

Ofgem written responses to Action 0403 and Eni presentation

In advance of tomorrow's NTS CMF, please see our responses to Ofgem's outstanding action (0403), in addition to responses to the questions posed at Ofgem in Eni and Waters Wye's 'National Grid Incentives Presentation' below.

Action 0403

On 18 June 2021 we launched a statutory consultation to amend the calculation of NGG's capacity constraint mechanism incentive revenue for the final year of RIIO-GT1. The consultation will end on 19 July 2021.

The consultation documents are accessible here:

<https://www.ofgem.gov.uk/publications/statutory-consultation-proposed-changes-part-special-condition-714-national-grid-gas-plc-ngg-gas-transporter-licence>

Response to questions in Eni's National Grid Incentives Presentation'

We published a letter on implementation of the CCM incentive in February 2021 (not on 3 January 2021, as stated in the ENI slide pack). Since then we have concluded our work on the RIIO-1 CCM impact and published our decision on this on 18 June 2021. Alongside this we also published a statutory licence change consultation to implement this decision.

The consultation documents are accessible here:

<https://www.ofgem.gov.uk/publications/statutory-consultation-proposed-changes-part-special-condition-714-national-grid-gas-plc-ngg-gas-transporter-licence>

Q1. Provide the industry with a simplified demonstration of how the incentives currently work by using the capacity revenues collected in Gas Year 2019/2020 and how this will impact incentives for Gas Year 2021/22.

There is no carry over from the incentive performance calculated in one year to the next; so, the incentive performance in 2019/20 has no impact on the incentive performance in 2021/22. However, the incentive performance in any year is used to calculate the allowed revenue, and this works in the same way for all incentives. Because of the way the price control works there is a two year lag and the calculation of allowed revenue in future years includes the contribution from any incentives (whether positive or negative) adjusted for inflation via indexation. This is explained in our RIIO2 Licence, the AR and SOAR tabs of the PCFM, and Chapter 2 of the PCFM handbook:

<https://www.ofgem.gov.uk/publications/decision-proposed-modifications-riio-2-transmission-gas-distribution-and-electricity-system-operator-licence-conditions>

https://www.ofgem.gov.uk/sites/default/files/docs/2021/05/zip_file_price_control_financial_instruments.zip

Q2. Provide a simplified demonstration of how the incentive will work by using the example of the revenue currently collected in Gas Year 2020/21 and how that will impact the incentives for Gas Year 2022/23.

See answer to Q1. We are now in the final stages of our work on the RIIO-2 review and hope to conclude that soon. In terms of how the incentive works and interacts with the calculation of allowed revenues for any given year the underlying principles of the price control are essentially the same.

Q3. Provide the industry with an update on how the incentives may change in the future, when the changes are likely.

We published our decision to implement incentives for RIIO-2 and announced that we were undertaking a review. We have already concluded our work to look at the effects of changes to the charging regime on CCM in the final year of RIIO-1 and have published our decision and the statutory licence consultation to implement it. We are now in the final stages of our work on the RIIO-2 review and hope to conclude that soon.