGs) for IT cost reporting. IT activities are by their nature indirect, so our view is that the original inclusion of Non-Operational IT Re-opener in the Opex Escalator was in error and at odds with the intended application of the Opex Escalator mechanism. Hence, we asked for the award of our requested allowances to be made on the basis of gross indirect costs and that the licence be corrected to remove the Non-Operational IT term from the Opex Escalator mechanism. Our understanding is that the changes now proposed by Ofgem will resolve this misalignment and will apply to Ofgem's assessment of our January 2023 Non-Operational IT Re-opener.

It follows that our motivation for supporting this modification is to resolve the existing misalignment between our licence and RIGs, rather than for the reasons cited in the draft Ofgem direction which are "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.”

We support the proposed amendments to the gas transporter licence Special Condition 3.18.4 set out in Appendix 1 to the Ofgem consultation document. Additionally, we note that corresponding amendments will be required to our Regulatory Reporting Pack Template, table 4.9 Opex Escalator; this is spreadsheet file: RIIO-GT2 - Regulatory Reporting Pack v2.2.xlsx.

If you have any queries please do not hesitate to get in touch.

Yours sincerely



Tony Nixon
Regulation Director