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Re: proposal to modify the special conditions of the Gas Transporter licence and the Price Control Financial Instruments (PCFIs) for RIIO-GT2

Dear Michael

We welcome the opportunity to respond to the above consultation. We have found the process of submitting feedback for the PCFIs via GitLab ahead of the statutory consultation beneficial and look forward to using this approach for future consultations.

Having reviewed the proposed licence and PCFI modifications, we have the following additional amendments to propose:

#### **Re-publication criteria**

We would like to propose a change to the criteria for re-publishing the GT2 Price Control Financial Model (PCFM), which is set out in paragraph 2.66 of the proposed Price Control Financial Handbook (PCFH). Currently, the materiality threshold is set using ART/SOART (para 2.66 “A material effect is one which exceeds 3% of Allowed Revenue for the Regulatory Year  $t$ .”) The value measured against the materiality threshold, however, is  $ADJR^*/SOADJR^*$  (adjusted revenue). This means the calculation of the materiality threshold includes the K correction factor, but K is excluded when determining if the movement in revenue is material.

We propose that the value used to determine whether the updated PCFM is re-published should be allowed revenue (ART and SOART). Using these values will ensure there is consistency between the value used to calculate the materiality threshold and the value used to determine re-publication. Furthermore, it is currently the case that any under- or over-collection of revenue could have a material impact on ART/SOART, but if other PCFM variable values have not changed materially, we would be unable to request a re-publication of the PCFM. Since allowed revenue is the starting point for charge setting, the current approach could result in Transmission Owner (TO)/System Operator (SO) charges being set on an allowed revenue value that we know requires a material adjustment (for K). To ensure we are using the most up to date values for charge setting, we propose that re-publication should be determined on the movement in allowed revenue.

In addition, we believe that should the materiality threshold for re-publication be breached for either TO or SO, then updates to variable values and subsequent changes to ART and SOART

should be published for both entities, regardless of whether they have both met the materiality threshold. In the PCFM the calculations to derive ART and SOART are interlinked as a result of the finance costs that form part of the tax allowances calculation. As such, an update to some of the variable values for one entity will have an impact on the allowed revenue calculation for the other. Since the allowed revenue values will be updated for both entities in the event of a re-publication, it would be preferable to have both ART and SOART updated with the latest available data.

We believe the following updates should be made to the PCFH to implement these changes:

*2.65. This power to re-publish the RIIO-GT2 PCFM after an AIP has been published enables the Authority to update the published values of ART, ADJRt, SOART and SOADJRt thereby enabling the licensee to reflect the impact of any unforeseen events on the fixed component of ART (~~ADJR\*~~) and SOART (~~SOADJR\*~~) in time for it to set its tariffs for the Regulatory Year t.*

*2.66. If the licensee becomes aware of an event which will have or is estimated to have a material effect on **either its ART and SOART** ~~ADJR\* and SOADJR\*~~ value for the Regulatory Year t, it may notify Ofgem requesting a re-publication **for both ART and SOART** under Part B of Special Condition 8.2 between 01 February and 6 May in the year t. A material effect is one which is exceeds 3% of Allowed Revenue for the Regulatory Year t.*

#### **Independent System Operator and Planner (ISOP) pass-through charge**

In the consultation for the National Energy System Operator (NESO) licences,<sup>1</sup> the term for the new SO pass-through costs (ISOP gas costs) has been drafted as ARGSPt. We would therefore like to request that the 'Term' column in the NGGT SO and SystemOperator tabs is updated to include this reference. The following cells in the PCFM require amendment:

- NGGT SO tab, cell H43
- SystemOperator tab, cell H46

The consultation, particularly with reference to Annex Q – NGT Specials,<sup>2</sup> did not specify the price base to be applied to the ARGSPt variable value. We therefore would like to recommend that a nominal price base be used for the ARGSPt variable value input in the PCFM, which is aligned with the CDSP SO pass-through cost. Also, Annex Q proposed to add a new Special Condition (Special Condition 6.4 ISOP gas costs revenue process) to the Gas Transporter Licence to accommodate the new ISOP charge. We propose that this reference can now be added to the NGGT SO tab of the PCFM. To implement these changes, the following updates to the PCFM are required:

- NGGT SO tab, cell G43 – add price base '£m nominal'
- NGGT SO tab, cell F43 – add Special Conditions reference 'SpC 6.4'

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<sup>1</sup> [National Energy System Operator \(NESO\) licences and other impacted licences: statutory consultation | Ofgem](#)

<sup>2</sup> <https://www.ofgem.gov.uk/sites/default/files/2024-03/Annex%20Q%20-%20NGT%20SPECIALS%20-%20NTS%20-%20Consolidated%20Special%20Conditions.pdf>

- SystemOperator tab, cell G46 – add price base ‘£m 18/19 prices’
- SystemOperator tab, cells AP46:AT46 – update the formula to include deflation to the 2018/19 price base (in line with the CDSP costs).

Whilst a new row has been added to the SystemOperator tab to include a placeholder for the ISOP gas charge, the pass-through expenditure total does not include the new row. To ensure ISOP costs are included in pass-through expenditure (and therefore in SO Allowed Revenue), we request that the total on row 47 (cell references AP47:AT47) is updated to include row 46.

We hope you find this response helpful. If you would like to discuss any of our proposed amendments further, please do not hesitate to contact us directly.

Yours sincerely

Louise Smith  
Regulatory Business Partner