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COMMENTARY

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Financial Model (BPFM) Commentary_RIIO-GT3

National Gas Transmission Response

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1. Introduction

Purpose

This document is National Gas Transmission's (NGT) Business Plan Financial Model (BPFM) commentary accompanying the BPFM submission. NGT has opted to provide this optional commentary as per section 1.5 of the BPFM Guidance. This submission supports the data from the RIIO-T3 Business Plan Data Tables (BPDT) submitted in December 2024. In line with the request from Ofgem, NGT has used v7b of the BPFM template issued on the 1 October 2024, which reflects the Sector Specific Methodology Decision (SSMD) update released on the 18 July 2024.

NGT has populated the BPFM in accordance with the BPFM Guidance document released by Ofgem on the 26 September 2024. NGT has put in place a process aligned to the Regulatory Reporting Data Assurance Guidance.

All values included in this document are quoted in 2023/24 £m prices and of the notional company unless otherwise stated.

Scope

The data submitted within the BPFM covers both the Transmission Owner (TO) and System Operator (SO). As per the request from Ofgem to licensees, NGT has submitted a Totex plan which totals £5.3bn, which includes Baseline and Uncertainty Mechanisms (UMs) – also referred to as 'best view'. Of the £5.3bn plan, £4.4bn is treated as baseline (including £0.3bn of UMs from T2) where capitalisation rate 1 is applied. The remaining £0.9bn is categorised as UMs to which capitalisation rate 2 is applied.

NGT have followed the guidance of submitting two BPFMs;

- 1) Ofgem guidance aligned to SSMD with a 2050 termination of the RAV
- 2) NGT alternative model with updated financial parameters and retaining the RIIO-2 depreciation approach of a 45-year Sum of Digits.

Please refer to chapter 3 of this document for further information.

Ofgem have provided 15 pre-defined sensitivities within the BPFM, and NGT has included an additional 4 sensitivities as part of our stress testing which are below.

➤ **Sensitivity 16 - Convergence of CPIH/RPI by 2030 (RPI 3% match)**

CPIH and RPI will converge in 2030 and for the purpose of this submission we have tested the outputs based on this assumption that RPI & CPI are 3% from 2030.

➤ **Sensitivity 17 - Convergence of CPIH/RPI by 2030 (CPIH 2% match)**

CPIH and RPI will converge in 2030 and for the purpose of this submission we have tested the outputs based on this assumption that RPI & CPI are 2% from 2030.

➤ **Sensitivity 18 – 64% / 74% Capitalisation Rate**

The 64% represents the capitalisation rate of our baseline spend; we have then assumed a 10% uplift to the UMs for capitalisation rate 2. This is in line with the RIIO-2 price control where there is a 10% difference between the two capitalisation rates.

➤ **Sensitivity 19 – 50% increase of UMs**

This sensitivity is to test NGT's headroom for completing more Totex spend.

NGT has included the Ofgem scenario (notional company) financeability outputs from all 19 sensitivities in chapter 5 of this document.

2. Assumptions

BPFM Model Version

NGT has used the v7b BPFM template and populated it with data matching to the BPDT submitted on the 11 December 2024 in accordance with the BPFM Guidance.

NGT have updated the v7b BPFM template with the amendments requested by Ofgem through the GitLab portal and via email communications to licensees. Please refer to chapter 4 for further information. In addition, NGT has also made further manual changes to ensure the BPFM reflects accurate outputs, further details can be seen in chapter 6 of this document.

BPFM RIIO-2 Data

Ofgem indicated to licensees that the RIIO-2 data within the v7b BPFM should reflect the most accurate information ahead of the 11 December 2024 submission. NGT have reviewed the NGGT TO and NGGT SO input tabs and reflected the latest information using the GT2_PCFM_AIP2024_DR2 as the basis for this. This was submitted to Ofgem on the 31 October 2024. NGT can confirm the change has been subject to level 1 and 2 sign-off under the data assurance guidance to ensure that no errors have been made. NGT has flagged any changes within the BPFM using 'light blue' highlighting.

