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Re: Response to Ofgem's consultation published 25 April 2025 on its proposal to modify NGT's special licence conditions

Dear Michael,

We welcome the opportunity to respond to Ofgem's consultation published on 25 April 2025. In respect of the proposal to modify National Gas Transmission's (NGT) special licence conditions to insert a new special condition 3.19 and amend special condition 1.1 to accommodate the FSO transition allowance we have the following comments:

**SpC 1.1:** Definition of Independent System Operator and Planner (ISOP). We note that you are proposing a minor amendment adjusting 'who' to 'which'. We have no objection to this change. We query whether amending the defined term from 'ISOP' to 'Independent System Operator and Planner (ISOP)' would require consequential changes to existing definitions and conditions where the 'ISOP' term is already used. If it is necessary to include the term 'Independent System Operator and Planner' this should be incorporated alongside the existing 'ISOP' term to avoid the need for further licence amendments, i.e. 'Independent System Operator and Planner or ISOP'.

**SpC 3.19:**

We are comfortable with the new FSOTAt term allowing costs to be recovered through totex but have concerns around how the allowances will be set, as well as the process for setting the FSOTRE term.

As per the Decision on the funding of the transition to a Future System Operator (FSO) issued on the 28 September 2023, NGT is allowed to recover costs that are incurred in relation to supporting the establishment of the FSO. However, we are not clear what value Ofgem will direct for the allowance. Regarding the FSOTRE term, we assume this has been included to facilitate the disallowance of demonstrably inefficient and wasteful expenditure (DIWE) as outlined in paragraph 3.55 of the funding decision. We are concerned there are no parameters or restrictions around how or when a disallowance would be imposed. We assume Ofgem would need to conduct a review to be able to assess if any of the costs we have recovered are 'inefficient'. There should be conditions set around when such a review would be initiated, to prevent, for example, the review itself giving rise to inefficient spend. We have proposed that an adjustment using the FSOTRE term should only be considered if our costs exceed £1.5m per year

(18/19 prices), £1.5m being the previous estimate of costs we would incur related to the set-up for the FSO.

We propose the following amendments to SpC 3.19, including the addition of a new paragraph to set parameters for the FSOTRE term:

Paragraph 3.19.2: reference should be to 'costs' rather than 'cost', and 'ISOP' (see comment above on defined term).

Paragraph 3.19.3, FSOTRE term: reference should be to 'ISOP' (see comment above on defined term).

Insert new Part B as follows to insert the circumstances in which Ofgem may direct a change to the FSOTRE term. This will provide certainty for NGT:

"Part B: Assessment of FSOTRE term

3.19.4 The Authority may only issue a direction under this condition where the expenditure incurred by the licensee to support the development and implementation of the [ISOP's] gas functions, excluding any costs recovered through any bilateral agreement(s) with the [ISOP], are or exceed £1.5 million per year (18/19 prices)."

Subsequent Part and paragraph numbering will then require revision, i.e. Part C, 3.19.5, 3.19.6.

We hope you find our feedback clear. If you would like to discuss any aspect of our consultation response, please do not hesitate to contact us directly.

Yours sincerely

Rav Sandhu  
Regulatory Partnering Specialist