

# Decision

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## **Decision on proposed revisions to the Capacity Methodology Statements (Special Conditions 9.17 and 9.18 of National Gas Transmission plc Gas Transporter Licence)**

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National Gas Transmission plc (NGT) have submitted proposals to modify their 5 capacity methodology statements. We<sup>1</sup> have approved the proposed revisions to the statements and outline our reasons for doing so in this decision.

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<sup>1</sup> The terms "the Authority", "Ofgem", "we", "us" and "our" are used interchangeably in this decision.

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## Introduction

On 27 December 2024, National Gas Transmission plc (“NGT”) submitted proposed modifications to their Entry Capacity Release (“ECR”), Exit Capacity Release (“ExCR”), Entry Capacity Substitution (“ECS”), Exit Capacity Substitution and Revision (“ExCS”) and Entry Capacity Transfer and Trade (“ECTT”) methodology statements (together “the statements”). We<sup>2</sup> have decided to approve the proposed revisions to the statements.

## Context

Special Conditions (“SC”) 9.17.10 and 9.18.10 of NGT’s Gas Transporter Licence provide that NGT must, if so directed by the Authority, and in any event not less than once in every period of two regulatory years, review their capacity release methodology statements (“the statements”)<sup>3</sup>.

Aside from the ExCR which was published with minor housekeeping changes in June 2024, the remaining 4 statements were last published in April 2023. Under SC 9.17.10 and 9.18.10 of the licence NGT are therefore required to review the statements (except the ExCR) by 20 April 2025.

### The phased approach

NGT are undertaking a phased approach to their review of the ECR and ExCR in order to address the issues raised in the feedback received on the former Western Gas Networks (WGN) project<sup>4</sup>. This review, which NGT are working towards completion of by 20 April 2025, forms Phase 1 and includes clarifications on the Net Present Value (NPV) test and capacity allocation.

Phase 2, which is already underway, is a wider review of the NPV methodology and PARCA<sup>5</sup> process and will fully assess the options identified to address the challenges posed by these processes with industry participants. In particular, we note that NGT’s request for review of the arrangements for reservation of NTS capacity has been allocated to a UNC Workgroup who are due to report in June 2025<sup>6</sup>. In our letter of 21 August 2024<sup>7</sup>, we

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<sup>2</sup> The terms “the Authority”, “Ofgem”, “we”, “us” and “our” are used interchangeably in this decision.

<sup>3</sup> These statements can be found on NGT’s website here: [Capacity methodology statements | National Gas](#)

<sup>4</sup> On 6 August 2024 NGT formally informed Ofgem that the PARCA for this project had been terminated and as the WGN project was no longer required to meet the incremental obligated capacity signal, NGT would therefore be shutting the project down. See [Final Update - Western Gas Network - FIOC Project Direction](#)

<sup>5</sup> PARCA process meaning the Planning and Advanced Reservation of Capacity Agreement process

<sup>6</sup> [UNC 901R – Review of the arrangements for reservation of NTS Capacity](#), Joint Office of Gas Transporters

<sup>7</sup> [Decision on Capacity Methodologies Review Derogation](#), 21 August 2024

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directed NGT to complete Phase 2 of the review by 20 April 2026. We further directed NGT to also review the ECS, ExCS and ECTT by 20 April 2026.

Derogation

SC 9.17 and 9.18 also set out the procedural requirements that must be complied with when revising the statements. In particular, SC 9.17.11(d) and 9.18.11(d) require that before revising a methodology statement, the licensee must submit to Ofgem, alongside a report detailing the proposed revisions, a statement from an Independent Examiner (IE):

- i. confirming that the IE has carried out an examination, the scope and objectives of which were approved by the Authority; and
- ii. giving an opinion on whether the methodology statement as revised would be consistent with the licensee’s duties under the Gas Act 1986 and with the licensee’s obligations under the licence.

