

To all interested parties and stakeholders,

Email: [gas.systems@ofgem.gov.uk](mailto:gas.systems@ofgem.gov.uk)

Date: 31 May 2024

## **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 sets out our<sup>1</sup> decision to provide consent, in accordance with Special Condition 2.1.4 of National Gas Transmission ("NGT") Plc's Gas Transporter Licence (the "Licence")<sup>2</sup>, for NGT to over-recover Transportation Owner ("TO") Recovered Revenue in Financial Year 2024/25 as a result of the applicable charging methodology in the Uniform Network Code ("UNC").

### **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 approved UNC796: '*Revision to the Determination of National Grid NTS Target Revenue for Transportation Charging*'.<sup>3</sup> This modification aimed to reduce the level of year-on-year volatility<sup>4</sup> in Reserve Prices for National Transmission System ("NTS") Capacity by revising

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<sup>1</sup> 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.

<sup>2</sup> 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>

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

<sup>4</sup> Prior to the implementation of UNC796, determination of revenues to be collected over the course of the Gas Year only takes into account the allowed revenue for the Financial Year which ends within the Gas Year without taking account of the allowed revenue for the following Financial Year. This could lead to significant year-on-year volatility in the Reference Prices for NTS Capacity which was detrimental to market confidence and was contrary to the aims of stability and predictability of the charge setting process.

the determination of the Allowed Transmission Services Revenue for each Gas Year to allow NGT to take into account part of the allowed revenue for both Financial Years that coincides with the Gas Year. This approach, with the intention of tariff smoothing, may lead to 'deliberate' over- or under-recoveries in a Financial Year against the TO Allowed Revenues published by Ofgem in the Price Control Financial Model ("PCFM")<sup>5</sup>.

According to Special Condition 2.1.3 of the Licence, NGT must "*use its best endeavours to ensure that TO Recovered Revenue does not exceed Allowed Revenue unless paragraph 2.1.4 applies*" when setting charges. According to Special Condition 2.1.4, NGT is allowed to deliberately over-recover TO Recovered Revenue as a result of the applicable charging methodology in the UNC, provided that the Authority has consented to such over-recovery.

### **NGT's request for over-recovery against TO Allowed Revenue**

We have received a request from NGT for our consent for potential over-recovery against TO Allowed Revenue in the Financial Year 2024/25 in accordance with Special Condition 2.1.4 of the Licence. NGT has confirmed that the over-recovery is a result of applying the methodology implemented as part of UNC796, now codified in paragraphs 1.6.1 and 1.6.2 of UNC TPD Section Y Part A-1, in determining the Allowed Transmission Services Revenue for Gas Year 2024/25.

### **Our views**

We are satisfied that potential over-recovery in certain Financial Years is a possible outcome of applying the charging methodology in the UNC which was implemented as part of UNC796, as NGT is required to consider the allowed revenues for both Financial Years that coincides with the Gas Year in determining the Allowed Transmission Services Revenue for that Gas Year. On this occasion, we have considered the information provided to us by NGT. On reviewing that information, we are satisfied that the potential over-recovery against TO Allowed Revenue is a result of the applicable charging methodology in the UNC. This is in line with the requirement of Special Condition 2.1.4(a) of the Licence. This would also not entail additional costs for consumers. We have therefore decided it is appropriate to provide our consent to such over-recovery in Financial Year 2024/25.

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

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<sup>5</sup> <https://www.ofgem.gov.uk/publications/gt2-price-control-financial-model>

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<sup>6</sup> under Special Condition 2.1.16) and nothing in this letter in any way fetters the discretion of the Authority.

### **Decision notice**

In accordance with Special Condition 2.1.4(b) of NGT's Gas Transport Licence, the Authority has decided to provide consent for NGT to deliberately over-recover TO Recovered Revenue in Financial Year 2024/25 as a result of the applicable charging methodology in the UNC when setting Transmission Service Charges for the Gas Year 2024/25.

**William Duff**

**Head of Gas Systems and Operation**

Signed on behalf of the Authority and authorised for that purpose

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<sup>6</sup> PRPt means the penal rate proportion and has the value of 1, unless the Authority has directed a value between 0 and 1 in accordance with Special Condition 2.1.16.