



Making a positive difference
for energy consumers

National Grid Gas Plc; and all
interested parties

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Dear colleagues,

Statutory Consultation on proposed licence changes to amend Part B of Special Condition 2.1 (Formula for calculating the TO Recovered Revenue term (RR_t)); and Part B of Special Condition 2.3 (Formula for calculating the SO Recovered Revenue term (SORR_t))

Today, we¹ published a statutory consultation proposing to modify Part B of Special Condition 2.1 (Transportation owner revenue restriction (AR_t)), and Part B of Special Condition 2.3 (System operator revenue restriction (SOAR_t)) of National Grid Gas Plc Gas Transporter Licence (the "licence").²

Part B of Special Condition 2.1 of the licence sets out the formula for calculating the TO Recovered Revenue term (RR_t) and Part B of Special Condition 2.3 of the licence sets out the formula for calculating the SO Recovered Revenue term (SORR_t). The modification proposes to amend the terms TOREntCt and TORExct in the formula for calculating the RR_t, and the terms SOREntCt and SORExct in the formula for calculating the SORR_t, such that the amounts of revenue that result from the sale of four types of capacity are moved from SORR_t to RR_t. The four types of capacity are:

- Interruptible Entry Capacity;

¹ The terms "we", "us" and "our" and "the Authority" are used to refer to the Gas and Electricity Markets Authority.

² National Grid Gas Plc, Gas Transporter Licence, Special Conditions.

- Off-Peak Exit Capacity;
- All on the Day sales of Non-Incremental Obligated Entry Capacity and Funded Incremental Obligated Entry Capacity, and;
- All on the Day sales of Non-Incremental Obligated Exit Capacity and Funded Incremental Obligated Exit Capacity.

Proposed change to National Grid Gas Plc's Gas Transporter Licence

The reason for this proposed licence change is to amend the treatment of the revenue generated from the sale of the four types of capacity because of the significant increase in the revenues resulting from those types of capacity, and changes in the booking behaviour of shippers.

The proposed modification will also address an urgent risk to GB consumers which may result in distortions to transmission charges. The revenues associated with the four capacity products mentioned above increased significantly due to the reforms to the transmission charging methodology that were introduced through UNC678A on 1 October 2020.³ The uptake of, and revenue resulting from, these capacity products changed such that the current licence classification of these capacity products under SO Recovered Revenue is no longer appropriate. Without the proposed licence change, there is a risk that the SORR_t will see a significant over-recovery while the RR_t will see a corresponding under-recovery. Such an outcome would distort the calculation of transmission tariffs, which would be to the detriment of GB consumers.

This proposed licence change would mitigate the risk that the SORR_t and the RR_t would over- and under-recover respectively, by reallocating the revenues from the sale of the four capacity products from the SOREntCt and SORExCt terms, which are components of the formula for calculating the SORR_t, to the TOREntCt and TORExCt terms, which are components of the formula for calculating the RR_t.

We consider that there is an urgent need for this proposed licence change to protect the interests of consumers due to the risk that otherwise the level of transmission tariffs may be distorted. Without the changes, it is likely that a significant over-recovery against SO allowed revenues and an under-recovery against TO allowed revenues will occur. TO and SO allowed revenues are used in the calculation of NTS transmission tariffs, and the significant over- and under-recoveries associated with them will result in distortions in tariffs which would be to the detriment of GB consumers and the gas market.

³ Amendments to Gas Transmission Charging Regime: Decision and Final Impact Assessment (UNC678/A/B/C/D/E/F/G/H/I/J) (28 May 2020) <https://www.ofgem.gov.uk/publications-and-updates/amendments-gas-transmission-charging-regime-decision-and-final-impact-assessment-unc678abcdefghij>. UNC678A removed the discounts to short-term capacity products under the previous regime and reduced the discount provided to interruptible/off-peak capacity.

We have decided to make this proposal following discussions with National Grid Gas Plc, the licence holder. National Grid Gas Plc has had the opportunity to submit representations that we have considered.

Consultation

Please send any views on the issues raised in this letter and the accompanying statutory consultation by 25 June 2021 to: Gas.TransmissionResponse@ofgem.gov.uk.

Responses to the consultation will be published on our website unless marked as confidential. You can ask for your response to be kept confidential and we will respect this subject to any obligations to disclose information, for example under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. If you would like your responses to be kept confidential, clearly mark your documentation to that effect and include the reasons for confidentiality.

If you have any questions regarding this letter or the statutory consultation, please contact us by using the email address above.

Yours sincerely,

David O'Neill

Head of Gas Systems

For and on behalf of the Gas and Electricity Markets Authority