Special Conditions 9.17.16 and 9.18.16 allow the licensee to apply to the Authority for a derogation relieving them of any of its obligations under conditions 9.17 and 9.18 respectively. On 27 June 2024, NGT requested our consent to a derogation from the requirement to provide statements from an IE for this round of reviews. We consented to this request and set out our reasons for doing so in our letter dated 21 August 2024<sup>8</sup>.

In the same letter we signalled our expectation that an IE’s statement be submitted for all 5 statements in the next round of reviews due to be completed by April 2026, in light of the passage of time since an IE report was submitted for the ECS, ExCS and ECTT and the substantive nature of the review for the ECR and ExCR as part of Phase 2.

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<sup>8</sup> See footnote 7 above.

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## **Our decision-making process**

Special Conditions 9.17.12 and 9.18.12 of NGT's Gas Transporter Licence state that the Authority has 56 days beginning with the date of receipt of the consultation report prepared by NGT to approve, reject or request more information on the proposed revisions. If further information is sought, the Authority must approve or reject the proposed revisions within 28 days of receipt of information that the Authority considers satisfies its request. Where no action is taken, NGT can treat the proposed revisions as approved. As NGT submitted their report on 27 December 2024, the Authority has until 21 February 2025 to approve, reject or request further information.

A summary of the stages in the decision making process follows:

### **Decision-making stages**

<b>Date</b>	<b>Stage description</b>
13/09/2024	Stage 1: NGT informal consultation on proposed revisions to statements opens
04/10/2024	Stage 2: NGT informal consultation on proposed revisions to statements closes
13/11/2024	Stage 3: NGT formal consultation on proposed revisions to statements opens
13/12/2024	Stage 4: NGT formal consultation on proposed revisions to statements closes
27/12/2024	Stage 5: Consultation report and proposed revisions to statements submitted to the Authority by NGT
21/02/2025	Stage 6: Authority decision

## 1. Proposed revisions to the statements

As part of the consultation, NGT published tables setting out their proposed revisions to each statement along with clean and tracked change versions of the statements with these revisions included. These documents are available to view on NGT's website<sup>9</sup>. We understand that as no consultation responses were received, no further changes or amendments were made to the versions of the statements consulted upon.

On this basis, we set out below a summary of the proposed revisions NGT intend to make to each of the statements and our commentary on each.

### Proposed revisions that apply to all 5 statements

In its Conclusions Report<sup>10</sup>, NGT explain that *"references and links to the National Gas website have been updated to reflect the updated links as a result of [its] refreshed website which went live on 15th August 2024."* General housekeeping changes have also been made including *"the removal of typographical errors found or improvement to readability of the documents."*

#### Our commentary

These changes are minor and make no material changes to the operation of the statements. We note NGT's intention to improve clarity and readability of the statements by making these changes.

### Proposed revisions to ECR

In the Conclusions Report, NGT explain that clarifications have been made to the NPV test *"without changing the fundamental principles at this stage."*

As set out in the 'phased approach' section of this decision above, NGT are reviewing the ECR and ExCR in two phases. In order to address some of the feedback received from stakeholders, NGT have identified *"several areas for clarification where updates to the ECR can be made to increase clarity of the process, application of the NPV test and resulting capacity allocations from an Entry Capacity PARCA."* According to NGT, they have *"considered where these updates can be made, and multiple clarifications can be applied as a result. These do not change the principles of the statement but intend to address the points that required clarifications."*<sup>11</sup>

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<sup>9</sup> [Capacity methodology statements | National Gas](#)

<sup>10</sup> [NGT Consultation on Capacity Methodology Statements Conclusions Report](#), 27 December 2024

<sup>11</sup> Letter from NGT requesting derogation from requirement to submit IE report, dated 27 June 2024

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We note that, among others, the proposed revisions seek to clarify when inflation and discounting are applied, whether certain costs and prices are treated as fixed or variable and whether the unsold baseline revenue is included in the NPV test.

