

To:
National Grid Gas Plc
Cadent Gas Limited
Northern Gas Networks Limited
Scotland Gas Networks plc
Southern Gas Networks plc
Wales & West Utilities Limited

Gas Act 1986
Section 23(1)(a)

Modification of the Special Conditions of the Gas Transporter licence held by the licensees listed above

1. Each of the licensees to whom this document is addressed ('the licensees') is the holder of a Gas Transporter licence ('the Licence') granted or treated as granted under section 7 of the Gas Act 1986 ('the Act').
2. Under section 23(2) of the Act the Gas and Electricity Markets Authority ('the Authority')¹ gave notice on 20 May 2021 ('the Notice') that we proposed to modify the Licence by:
 - a. amending an existing Special Condition;
 - b. adding new Special Conditions; and
 - c. adding new definitions to Special Condition 1.1.

We stated that any representations to the modification proposal must be made on or before 17 June 2021.

3. A copy of the Notice was sent to the Secretary of State in accordance with section 23(4)(b) of the Act, and we have not received a direction that the change should not be made.
4. We received 6 responses to the Notice, which we carefully considered. We have placed all non-confidential responses on our website. Our response to these comments is set out in the issues log at <https://www.ofgem.gov.uk/publications/decision-proposed-licence-condition-modifications-riio-2-strategic-innovation-fund>.
5. It is necessary to make a number of minor alterations to the modifications set out in the Notice. These alterations are shown in track change and yellow highlight for the Special Conditions in the modification text that can be found at <https://www.ofgem.gov.uk/publications/decision-proposed-licence-condition-modifications-riio-2-strategic-innovation-fund> and changes from other modifications that are still in their 56 standstill period before coming into force are shown in cyan highlight. The reasons for the differences between the modifications set out in the Notice and the modifications being made are to correct typographical errors and to address minor issues and corrections raised since the issuing of the Notice. We have also made additional changes to align with the changes we made when resolving

¹ The terms "the Authority", "we" and "us" are used interchangeably in this document.

RIO-2 licence snagging issues – notably we moved the placeholder for the SIF for gas distribution licensees from Chapter 5 to Chapter 9 as it does not contribute to the other revenue allowance term provided for by Chapter 5. This has necessitated renumbering of references in the definitions and the licence text.²

6. The reason for these modifications is to establish the Strategic Innovation Fund ("SIF") in accordance with the decision set out in Ofgem's RIO-2 Final Determinations. The effect of these licence conditions is to allow for Ofgem to direct National Grid Gas plc ("NGGT") to recover funds via use of system charges, which will subsequently be distributed by NGGT to the licensees in order to fund eligible SIF projects. The modifications also establish a mechanism through which funds can be returned by licensees to NGGT under certain conditions (where directed by Ofgem) and then to customers. In addition, these new licence conditions will provide for the introduction of the SIF Governance Document. This document will set out in detail (among other matters) how the SIF will be governed, the eligibility criteria for and the process through which proposed projects will be assessed and approved.
7. The full text of the proposed modifications can be found at <https://www.ofgem.gov.uk/publications/decision-proposed-licence-condition-modifications-rrio-2-strategic-innovation-fund>, alternatively they are available from foi@ofgem.gov.uk.
8. In addition, further details and background on these licence changes are set out in the following documents:
 - a. Statutory consultation for RIO-2 Transmission, Gas Distribution and Electricity System Operator licences;³
 - b. RIO-2 informal licence drafting consultation for Transmission, Gas Distribution and Electricity System Operator licences;⁴
 - c. RIO-2 Draft determinations for Transmission and Gas Distribution companies and the Electricity System Operator;⁵ and
 - d. RIO-2 Final Determinations for Transmission and Gas Distribution companies and the Electricity System Operator.⁶
9. Where an application for permission to appeal our decision is made to the Competition and Markets Authority (CMA) under section 23B of the Act, Rule 5.7 of the Energy Licence Modification Appeals: Competition and Markets Authority Rules⁷ requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-sensitive notice setting out the matters required in Rule 5.2. Section 23(10) of the Act sets out the meaning of 'relevant licence holder'.

Under the powers set out in section 23(1)(a) of the Act, we hereby modify the Special Conditions of the Gas Transporter licence of the licensees in the manner specified at <https://www.ofgem.gov.uk/publications/decision-proposed-licence-condition-modifications-rrio-2-strategic-innovation-fund>. This decision will take effect from 3 September 2021.

This document is our notice of reasons for the purposes of section 49A(2) of the Act and can be found at <https://www.ofgem.gov.uk/publications/decision-proposed-licence-condition-modifications-rrio-2-strategic-innovation-fund>.

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

³ <https://www.ofgem.gov.uk/publications/statutory-consultation-licence-condition-changes-rrio-2-strategic-innovation-fund>

⁴ <https://www.ofgem.gov.uk/publications/rrio-2-strategic-innovation-fund-informal-consultation-licence-conditions>

⁵ <https://www.ofgem.gov.uk/publications-and-updates/rrio-2-draft-determinations-transmission-gas-distribution-and-electricity-system-operator>

⁶ <https://www.ofgem.gov.uk/publications-and-updates/rrio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator>

⁷ CMA70 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655601/energy-licence-modification-appeals-rules.pdf

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Steven McMahon
Deputy Director, Networks
Duly authorised on behalf of the
Gas and Electricity Markets Authority

8 July 2021