

Updates to Actions TR1201 and TR1202 - provided by Ofgem

Action TR1201: *With regard to Directions issued to NGGT under the Special Conditions of the gas transporter licence in respect to the Annual Iteration Process for the GT1 price control financial model - Ofgem (JT) to investigate and seek to provide an update on the financial detail behind the direction notice in time for consideration at the next meeting.*

Update: The RIIO-GT1 price control introduced more dynamic management of NGGT's base revenue allowances. This process implements comprehensive adjustments to base revenue each year in respect of NGGT's Transportation Owner (TO) role and System Operator (SO) role. This more sophisticated approach involves an annual iteration of the GT1 Price Control Financial Model (PCFM) using updated variable values. Each year a table of variable values within the PCFM is revised as part of the Annual Iteration Process in accordance with applicable methodologies contained in the Special Conditions of the Gas Transporter Licence and the GT1 Price Control Financial Handbook.

The table below shows the changes made at the last annual iteration.

Special Condition	Licence term	Net change (minus in red)
Parts A and B of Special Condition 5A	LAR – This relates to legacy price control adjustments to allowed revenue	£17.3M
Parts A and B of Special Condition 5A	LRAV - This relates to legacy price control adjustments to RAV	£87.3M
Parts A and B of Special Condition 5A	SOLAR - This relates to legacy price control adjustments to allowed revenue	-£0.1M
Parts A and B of Special Condition 5A	SOLRAV - This relates to legacy price control adjustments to RAV	-£3.0M
Part C of Special Condition 5C	CDE - This relates to allowed percentage cost of debt	2.72%
Part C of Special Condition 5C	SOCDE - This relates to allowed percentage cost of debt	2.72%

Action TR1202: *With regard to RIIO-GT1 PCFM - Ofgem (JT) to provide clarification on the terms and process for notifying stakeholders when such licence changes are being taken forward.*

The RIIO-GT1 Price Control Financial Model is used to calculate base revenue values that appear in the formula for NGGT's base NTS System Operation Revenue or Base NTS Transportation Owner Revenue. The calculations are carried out as part of the Annual Iteration Process for the PCFM.

Special Condition 4A – 'Governance of GT1 Price Control Financial Instruments' establishes the framework for the GT1 Price Control Financial Handbook (which contains the Price Control Financial Methodologies) and the GT1 Price Control Financial Model. The process for modifying these Financial Instruments (including notifying stakeholders) are set out in parts A and B of this licence condition.

In summary, Ofgem consults on changes to the licence conditions and Financial Handbook in the usual way, ie through statutory consultations and publishing licence modification notices. Resulting changes are summarised in the RIIO T1 Financial Model pages on the Ofgem website. The Ofgem website also contains the latest version of the Price Control Financial Model and archived versions so stakeholders can assess the impact of the changes.

A 'GT1 Price Control Financial Model Working Group' considers changes and makes recommendations to the Authority, ahead of any consultation process to modify the financial instruments. The purposes of the working group are:

- (i) To review the ongoing effectiveness of the PCFM in producing a value for the term MOD in each Formula Year;
- (ii) To provide, when requested by the Authority, its views on the impact of any proposed modifications to the PCFM in accordance with Part A of Special Condition 5A;
- (iii) To provide such views or recommendations to the Authority with regard to the PCFM as it sees fit.

The composition of the group is:

- Ofgem (chair)
- Ofgem (secretary)
- One representative per licensee and
- ENA representative (optional).