

## **NOTICE UNDER SECTION 23(3) OF THE GAS ACT 1986**

The Gas and Electricity Authority ("the Authority") hereby gives notice pursuant to section 23(3) of the Gas Act 1986 ("the Act") as follows:

- 1 The Authority proposes to modify the Gas Transporter licences held in respect of gas distribution network businesses ("the GDN Licences") by National Grid Gas plc in respect of its gas distribution business, Northern Gas Networks Limited, Scotland Gas Networks Limited, Southern Gas Networks plc and Wales and West Utilities Limited respectively, granted under section 7 of the Gas Act 1986.
- 2 The Authority proposes to modify paragraph 8(6)(a) of Part 1b of Special Condition E2B (Restriction of revenue in respect of the Distribution Network transportation activity) of each of the GDN Licences by amending the definition of "threshold amount" for the purposes of an income adjusting event. The proposed licence modification is set out in Appendix 1 of this Notice.
- 3 The Authority proposes to modify the GDN Licence held by National Grid Gas plc by making the proposed licence modification with respect to each of the four distribution networks within Part 1b this licence.
- 4 In summary, the effect of the proposed licence modification is to reduce the threshold amount for income adjusting events from £2,000,000 to £1,000,000 for a formula year during the transitional period (1 October 2008 to 30 September 2010). The transitional period includes only six months of formula year  $t=5$  and formula year  $t=7$ . As such, the revised threshold amounts for these formula years have been calculated so that the reduced threshold amount is assumed to apply proportionately to the formula year. This results in a revised threshold amount of £1,500,000 for formula year  $t=5$  and formula year  $t=7$ . The revised threshold amount for formula year  $t=6$  which falls entirely within the transitional period is £1,000,000.
- 5 The reasons why the Authority proposes to make the these modifications to the GDN Licences are set out in the following documents:

- (a) 266/05 - Open letter on Income Adjusting Events thresholds for gas distribution networks, Ofgem, December 2005, and
- (b) Open letter: Ofgem decision on Income Adjusting Event thresholds for gas distribution networks, Ofgem, February 2006.

6 Copies of the documents referred in this Notice are available on request from Ofgem or are on the Ofgem website at [www.ofgem.gov.uk](http://www.ofgem.gov.uk).

7 Any representations or objections with respect to the proposed modifications may be made on or before 5 April 2006 and should be addressed to Matteo Guarnerio, Ofgem, 9 Millbank, London SW1P 3GE or [matteo.guarnerio@ofgem.gov.uk](mailto:matteo.guarnerio@ofgem.gov.uk).



**Robert Hull**

**Director, Transmission**

**Duly authorised on behalf of the Authority**

**8 March 2006**

## APPENDIX 1

### PROPOSED LICENCE MODIFICATION

#### Special Condition E2B

##### Part 1b

##### 8.

#### (6) Determination of any adjustment factor to be applied to $DNMR_t$ ( $DNIAE_t$ )

- (a) An income adjusting event may arise from any of the following:
- (i) an event or circumstance constituting force majeure under the network code;
  - (ii) an event or circumstance resulting in the declaration of a network gas supply emergency (having the meaning given to such term in the network code); and
  - (iii) an event or circumstance other than listed above which is, in the opinion of the Authority, an income adjusting event and is approved by it as such in accordance with paragraph 8(6)(i) of this condition,

where the event has increased or decreased the value of  $DNExCP_t$  (having the meaning given to that term in paragraph 8(5)(c) of this condition) by more than:

(aa) £1,500,000 for formula year t=5;

(bb) £1,000,000 for formula year t=6;

(cc) £1,500,000 for formula year t=7; or

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(dd) £2,000,000 for any other formula year

(the “threshold amount”). This threshold amount does not apply in respect of sub-paragraph 8(6)(a)(ii) above.

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