

To all interested parties and stakeholders,

Email: gas.systems@ofgem.gov.uk

Date: 31 July 2024

Decision regarding National Gas Transmission plc's obligation under Special Condition 2.3.4 of its Gas Transporter Licence

This letter sets out our¹ decision to provide consent, in accordance with Special Condition 2.3.4 of National Gas Transmission ("NGT") plc's Gas Transporter Licence (the "Licence")², for NGT to over-recover System Operator ("SO") 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 19 April 2024, we approved UNC857: '*Revision to the Determination of Non-Transmission Services Gas Year Target Revenue*'.³ This modification aimed to reduce the level of year-on-year volatility in General Non-Transmission Services (GNTS) charges⁴ by revising the determination of the Allowed Non-Transmission Services Revenue for each Gas Year to allow NGT to take into

¹ 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.

² Special Conditions of NGT's Gas Transporter Licence can be found here: <https://www.ofgem.gov.uk/energy-policy-and-regulation/industry-licensing/licences-and-licence-conditions>

³ <https://www.ofgem.gov.uk/decision/decision-unc857>

⁴ GNTS charges is a commodity charge levied by NGT on gas flowed by users through the National Transmission System to recover their Allowed Non-Transmission Services Revenues. Prior to the implementation of UNC857, determination of Allowed Non-Transmission Services Revenues to be collected over the course of the Gas Year only took 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 GNTS charges.

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 SO Allowed Revenues published by Ofgem in the Price Control Financial Model ("PCFM")⁵.

According to Special Condition 2.3.3 of the Licence, NGT must "*use its best endeavours to ensure that SO Recovered Revenue does not exceed SO Allowed Revenue, unless paragraph 2.3.4 applies*" when setting charges. According to Special Condition 2.3.4, NGT is allowed to deliberately over-recover SO 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 SO Allowed Revenue

We have received a request from NGT for our consent for potential over-recovery against SO Allowed Revenue in the Financial Year 2024/25 in accordance with Special Condition 2.3.4 of the Licence. NGT has confirmed that the over-recovery is a result of applying the methodology approved by us as part of UNC857, which will be codified in Section Y of the UNC Transportation Principal Document ("TPD") and implemented with effect from 1 October 2024, in determining the Allowed Non-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, as NGT is required to consider the allowed revenues for both Financial Years that coincides with the Gas Year in determining the Allowed Non-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 SO Allowed Revenue is a result of the applicable charging methodology in the UNC. This is in line with the requirement of Special Condition 2.3.4(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 UNC TPD Section Y. We also expect NGT to continue to maintain a robust charging methodology to ensure that revenue recovery is efficient and any under- or

⁵ <https://www.ofgem.gov.uk/decision/republication-riio-gt2-price-control-financial-model-following-annual-iteration-process-2023>

over-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 SOPRPt⁶ under Special Condition 2.3.14 of the Licence) and nothing in this letter in any way fetters the discretion of the Authority.

Decision notice

In accordance with Special Condition 2.3.4(b) of NGT's Gas Transporter Licence, the Authority has decided to provide consent for NGT to deliberately over-recover SO Recovered Revenue in Financial Year 2024/25 as a result of the applicable charging methodology in the UNC when setting Non-Transmission Services 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

⁶ SOPRPt means the penal rate proportion and has the value of 1, unless the Authority directs otherwise in accordance with Special Condition 2.3.14.