BPFM RIIO-2 & 3 Customer Bills

To calculate the 'Gas domestic demand', NGT have used the Future Energy Scenarios (FES) 24 as the principal source for the forecast. For the RIIO-2 and RIIO-3 price control periods NGT has adopted the Holistic Transition pathway and selected the following Sector/Aggregation levels:

- Total GB Gas Demand (Excluding exports and shrinkage)
- Total (NTS+LDZ) gas shrinkage
- Gas exported from GB

NGT has taken 100% of the Total GB Gas demand, Gas exported from GB, and 50% of the Total (NTS+LDZ) gas shrinkage for our calculations. NGT has calculated the forecasted average demand by matching to our financial year (April to March). To reflect this NGT has therefore taken 9 months of the in-year total demand and 3 months from the prior year total demand. For the final submission NGT has used the T2 and T3 average demand including in the NGT alternative scenario.

BPFM RIIO-3 Cost of Debt

The Cost of Debt assumption within the v7b BPFM no longer reflects the rate provided in the SSMD value of 3.02%. Ofgem have communicated to licensees on the 4 October 2024 that it has updated the CoD using the latest underlying rates, so it is now 2.90% within the v7b BPFM.

BPFM RIIO-3 Totex and UMs

The BPFM has been populated with the Baseline and UM spend, also referred to as the 'best view' per the communication from Ofgem on the 6 November 2024.

BPFM NGT Sensitivities

Due to the limitations of the BPFM, NGT created 4 iterations of the BPFM to run the additional sensitivities. If Ofgem require a copy of these BPFMs they can submit a request and NGT will provide them, however the outcome of these scenarios can be seen alongside the other 15 scenarios in this document. NGT has flagged these changes within the BPFM using 'light orange' highlighting.

BPFM 'Checks' Tab

Ofgem have embedded a 'Checks' tab in the BPFM informing users of any errors within the workbook. NGT have reviewed this tab following the entry of all the required data and can confirm all checks have been met.

BPFM 'Best-view' Plan

Ofgem clarified to NGT on the 6 November 2024 that the 'best-view' should contain both baseline and uncertainty mechanism expenditure. NGT can confirm they have also adhered to this approach in their alternative scenario submission.

BPFM FBPOutputs

NGT has provided within the NGT_A09_Finance Annex_RIIO_GT3 output from the 'FBPOutputs' tab for the base case sensitivity only in line with the communication to licensees on the 30 October 2024.

3. NGT alternative scenario

Ofgem has allowed Licensees to submit an alternative version of the BPFM, NGT therefore has submitted two versions of the BPFMs.

- 1) Ofgem guidance aligned to SSMD with a 2050 termination of the RAV
- 2) NGT alternative model with updated financial parameters and retaining the RIIO-2 depreciation approach of a 45-year Sum of Digits.

NGT has ensured for the alternative scenario that the inputs to debt and statutory depreciation align to the underlying assumptions (i.e. different debt tables compared to the Ofgem scenario) for our alternative scenario. The debt tables for the NGT alternative scenario do not form part of the final submission and Ofgem will not receive them.

For the NGT alternative we have used different base input figures for Cost of Equity and Cost of Debt. NGT can confirm within the 'Scenarios' tab in the BPFM under the cost of capital section the 'High' and 'Low' outputs follow the same delta movements across T3 as prescribed in the original BPFM.

NGT have flagged the changes made to the alternative BPFM in relation to the above using 'light green' highlighting.

Ofgem can refer to the NGT_A09_Finance Annex_RIIO_GT3, in particular 'Chapter 4: Our alternative financial package' for further detail on our alternative package.

Please refer to appendix 1 of this document for the notional and actual company outputs from the NGT alternative model.

4. BPFM GitLab updates

Ofgem requested that all licensees raise questions and notify them of any errors in their respective BPFMs using GitLab. Ofgem has then provided feedback in the form of change instructions to licensees where they have agreed an error is present, which then requires rectification through GitLab. Table 4.1 summarises the changes NGT have made to the v7b BPFM in line with Ofgem’s instructions.

NGT can confirm all changes in Table 4.1 have been subject to level 1 and 2 sign-off under the data assurance guidance. NGT has flagged these changes within the BPFM using ‘light purple’ highlighting.

