

To: The Company Secretary
National Grid Gas plc (Company number: 02006000)
1-3 Strand
London
WC2N 5EH

MODIFICATION OF GAS TRANSPORTERS LICENCE PURSUANT TO SECTION 23 OF THE GAS ACT 1986

NOTICE OF REASONS FOR DECISION TO MODIFY GAS TRANSPORTERS LICENCE UNDER SECTION 38A OF THE GAS ACT 1986

Whereas:

1. National Grid Gas plc ('the Licensee') is the holder of a gas transporters licence in respect of its National Transmission System (NTS) ('the NTS Licence') treated as granted under section 7 of the Gas Act 1986 ('the Act').
2. Pursuant to section 23(3) of the Act, on 14 July 2006 the Gas and Electricity Markets Authority (the "Authority"):
 - (i) gave notice (the "Notice") that it proposed to modify the conditions of the NTS Licence by amending Special Condition C8B in accordance with the Schedule to the Notice; and
 - (ii) published the Notice in the manner it considered appropriate.
3. The Authority gave notice of its intention to make the proposed licence modifications to the Secretary of State. The Authority did not receive a direction from the Secretary of State not to make the proposed licence modifications before the relevant time specified in the Notice.
4. The Authority received four representations and no objections in relation to the proposed licence modifications before the relevant time specified in the Notice. No representations were withdrawn. The Authority has carefully considered all representations duly made in relation to the proposed licence modifications and not withdrawn. All non-confidential representations made in relation to the proposed licence modifications are available free of charge from the Ofgem Research and Information Centre, 9 Millbank, London SW1P 3GE (telephone 020 7901 1600) or from the Ofgem website at www.ofgem.gov.uk.
5. On 25 August 2006 the Licensee gave its written consent to the licence modifications proposed in the Schedule to the Notice.
6. The reasons for making the licence modifications are set out in the document *Potential new System Operator quality of information incentive schemes for National Grid Gas*, 14 July 2006, Ref 122/06. Copies of this document are available free of charge from the Ofgem Research and Information Centre, 9 Millbank, London SW1P 3GE (telephone 020 7901 1600) or from the Ofgem website at www.ofgem.gov.uk.

THEREFORE in accordance with the powers contained in section 23 of the Act and with the consent of the Licensee, the Authority hereby modifies the NTS Licence in accordance with the Schedule to the Notice and in the manner specified in the attached Schedule, with effect on and from 1 October 2006.

This document constitutes a notice of reasons for the decision to modify the conditions of the NTS Licence under section 38A of the Act.

Dated

1 September 2006

The Official Seal of the Authority affixed to this modification is authenticated by:

Brown .
.....

authorised in that behalf by the Authority

Schedule

Modification of the conditions of the NTS Licence under section 23 of the Act

1. Special Condition C8B of the NTS Licence is amended in accordance with paragraphs 2 and 3 below.

2. At the end of the paragraph 14(2) of Part 2, insert—

"However, for the purposes of paragraph 14(1) of Part 2 of this condition, the NTS system operator incentive revenue in respect of the last 6 months of formula year $t=5$ (i.e. 1 October 2006 to 1 April 2007) shall be derived from the following formula:

$$SOIR_t = ECIIR_t + ExCIIR_t + ExCBBIIR_t + BBIR_t + SBIR_t + RBIR_t + ICIR_t + QIIR_t$$

Where:

$QIIR_t$ means the quality of information incentive revenue in respect of formula year t , and shall be derived in accordance with paragraph 14(13)(a) of Part 2 of this condition; and

the expressions $ECIIR_t$, $ExCIIR_t$, $ExCBBIIR_t$, $BBIR_t$, $SBIR_t$, $RBIR_t$ and $ICIR_t$ have the same meaning as set out above in this paragraph 14(2)."

3. After paragraph 14(12) of Part 2, insert—

“(13) Quality of information incentive

(a) Principal formula

For the purposes of paragraph 14(2) of Part 2 of this condition, the quality of information incentive revenue allowed to the licensee in respect of formula year t ($QIIR_t$) shall be derived in the following manner:

$$QIIR_t = QDIIR_t + QWIIR_t$$

where:

$QDIIR_t$ means the quality of demand information incentive revenue, and shall be derived in accordance with Table (A) below.

