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To interested parties

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Dear Colleagues,

Decision for statutory consultation on modifications to the Special Conditions of National Grid Gas plc (NGG (NTS)) Gas Transporter's licence, including the GT1 Price Control Financial Instruments to implement PARCA arrangements and the funding decision on the Fleetwood entry point

On 10th July 2018, we published a Statutory Consultation¹ on modifications to the Special Conditions of National Grid Gas Transmission's (NGGT's) Gas Transporter licence, the RIIO-GT1 Price Control Financial Model (PCFM) and Financial Handbook² to implement two decisions. The first is our decision³ to implement Planning and Advanced Reservation of Capacity Agreements (PARCAs). The second is our decision⁴ to remove £277.5 million from NGGT's cost allowances for investments at the Fleetwood entry point, which did not take place and are not expected to be needed over the remainder of the current price control period.

In the consultation we proposed to (a) modify Special Licence Conditions 1A, 2A and 5E of NGGT's Gas Transporter licence and (b) introduce in the GT1 PCFM and Financial Handbook the PARCA Termination Value (PTV) as a new uncertain costs category, the Variable Value PTV. We also proposed to reduce the NGGT Non-Variant Allowances for Fleetwood in the GT1 PCFM by a total of £277.5 million over the years 2012/13 to 2018/19.

Effect of modifications

The PARCA related modifications remove the text and formulae related to the calculation of the impact on allowed revenues of PARCA Terminations from Special Condition 2A, and at the same time implement this calculation in the PCFM. This will ensure an accurate calculation of the revenue impact of PTV, as the formulae currently contained in Special Condition 2A are only an approximation of the complex calculations operated in the PCFM.

Furthermore, the introduction of the Variable Value PTV in the PCFM implies that the costs associated with PARCA terminations will be assessed and subject to determination in the Annual Iteration Process (AIP). This will promote transparency and allow greater scrutiny of NGGT's costs than the current arrangements, as the PCFM is published each year at the end of the AIP, and is therefore publicly available.

The modifications of cost allowances for Fleetwood reduce NGGT's Regulatory Asset Value (RAV), which reduces allowed revenues over the assumed life of the assets (several

¹ <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-modify-riio-gt1-price-control-financial-model-account-parca-and-fleetwood>

² The GT1 Price Control Financial Model and GT1 Price Control Financial Handbook correspond to the Price Control Financial Instruments, as defined under Special Condition 4A of NGGT Gas Transporter licence.

³ <https://www.ofgem.gov.uk/publications-and-updates/decision-licence-changes-implement-planning-and-advanced-reservation-capacity-agreements>

⁴ <https://www.ofgem.gov.uk/publications-and-updates/decision-fleetwood-entry-point-gas-transmission>

decades), by decreasing the depreciation and return on the (lower) remaining RAV. This implies that most of the revenue impact will occur in the long term.

We estimate that the revenue reductions will amount to £47 million during the RIIO-GT1 price control, and will be delivered starting from 2019/20.

Further revenue reductions will be delivered in future price controls.

Summary of consultation response

We received one response to the consultation from National Grid, which has been published on our website alongside the original consultation.

In their response, National Grid agreed that the proposed changes to the Special Conditions of NGGT's Gas Transporter licence and related modifications to the GT1 PCFM and Financial Handbook appropriately implement PARCA arrangements.

National Grid also agreed that the proposed changes to the GT1 PCFM correctly implement the Fleetwood funding decision.

In its response, NGGT expressed concern that we were introducing an additional layer of review and scrutiny to the PARCA determination process when we referred to "Authority review" in our consultation. However, this was not our intention as we were just referring to the additional process resulting from the inclusion in the PCFM and AIP. As the PARCA termination costs are now included as a Variable Value in the PCFM, they will now be subject to consultation and determination in the AIP, as the other Variable Values.

Our decision

Having carefully considered the response received to our statutory consultation, we have decided to proceed with the modifications to Special Licence Conditions 1A, 2A and 5E of NGGT's Gas Transporter's licence, the GT1 PCFM and Financial Handbook as proposed in our consultation.

Next steps

We have published the revised NGGT Gas Transporter's Special Licence Conditions, the GT1 PCFM, Financial Handbook and the associated Direction on our website, alongside this decision. These modifications will come into effect on 26th October 2018, 56 days after publication of this decision.

If you have any questions on this letter, please contact Valerio.Uccello@ofgem.gov.uk.

Yours sincerely,

Geoffrey Randall
Deputy Director, Gas Network Price Controls