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All stakeholders

Email: RetailPriceRegulation@ofgem.gov.uk

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Dear Stakeholders,

Gas networks input availability – Transmission exit commodity charges

This letter is to inform stakeholders of a change to input values used in the default tariff cap network cost allowance for the fifth charge restriction period, given the introduction of Uniform Network Code (UNC) 678A – Amendments to Gas Transmission Charging Regime (Postage Stamp).[1] On the 31 July 2020, National Grid Gas published its Notice of Gas Transmission Transportation Charges[2] which sets out the transportation charges which apply from 1 October 2020, reflecting the recent amendments as contained in UNC 678A.

"Annex 3 – network cost allowance methodology gas" allows for the costs associated with gas transmission. This includes the SO and TO exit commodity charges which have previously been published by National Grid on their website. These charges are referenced in Annex 3 as 'SO exit charge' and 'TO exit charge', respectively.

In July 2020, we engaged with industry on the details of the inputs we intend to use when calculating the level of the default tariff cap. This industry review included indicative inputs for the 'SO exit charge' and 'TO exit charge', based on the previous gas transmission regime. We made clear that these figures were indicative and subject to change.

Since we engaged with industry on these indicative inputs, UNC 678A has impacted the availability of two input values historically used to set the default cap. This has had an immediate effect on the templates we use to set part of the network cost allowance. Specifically, the amendments implemented as part of UNC 678A mean that the existing terminology and reference to 'SO exit charge' and 'TO exit charge' in Annex 3 no longer accurately reflects the gas transmission charging regime that is in place. Due to the timing of when the latest transportation charges were published, we were unable to include these figures in our industry review. We outline in this letter how we are addressing these changes both for the fifth charge restriction period, and on an enduring basis.

UNC 678A and impact on Annex 3 'SO exit charge' - For the fifth charge restriction period, the inputs provided under 'SO exit charge' in Annex 3 reflect 'General Non-Transmission Services Exit Charges', which is, generally speaking, the same input value under a different name.

[1] https://www.ofgem.gov.uk/publications-and-updates/amendments-gas-transmission-charging-regime-decision-and-final-impact-assessment-unc678abcdefghij

[2]https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2020-07/Notice%20of%20Gas%20Transportation%20Charges%20Oct%202020.pdf?Qdsrp_u2NlLtnPa_4Q3EG0aXdnTz2By9=

UNC 678A and impact on Annex 3 'TO exit charge' - As of 1 October 2020, corresponding to the start of the fifth charge restriction period, the 'TO exit charge' will no longer exist in its current form. We therefore have included the input for this cost as 0.00p/kWh to reflect this. We expect the costs of the new NTS capacity Charges for the exit capacity booked at Distribution Network offtakes to be levied on Gas Distribution Network Operators, and included in the April 2021 Exit Capacity NTS (ECN) charges. In other words, the April 2021 ECN charges will take into account NTS Exit Capacity Charges from October 2020, meaning these costs will not be captured in the fifth charge restriction period, but will be captured in the subsequent period(s). This is in line with when these costs will be passed through to suppliers.

As suppliers will not incur Exit Capacity NTS (ECN) charges in the fifth charge restriction period, we consider the approach of setting the 'TO exit charge' input value to 0.00p/kWh will not detrimentally effect suppliers. We have not used the indicative inputs as set out in the industry review for the fifth charge restriction period because TO exit charges will be allocated under a different mechanism going forward, and including the indicative inputs would serve to double-count these costs, to the detriment of consumers.

In the interests of transparency, we have annotated Annex 3 to highlight the amendments set out above. Later in the year we will also consult on amending the structure and format of Annex 3 to more accurately reflect the new charging regime.

If you have any questions in relation to this matter, please email RetailPriceRegulation@ofgem.gov.uk

Yours faithfully,

Anthony Pygram
Director – Conduct & Enforcement