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John Twomey
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Dear Heather,

National Grid Gas (NGG) welcomes the opportunity to respond to your statutory consultation on Preparing for EU Exit: consequential licence modifications in the event the UK leaves the EU without a deal. NGG owns and operates the gas National Transmission System and in association with the gas Distribution Network Operators, also jointly provides for the administration of the Uniform Network Code (UNC) Governance arrangements through the Joint Office of Gas Transporters (JO).

NGG acknowledges that in the event of UK exit from the European Union in absence of a withdrawal agreement ('no deal'), changes will be required to our licence (as proposed by this consultation) however, in the event that terms for this exit are agreed we would expect the need for, and nature of, any such changes to be reviewed and re-considered.

Generally, NGG agrees that the changes proposed are consistent with the position in UK law upon 'no deal' exit from the European Union, however we have one area of concern described below.

In respect of the change proposed to **Special Condition 3D.16**, which reflects the replacement of the EU Emissions Trading System with the Carbon Emissions Tax, NGG believes that the determination of Other Shrinkage Costs (OSC_t) should include both EU Emissions Trading System costs ($EUETS_t$) and Carbon Emissions Tax costs (CET_t). On this basis, the formula within this condition would read as follows:

$$OSC_t = CRCEES_t + EUETS_t + CET_t + NEET_t$$

This change would ensure that $EUETS_t$ costs incurred in the current formula year (and potentially future formula years) are recoverable alongside any CET_t costs incurred. Given the remaining uncertainty regarding Brexit and when it will take effect, to remove the ability to account for $EUETS_t$ costs in OSC_t may remove NGG's ability to legitimately recover costs incurred in the management of Shrinkage. If there are no $EUETS_t$ costs in a formula year, then the $EUETS_t$ value would be zero and would therefore have no effect on the aggregate OSC_t value

Currently, $EUETS_t$ costs are one of the Other Shrinkage Costs taken into account when assessing NGG's Shrinkage incentive performance. In terms of practical application, in its regulatory reporting NGG will clarify from which scheme (i.e. $EUETS_t$ and CET_t) such costs originate within the relevant period.

NGG recognises that the proposed changes to the Licence will potentially take effect after Exit Day thereby creating a period of *interregnum* (the period between Exit Day and the licence changes taking effect). NGG would welcome any clarity or assurances from Ofgem regarding treatment of Licencees during this period.

We would welcome the opportunity to further discuss the points raised within this response. Should you require any further information or would like clarity on any of the points outlined then please contact John Twomey in the first instance at john.twomey@nationalgrid.com.

Yours sincerely

Sent by email

John Twomey

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