

To: Ian Radley
Head of Gas System Operations
National Grid Gas Transmission

Email:

Gas.TransmissionResponse@ofgem.gov.uk

Date: 23 December 2020

Dear Ian,

On 30 November 2020, National Grid Gas Transmission ("**NGGT**") published a notice of Transmission Services Entry and Exit Revenue Recovery Charges ("**TSRRCs**") applicable at Entry Points and Exit Points respectively that will be effective from 1st February 2021.¹

We are concerned about the impact that the notified TSRRCs have had, and may continue to have, on market participants and consumers. The value of the notified TSRRCs is significant, effectively doubling the price of entry capacity. Furthermore, NGGT's proposed duration of 5 months for the entry TSRRC and 2 months for the exit TSRRC has led to very high charges for some users and has created uncertainty about the applicable charges for the remainder of the gas year.

Today we approved Uniform Code Modification ("**UNC**") proposal 748 '*Prospective Removal of Entry Capacity Revenue from Capacity Neutrality Arrangements*'. This modification addresses one key cause contributing to the TSRRC. It also provides NGGT a one-off opportunity to revise with short-notice the TSRRCs that otherwise would have become effective on 1st February 2021. Some industry parties have expressed concerns about the possibility of short-notice price changes.

As we set out in our decision letter on UNC748, we encourage NGGT to carefully consider the trade-off between the risks of disruption created by very short notice period charge changes and the increased accuracy of prices that might arise from a longer period of consideration feeding the price determination. However, we expect NGGT to provide as much notice to industry participants as possible before any changes are applied, and aim to provide a minimum of 30 days' notice.

¹ <https://www.nationalgrid.com/uk/gas-transmission/document/133866/download>

We understand that NGGT plans to update the TSRRCs, taking into account our decision to approve UNC748. We encourage NGGT to use this one-off opportunity to reset the TSRRCs, and factor in more than just our decision on UNC748. When updating the TSRRC, we encourage you to consider:

- i) that the proposed application of TSRRCs for a period of 5 months (entry TSRRC) and 2 months (exit TSRRC) could exacerbate the negative impacts of the TSRRCs. NGGT should consider applying the TSRRC over a longer period of time, and should be conscious of the applicable UNC requirements and licence obligations when doing so.
- ii) a flexible approach in respect of addressing the observed under-recovery in this and in future Gas Years. This should include having due regard to the impact of RIIO-T2 allowances and licence flexibilities in respect of the timing of allowed revenue recovery.
- iii) the impact that changes in the TSRRCs will have on all users of the gas transmission system, the implications for potential windfall gains and losses and ultimately the impact on consumers.

We note the importance to the market of price stability and predictability. When revising the TSRRCs, NGGT should consider the impact on prices both for this and future gas years and should aim as far as possible to avoid any other interventions (including further charges to TSRRCs) that could further undermine market confidence.

Tariff setting depends upon allowed revenues and anticipated capacity bookings and throughputs. We encourage NGGT to ensure that the lessons learnt are acted on to achieve robust forecasting and limit unnecessary volatility in pricing arrangements in future Gas Years. NGGT should also ensure that adequate information is made available to the market to enable it to make reasonable forecasts about future prices and understand the uncertainties contained therein.

Ofgem will continue to closely monitor the situation. In the interests of transparency, we will publish this letter on our website.

Kind regards,

Andrew Self

Deputy Director, Energy System Management & Security