Table 4.1 – GitLab issues summary

GIT#	Network	Issue Title	Status
157	All sectors	Totex out/underperformance stress tests	Actioned in BPFM
160	All sectors	High and low inflation stress tests	Actioned in BPFM
165	All sectors	Financial year phasing of inflation sensitivities	Actioned in BPFM
169	All sectors	<i>Bills</i> tab labelling	Actioned in BPFM
170	All sectors	Financeability changes	Actioned in BPFM
177	All sectors	<i>Scenarios</i> RPI divergence scenarios	Actioned in BPFM
186	All sectors	Revisions to tax pools	Actioned in BPDT

NGT has actioned all the GitLab issues which Ofgem has requested and provided the necessary change instructions for.

Table 4.2 below summarises the GitLab issues NGT has actioned in the BPFM which Ofgem has communicated to licensees but has informed are optional to implement or are for information only. All other GitLab issues not listed have not been actioned.

Table 4.2 – Optional GitLab issues summary

GIT#	Network	Issue Title	Status
162	All sectors	Allowing licensees to use either natural cap rate or licensee input	Actioned in BPFM
180	All sectors	Actual company debt derivative accretion	Actioned in BPFM
188	All sectors	Inability to Select Additional Scenarios from Drop Down List	Actioned in BPFM

Ofgem communicated in relation to GitLab issue #180, that licensees could make the decision if they wanted to implement the change instruction and correct both the BPDT and BPFM, or if they wanted to adopt the workaround solution to fix the BPFM only. NGT has made the decision to adopt the former and update both the BPDT and BPFM. For this reason, GitLab issue #168 has not been actioned for our submission.

5. Scenario outputs

In Table 5.1 and 5.2, NGT has provided a high-level overview of average outputs from the RIIO-3 period using the 15 pre-defined sensitivities, plus the additional 4 included by NGT for the notional and actual company. The results are derived from the inputs from the submitted BPFM.

Ofgem has advised licensees that any metric can be used for this output, NGT is using the Moody's credit rating and AICR and S&Ps FFO/Net Debt as financeability measures within Table 5.1 and 5.2. For further detail on the base case outcomes please refer to Appendix A1: Revenue and scenario outcomes.

Table 5.1 – Ofgem Base Case Model, Notional Company Outputs

	Sensitivities	Moody's Credit Rating	Moody's Adjusted Interest Cover Ratio	(S&P) FFO/ Net Debt
1	Base Case	■ ■	■	■
2	High interest rate (Base plus 2%)	■ ■	■	■
3	Low interest rate (Base minus 2%)	■ ■	■	■
4	High inflation (Base plus 2%)	■ ■	■	■
5	Low inflation (Base minus 2%)	■ ■	■	■
6	High CPIH inflation divergence (Base plus 0.5%)	■ ■	■	■
7	Low CPIH inflation divergence (Base minus 2%)	■ ■	■	■
8	High RPI inflation divergence (Base plus 0.5%)	■ ■	■	■
9	Low RPI inflation divergence (Base minus 0.5%)	■ ■	■	■
10	Totex outperformance (Base plus 10%)	■ ■	■	■
11	Totex underperformance (Base minus 10%)	■ ■	■	■
12	High RoRE (Base plus 2%)	■ ■	■	■
13	Low RoRE (Base minus 2%)	■ ■	■	■
14	High index-linked debt (Base plus 10%)	■ ■	■	■
15	Low index-linked debt (Base minus 10%)	■ ■	■	■
16	NGT – Convergence of CPIH/RPI by 2030 (RPI 3% match)	■ ■	■	■
17	NGT – Convergence of CPIH/RPI by 2030 (CPIH 2% match)	■ ■	■	■
18	NGT – 64% / 74% Capitalisation Rate	■ ■	■	■
19	NGT – 50% increase of UMs	■ ■	■	■

