To: National Grid Gas Plc (company number 02006000)

Gas Act 1986
Section 23(2)

Notice of statutory consultation on a proposal to modify the Special Conditions of the Gas Transporter Licence held by National Grid Gas Plc

1. In accordance with section 23(1), the Gas and Electricity Markets Authority ("the Authority")[1] proposes to modify the following special conditions of the Gas Transporter Licence held by National Grid Gas Plc ("the licensee") granted or treated as granted under section 7 of the Gas Act 1986:
   i. Part B of Special Condition 2.1 (Formula for calculating the TO Recovered Revenue term (RR_t)); and
   ii. Part B of Special Condition 2.3 (Formula for calculating the SO Recovered Revenue term ($SORR_t$)).

2. We are proposing to amend the treatment of revenues from four types of capacity. The change will reallocate these revenues from System Operator ("SO") to Transmission Owner ("TO"). Following the implementation of UNC678A on 1 October 2020,[2] the revenues associated with the four capacity products increased significantly. Therefore, the current licence classification of these capacity products is no longer appropriate. Without this change, there is a risk of significant distortions in the setting of prices for future Gas Years.

3. The effect of these proposed modifications is to remove the revenues resulting from the sale of four types of capacity from SO Recovered Revenue under Part B of Special Condition 2.1. These will be reallocated to TO Recovered Revenue under Part B of Special Condition 2.3.

4. A copy of the proposed change and other documents referred to in this Notice have been published on our website (www.ofgem.gov.uk). Alternatively, they are available by contacting foi@ofgem.gov.uk.

5. Any representations with respect to the proposed licence change must be made by 25 June 2021 by email to Gas.TransmissionResponse@ofgem.gov.uk.

6. We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as not for publication. We prefer to receive responses in an electronic form so they can be placed easily on our website.

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[1] The terms "the Authority", "we" and "us" are used interchangeably in this document.

[2] 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

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7. If we decide to make the proposed modifications, they will take effect not less than 56 days after the decision is published.

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David O'Neill
Head of Gas Systems
Duly authorised on behalf of the
Gas and Electricity Markets Authority 　　　　　　**25 May 2021**

We have included the sections of the special conditions we are proposing to amend below. Deletions are shown in strike through and new text is double underlined.

Chapter 2: Revenue restriction

Special Condition 2.1 Transportation owner revenue restriction (AR$_t$)

Part B: Formula for calculating the TO Recovered Revenue term (RR$_t$)

2.1.4　The value of RR$_t$ is derived in accordance with the following formula:

$$RR_t = TOREntC_t + TORExC_t + TORCOM_t$$

where:

$TOREntC_t$　means the amount of revenue that results from the sale of the following types of Entry Capacity:
(a) Interruptible Entry Capacity; and
(b) Non-Incremental Obligated Entry Capacity (ahead of the gas Day); and
(c) Funded Incremental Obligated Entry Capacity (ahead of the gas Day);

$TORExC_t$　means the amount of revenue that results from the sale of the following types of Exit Capacity:
(a) Off-Peak Exit Capacity; and
(b) Non-Incremental Obligated Exit Capacity (ahead of the gas Day); and
(c) Funded Incremental Obligated Exit Capacity (ahead of the gas Day);

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Special Condition 2.3 System operator revenue restriction (SOAR$_t$)

Part B: Formula for calculating the SO Recovered Revenue term (SORR$_t$)

2.3.4   The value of SORR$_t$ is derived in accordance with the following formula:

$$SORR_t = SOREntC_t + SORExC_t + RCOM_t + SOROC_t$$

where:

SOREntC$_t$ means the amount of revenue <u>in respect of NTS System Operation Activity</u> that results from the sale of ~~the following types of Entry Capacity:~~
~~(a) Interruptible Entry Capacity;~~
~~(b)~~ Non-Obligated Entry Capacity; ~~and~~
~~(c) all on the Day sales of Non-Incremental Obligated Entry Capacity and Funded Incremental Obligated Entry Capacity;~~

SORExCt   means the amount of revenue <u>in respect of NTS System Operation Activity</u> that results from the sale of ~~the following types~~
~~of Exit Capacity:~~
~~(a) Off-Peak Exit Capacity;~~
~~(b)~~ Non-Obligated Exit Capacity; ~~and~~
~~(c) all on the Day sales of Non-Incremental Obligated Exit Capacity and Funded Incremental Obligated Exit Capacity;~~

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