Our commentary

In response to our queries, NGT confirmed that all the proposed amendments made to the ECR are clarification points to existing processes that do not change the application of the statement.

We identified two updates to the ECR that were not captured in the table of changes summarising the revision proposals, though these do appear in the tracked change version of the statement used for consultation. These were the inclusion of a note regarding the application of the NPV test, which we understand NGT intends to remove from the final published version of the statement and a correction to the definition of a Funded Incremental Obligated Capacity (FIOC) Guidance and Submissions Requirements Document. We are content with the update to this definition and understand this was done to correct a previous error.

We noted that paragraph 141 of the ECS has been updated with the following clarification:

*"For avoidance of doubt, no step pricing is included in the revenue or used for any PARCA calculations."*

In response to our queries regarding this clarification, we understand that NGT are of the view that Section B of the Transportation Principal Document of the Uniform Network Code ("UNC") (in particular paragraph 1.17.7) may require updating to align with changes to the ECR that were applied in 2019 and that such updates can be addressed as part of NGT's request for UNC Workgroup review of the arrangements for reservation of NTS capacity (UNC901R).

**Proposed revisions to ExCR**

In the Conclusions Report, NGT explains that *"in reviewing the ECR feedback described above, it was concluded that no clarification changes required to the ECR were relevant to the ExCR. No specific feedback was received regarding the ExCR. In this review only housekeeping updates have been made. A further review linked to ECR will take place in phase 2."*



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Our commentary

We note that aside from the general housekeeping updates referred to above, only two changes were made to the ExCR; an update to Appendix 1 with current Exit Zone details and the removal of an outdated link in Appendix 2.

**Proposed revisions to ECS**

In the Conclusions Report, NGT explains that the ECS *"has been rarely used"* and *"only housekeeping updates have been made"* as part of this review.

Our commentary

We identified minor typographical errors when reviewing the revision proposals. We understand NGT is content to rectify these small anomalies in the final published version of the statement and note them in the 'Version Control' table for clarity and completeness.

**Proposed revisions to ExCS**

In its Conclusions Report, NGT explains that the ExCS *"has been rarely used since the last review"* and *"only housekeeping updates have been made"* as part of this review.

Our commentary

We note that aside from the general housekeeping updates referred to above, only one change was made to remove an outdated link in Appendix 2 of the ExCS.

**Proposed revisions to ECTT**

As with the ECS and ExCS, NGT advise that the ECTT *"has been rarely used"* and *"in this review only housekeeping updates have been made."*

Our commentary

As part of its housekeeping updates, NGT has updated the Indicative Demand Levels in Appendix 1 of the ECTT. In response to our queries, NGT has confirmed that these figures will be updated with 2024/25 levels in the review scheduled for April 2026.

## **2. Our decision**

Following consideration of the documentation and information NGT have provided pursuant to Special Conditions 9.17 and 9.18 of the licence and having regard to the Authority's statutory objectives and duties along with the requirements and objectives of NGT's Gas Transporter Licence, we have decided to approve the proposed revisions to the statements.

We note NGT's intention to improve clarity and readability of the statements by providing additional clarificatory information, correcting typographical errors and making necessary updates. In particular, we recognise NGT's wish to provide clarity to stakeholders on the NPV test and PARCA process while the more substantive review of these processes is underway.

We are satisfied by NGT's confirmation that the proposed revisions are clarificatory in nature and make no substantive change to the way in which the methodologies (in particular the NPV test and PARCA process) are applied in practice.

We are not aware of any industry concern regarding the proposed revisions and note that no consultation responses were received during NGT's consultation period.

### **3.Next steps**

As referred to elsewhere in this decision, we note that Phase 2 of NGT’s review of the ECR and in turn the ExCR is already underway. We will continue to monitor progress of UNC 901R as it proceeds through UNC Workgroup but would invite NGT to provide us with a formal update on how Phase 2 of the review is progressing in June 2025.