Table 5.2 – Ofgem Base Case Model, Actual Company Outputs

	Sensitivities	Moody's Credit Rating	Moody's Adjusted Interest Cover Ratio	(S&P) FFO/ Net Debt
1	Base Case	■ ■	■	■
2	High interest rate (Base plus 2%)	■ ■	■	■
3	Low interest rate (Base minus 2%)	■ ■	■	■
4	High inflation (Base plus 2%)	■ ■	■	■
5	Low inflation (Base minus 2%)	■ ■	■	■
6	High CPIH inflation divergence (Base plus 0.5%)	■ ■	■	■
7	Low CPIH inflation divergence (Base minus 2%)	■ ■	■	■
8	High RPI inflation divergence (Base plus 0.5%)	■ ■	■	■
9	Low RPI inflation divergence (Base minus 0.5%)	■ ■	■	■
10	Totex outperformance (Base plus 10%)	■ ■	■	■
11	Totex underperformance (Base minus 10%)	■ ■	■	■
12	High RoRE (Base plus 2%)	■ ■	■	■
13	Low RoRE (Base minus 2%)	■ ■	■	■
14	High index-linked debt (Base plus 10%)	■ ■	■	■
15	Low index-linked debt (Base minus 10%)	■ ■	■	■
16	NGT – Convergence of CPIH/RPI by 2030 (RPI 3% match)	■ ■	■	■
17	NGT – Convergence of CPIH/RPI by 2030 (CPIH 2% match)	■ ■	■	■
18	NGT – 64% / 74% Capitalisation Rate	■ ■	■	■
19	NGT – 50% increase of UMs	■ ■	■	■

6. BPFM issues identified

BPFM - SystemOperator Depreciation

Following a review of the BPFM, an error was identified within the 'SystemOperator' tab for cells ranging from AU791 to AY791. The total was not capturing all the necessary rows above and per the instruction from Ofgem (Tomo Sandeman) dated the 1 November 2024, the issue was resolved by correcting the formula.

BPDT Mirror Tables

On review of the mirror table 4.1 from the BPDT, it was noted that data was missing in relation to 'Other Revenue Allowances' which is needed to be input into the BPFM. These encompass rows 841 – 846 of the BPFM, NGT have therefore manually entered this data, taking it directly from the BPDT (not the mirror table) to provide an accurate reflection of our forecast.

NGT also noted that directly remunerated services revenue line (row213 'NGGT TO' tab) in the BPDT mirror table was incorrect for FY 2028 – 2031 as it was represented as negative figures. This did result in a double count within the BPFM in the 'MainInputs' tab in the BPFM row 308 as both the DRS revenue and costs were negative.

BPFM RIIO-3 Totex plan

NGT has submitted a plan to Ofgem of £5.3bn, of this £4.4bn has been treated as baseline in the BPFM. The mirror table feeding the BPFM has baseline at £4.1bn as the mirror tables has assumed T2 UMs are variant and therefore excluded from baseline.

BPFM Debt Tables (F2a and F2b)

Following a review when comparing the equivalent debt tables in the BPFM (F2a and F2b) to the BPDT, several variances were noticed. The change instructions from the Gitlab #180 had been followed in both models, however within the BPFM it was identified that cell ranges were not locked correctly because of the missing '\$' signs within the formula string. Also, it was identified that on rows 57-59 there was a '(-1)' within the formula string which needed to be removed to align the outputs to the BPDT.

Additionally, when reviewing the 'F2a – Financial Summary (TWA)' tab within the BPFM it included the 'Additional Borrowing Cost Assumption' rows 29-34, which in the BPDT table equivalent tab was missing. This resulted in a mismatch due to the 'Nominal (including additional borrowing cost)' line in the BPDT being lower, which then is used in further calculations and yield inaccurate outputs.

Furthermore, NGT on review of the 'F2a – Financial Summary (TWA)' tab on rows 85, 132, 180 and 'F2b – Financial Summary (YE)' tab on rows 131 and 146 'Error' in the data check. NGT have referenced the above issues within the BPDT commentary.

Nominal RAV Actual company no opening balance

Following a review of the 'FinancialStatements' tab, NGT have noted that within the Actual Regulatory Financial Position section that the Nominal RAV and Equity statements do not have the opening balances and inflation uplift figures pulling through. For the final submission NGT have provided the financial statements within Appendix A1: Revenue and scenario outcomes of the Finance Annex and have manually updated the blank cells for completeness purposes.

BPFM 'Align Actual Debt' Macro Output

Once all the inputs had been entered and all assurance checks complete, NGT followed the BPFM guidance instructions and ran the 'Align Actual Debt' using the embedded macro. NGT, on review of the 'Finance&Tax (actual)' tab, noted when the BPFM was running any of the sensitivities that an equity issuance cost was present in FY2026 on row 101. NGT do not agree with this output, the issue arises from the pre-defined settings Ofgem have prescribed within the BPFM guidance where the actual company settings for equity issuance are set as the 'model calculation' instead of 'BPDT actual'. This also leads to an inconsistency between the base case and sensitivities.