$QWIIR_t$ means the quality of website information incentive revenue, and shall be derived in accordance with Table (B) below.

The value of $QDIIR_t$ is dependant upon the level of $QDIPI_t$, where $QDIPI_t$ means the quality of demand information performance measure as defined in paragraph 14(13)(b).

Table (A)

QDIPI _t	QDIIR _t
QDIPI _t ≤ -0.05	-£1.6m
-0.05 < QDIPI _t < 0	(QDIPI _t x 100) x £0.32m
QDIPI _t = 0	0
0 < QDIPI _t < 0.05	(QDIPI _t x 100) x £0.32m
QDIPI _t = 0.05	£1.6m
0.05 < QDIPI _t < 1	[((QDIPI _t - 0.05) x 100) x £0.08m] + £1.6m
QDIPI _t ≥ 1	£9.2m

The value of QWIIR_t is dependant upon the level of QWIPI_t, where QWIPI_t means the quality of website information performance measure as defined in paragraph 14(13)(c).

Table (B)

QWIPI _t	QWIIR _t
QWIPI _t ≤ 0	0
0 < QWIPI _t < 0.27	(QWIPI _t x 100) x £0.037m
QWIPI _t = 0.27	£1m
0.27 < QWIPI _t < 1	[((QWIPI _t - 0.27) x 100) x £0.00685m] + £1m
QWIPI _t ≥ 1	£1.5m

(b) Quality of demand information performance measure

For the purposes of paragraph 14(13)(a) of Part 2 of this condition the quality of demand information performance measure (QDIPI_t) shall be derived from the following formula:

$$QDIPI_t = \frac{\left(0.036 - \frac{\sum_d^D |DADF_d - AD_d|}{\sum_d^D AD_d} \right)}{0.036}$$

Where d is the first day of the scheme, commencing at 06:00 on the 1st October 2006, and D is the final day of the scheme, finishing at 06:00 on 1st April 2007 and where,

DADF_d means the day-ahead UNC 14:00 demand forecast for a given gas day (d), being the forecast NTS throughput value (in mcm) published by the licensee on its website before 14.00 hours at day ahead (d-1) in respect of each day of the last 6 months of formula year t=5 (i.e. day-ahead UNC 14:00 demand forecasts in respect of 1 October 2006 to 1 April 2007)

AD_d means Actual NTS Throughput (in mcm) on a given gas day (d), calculated five days following the gas day (d + 5) on each day of the last 6 months of formula year t=5 (i.e. 1 October 2006 to 1 April 2007)

where,

Actual NTS Throughput means the total offtake of gas from the NTS on a gas day, including gas offtakes by the DN Operators, storage facilities, interconnectors and Very Large Daily Metered Consumers (VLDMC) connected to the NTS (as defined in the Network Code), plus the physical elements of NTS shrinkage (measured in mcm).

(c) Quality of website information performance measure

For the purposes of paragraph 14(13)(a) of Part 2 of this condition the quality of website information performance measure (QWIPt) shall be derived from the following formula:

$$QWIP_t = \frac{\left\{ MAX \left[\left(\frac{362 - WPM_t}{362} \right), 0 \right] + MAX \left[\left(\frac{WTP_t - 0.515}{0.515} \right), 0 \right] \right\}}{2}$$

where,

WPMt means website availability performance measure, calculated as follows:

$$WPM_t = \frac{(WAPL_t + WAPNN_t + WAPNA_t + WAPDF_t)}{4}, \text{ and}$$

WTPt means website timeliness performance measure calculated as follows:

$$WTP_t = \frac{(WTPPL_t + WTPNN_t + WTPNA_t + WTPDF_t)}{4}$$

where,

WAPLt means website availability performance measure for the licensee’s website linepack data field (NB92) expressed as number of minutes of downtime of the NB92 report published on the licensee’s website over the last 6 months of formula year t = 5 (i.e. 1 October 2006 to 1 April 2007)

WAPNNt means website availability performance measure for the licensee’s website NTS nominated flows data field (NTSAFF) expressed as number of minutes of downtime of the NTSAFF report published on the licensee’s website over the last 6 months of formula year t = 5 (i.e. 1 October 2006 to 1 April 2007)

