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To all interested parties and stakeholders,

Email: gas.systems@ofgem.gov.uk

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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 our¹ decision to provide consent, in accordance with Special Condition 2.1.4 of National Gas Transmission ("NGT") Plc's Gas Transporter Licence (the "Licence")², for NGT to over-recover Transportation Owner ("TO") Recovered Revenue in Financial Year 2025/26 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*'.³ This modification aimed to reduce the level of year-on-year

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 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>

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

volatility⁴ in Reserve Prices for National Transmission System (“NTS”) Capacity by revising 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”).⁵

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 2025/26 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 2025/26.

We note that NGT have informed us that they have used their Business Plan Financial Model (“BPFM”) for estimated revenues for Financial Year 2026/27, when following the methodology codified in paragraphs 1.6.1 and 1.6.2 of UNC TPD Section Y Part A-1. Financial Year 2026/27 is the first year of the next price controls period for the Gas Transmission sector (“RIIO3”), and Ofgem is expected to publish its Draft Determination in Summer 2024 and Final Determination in late 2025 in respect of those price controls. The BPFM is based on NGTs submission to Ofgem for RIIO3 and is publicly available.⁶ NGT consider that the use of the BPFM, which includes published values, provides the most robust values to estimate revenue for Financial Year 2026/27, in advance of Ofgem publishing a Final Determination.

⁴ 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.

⁵ Gas transmission price control financial model: RIIO-2

<https://www.ofgem.gov.uk/publications/gas-transmission-price-control-financial-model-riio-2>

⁶ National Gas Financial Model (BPFM)

https://www.nationalgas.com/sites/default/files/documents/NGT_Business_Plan_Financial_Model_%28BPFM%29_Commentary_RIIO-GT3.pdf

Our views

We are satisfied that potential over-recovery in certain Financial Years is a foreseeable outcome of applying the charging methodology implemented through UNC796. We have reviewed the information provided to us by NGT and are content that the potential over-recovery for FY2025/26 arises as a consequence of applying this methodology. We consider that this is consistent with the requirements of Special Condition 2.1.4(a) of the Licence. We have therefore concluded that it is appropriate to grant our consent to the proposed over-recovery for FY2025/26.

We acknowledge that because Ofgem has not made its Final Determination for RII03, NGT cannot use the Price Control Financial Model ("PCFM") to estimate revenue for Financial Year 2026/27 to apply when following the methodology codified in paragraphs 1.6.1 and 1.6.2 of the UNC TPD Section Y Part A-1. We acknowledge NGT's reasoning for use of their BPFM instead for revenues for Financial Year 2026/27. Following Ofgem's Final Determination on the RII0-3 price control, any over- or under recovery by NGT will be reconciled in Allowed Revenue for 2026/27 and the subsequent setting of tariffs for Gas Year 2026/27.

We continue to consider that over-recovery should be limited strictly to the level necessary to enable effective tariff smoothing in accordance with paragraph 1.6.1 of UNC TPD Section Y Part A-1. We also expect NGT to maintain a robust and transparent charging methodology, including use of the Forecasted Contracted Capacity ("FCC") approach, to ensure that revenue recovery remains efficient and that any under- or over-recoveries are minimised.

We will continue to monitor NGT's approach to revenue recovery and act, where necessary, within our regulatory functions to support the policy objectives set out above.

Decision notice

In accordance with Special Condition 2.1.4(b) of NGT's Gas Transporter Licence, the Authority has decided to provide consent for NGT to deliberately over-recover TO Recovered Revenue in Financial Year 2025/26 as a result of the applicable charging methodology in the UNC when setting Transmission Services Charges for the Gas Year 2025/26.

William Duff

Head of Gas & Hydrogen Systems Management and Operation

Signed on behalf of the Authority and authorised for that purpose