7. Appendices

Appendix 1

Appendix 1 consists of an Excel document titled 'NGT Alternative Model Financial Outputs' submitted alongside the BPFM and narrative.

Appendix Table 1 - NGT Alternative Model, Notional Company Outputs

	Sensitivities	Moody's Credit Rating	Moody's Adjusted Interest Cover Ratio	(S&P) FFO/ Net Debt
1	Base Case	■ ■	■	■
2	High interest rate (Base plus 2%)	■ ■	■	■
3	Low interest rate (Base minus 2%)	■ ■	■	■
4	High inflation (Base plus 2%)	■ ■	■	■
5	Low inflation (Base minus 2%)	■ ■	■	■
6	High CPIH inflation divergence (Base plus 0.5%)	■ ■	■	■
7	Low CPIH inflation divergence (Base minus 2%)	■ ■	■	■
8	High RPI inflation divergence (Base plus 0.5%)	■ ■	■	■
9	Low RPI inflation divergence (Base minus 0.5%)	■ ■	■	■
10	Totex outperformance (Base plus 10%)	■ ■	■	■
11	Totex underperformance (Base minus 10%)	■ ■	■	■
12	High RoRE (Base plus 2%)	■ ■	■	■
13	Low RoRE (Base minus 2%)	■ ■	■	■
14	High index-linked debt (Base plus 10%)	■ ■	■	■
15	Low index-linked debt (Base minus 10%)	■ ■	■	■
16	NGT – Convergence of CPIH/RPI by 2030 (RPI 3% match)	■ ■	■	■
17	NGT – Convergence of CPIH/RPI by 2030 (CPIH 2% match)	■ ■	■	■
18	NGT – 64% / 74% Capitalisation Rate	■ ■	■	■
19	NGT – 50% increase of UMs	■ ■	■	■

Appendix Table 2 - NGT Alternative Model, Actual Company Outputs

	Sensitivities	Moody's Credit Rating	Moody's Adjusted Interest Cover Ratio	(S&P) FFO/ Net Debt
1	Base Case	■ ■	■	■
2	High interest rate (Base plus 2%)	■ ■	■	■
3	Low interest rate (Base minus 2%)	■ ■	■	■
4	High inflation (Base plus 2%)	■ ■	■	■
5	Low inflation (Base minus 2%)	■ ■	■	■
6	High CPIH inflation divergence (Base plus 0.5%)	■ ■	■	■
7	Low CPIH inflation divergence (Base minus 2%)	■ ■	■	■
8	High RPI inflation divergence (Base plus 0.5%)	■ ■	■	■
9	Low RPI inflation divergence (Base minus 0.5%)	■ ■	■	■
10	Totex outperformance (Base plus 10%)	■ ■	■	■
11	Totex underperformance (Base minus 10%)	■ ■	■	■
12	High RoRE (Base plus 2%)	■ ■	■	■
13	Low RoRE (Base minus 2%)	■ ■	■	■
14	High index-linked debt (Base plus 10%)	■ ■	■	■
15	Low index-linked debt (Base minus 10%)	■ ■	■	■
16	NGT – Convergence of CPIH/RPI by 2030 (RPI 3% match)	■ ■	■	■
17	NGT – Convergence of CPIH/RPI by 2030 (CPIH 2% match)	■ ■	■	■
18	NGT – 64% / 74% Capitalisation Rate	■ ■	■	■
19	NGT – 50% increase of UMs	■ ■	■	■

The following appendices are included as separate documents, they were unable to be inserted into the narrative document due to the size of the files.

Appendix 2

NGT_Business_Plan_Financial_Model_(BPFM)_Appendix_2_NGGT_TO_Mirror_Table_RIIO-GT3

Appendix 3

NGT_Business_Plan_Financial_Model_(BPFM)_Appendix_3_NGGT_SO_Mirror_Table_RIIO-GT3

Appendix 4

NGT_Business_Plan_Financial_Model_(BPFM)_Appendix_4_NGGT_BPFM_Scenario_Outputs_(Macro)_RIIO-GT3