WAPNAt means website availability performance measure for the licensee’s website NTS actual flows data field (NTSAPF) expressed as number of minutes of downtime of the NTSAPF report published on the licensee’s website over the last 6 months of formula year t = 5 (i.e. 1 October 2006 to 1 April 2007)

WAPDFt means website availability performance measure for the licensee’s demand forecast data field (SISR03) expressed as number of minutes of downtime of the SISR03 report published on the licensee’s website over the last 6 months of formula year t = 5 (i.e. 1 October 2006 to 1 April 2007)

WTPLt means website timeliness performance measure for the licensee's website linepack data field (NB92), and has a value between 0 and 1, representing the proportion of occasions over the last 6 months of formula year $t = 5$ (i.e. 1 October 2006 to 1 April 2007) that hourly data updates were posted within 20 minutes of the start of the hour (i.e. the 12:00 update published by 12:20 at the latest), expressed as a proportion of all publication occasions

WTPNnt means website timeliness performance measure for the licensee's website NTS nominated flows data field (NTSAFF), and has a value between 0 and 1, representing the proportion of occasions over the last 6 months of formula year $t = 5$ (i.e. 1 October 2006 to 1 April 2007) that hourly data updates were posted within 20 minutes of the start of the hour (i.e. the 12:00 update published by 12:20 at the latest), expressed as a proportion of all publication occasions

WTPNat means website timeliness performance measure for the licensee's website NTS actual flows data field (NTSAPF), and has a value between 0 and 1, representing the proportion of occasions over the last 6 months of formula year $t = 5$ (i.e. 1 October 2006 to 1 April 2007) that hourly data updates were posted within 20 minutes of the start of the hour (i.e. the 12:00 update published by 12:20 at the latest), expressed as a proportion of all publication occasions

WTPDFt means website timeliness performance measure for the licensee's demand forecast data field (SISR03), and has a value between 0 and 1, representing the proportion of occasions over the last 6 months of formula year $t = 5$ (i.e. 1 October 2006 to 1 April 2007) that the 14:00 hours (day ahead), 02:00 hours (day ahead), 12:00 hours (within day), 15:00 hours (within day), 18:00 hours (within day) and 21:30 (within day) publication deadlines are met

SISR03 means a report published by the licensee showing, amongst other data, the forecast level of Actual NTS Throughput (measured in mcm)

NB92 means an hourly report published by the licensee showing, for a gas day, the opening linepack (as defined in the Network Code), two projected closing linepack figures, and forecast total NTS demand (measured in mcm)

NTSAFF means an hourly report published by the licensee showing, for each day, aggregate forecast flows of gas into the NTS based on delivery flow nominations (measured in mcm)

NTSAPF means an hourly report published by the licensee showing, for each day, aggregate forecast flows of gas into the NTS based on actual (aggregate) physical flows into the NTS (measured in mcm).

(d) Exceptional events

(i) Where:

- (aa) the licensee has notified the Authority of an event (the "notified event") which it considers to be an exceptional event within 14 days of its occurrence; and
- (bb) the Authority is satisfied that the notified event is an exceptional event,

the Authority may issue a direction excluding from the quality of demand information performance measure (QDIPT) and/or the quality of website information performance measure (QWIPT) a specified period within the last 6 months of formula year $t=5$ (i.e. 1 October 2006 to 1 April 2007) during which the exceptional event has occurred.

(ii) A notice provided to the Authority by the licensee under paragraph 14(13)(d)(i) of Part 2 of this condition must give particulars of the notified event and the reasons why the licensee considers it to be an exceptional event.

(iii) A direction made by the Authority under paragraph 14(13)(d)(i) of Part 2 of this condition may be made subject to such terms and conditions as may be specified in the direction.

(iv) A direction issued by the Authority under paragraph 14(13)(d)(i) of Part 2 of this condition shall not have effect unless, before it is made, the Authority has given notice to the licensee:

(aa) setting out the terms of the proposed direction;

(bb) stating the reasons why it proposes to make the direction; and

(cc) specifying the period (not being less than 14 days from the date of the notice) within which the licensee may make representations or objections,

and the Authority has considered such representations or objections and given reasons for its decision.

(v) For the purposes of this paragraph, an "exceptional event" means an event or circumstance that is beyond the reasonable control of the licensee and shall include, but not be limited to, catastrophic loss of power, sabotage, act of vandalism, flood, fire and any third party product or service failure having an industry wide impact."