

Transmission Price Control Review: Third consultation on draft licence modifications (Gas transmission)

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Target audience: National Grid Gas NTS, gas shippers, gas DNs and other

Overview:

In December 2006 we published our transmission price control review ("TPCR") final proposals ("TPCR Final Proposals") following our review of the price controls of the four transmission companies in electricity and gas. This document sets out further draft text for the licence amendments necessary to implement the proposals in respect of National Grid Gas in respect of the NTS ("NGG NTS").

Over the past few months we have engaged with NGG NTS to develop the licence drafting that accurately reflects TPCR Final Proposals and serves to enhance the clarity and robustness of the existing licence provisions. We expect to continue to utilise bilateral discussions with the licensee from now until the publication of our formal notice (anticipated at the beginning of June) to further develop the licence drafting. The drafting will be subject to further review following our bilateral meetings with the licensee, and is therefore subject to change.

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Context

We published TPCR Final Proposals in December 2006, which set out the revised obligations in respect of the electricity transmission and gas transportation activities.

The regulatory regime applying to the gas transportation business of NGG NTS is relatively complex and the licence changes required to implement TPCR Final Proposals are significant. In the light of this, we concluded that it would be desirable to implement the proposals in relation to NGG NTS in two stages. The first stage of licence amendments would be implemented to ensure that the existing commercial framework from 1 April 2007 is aligned with the new proposals and the second stage to introduce the additional new aspects of the regime that were proposed in December. The first stage was concluded in March 2007.

This document forms part of the second stage in the process and sets out further drafts of the legal text necessary to implement the remainder of the TPCR Final Proposals.

Associated Documents

- "Transmission Price Control Review - Initial Consultation", Ofgem, July 2005
- "Transmission Price Control Review - Second Consultation", Ofgem, December 2005
- "Transmission Price Control Review 2007-2012: Third Consultation", Ofgem, March 2006
- "Transmission Price Control Review - Initial Proposals", Ofgem, June 2006
- "Transmission Price Control Review - Updated Proposals", Ofgem, September 2006
- "Transmission Price Control Review - Draft licence modifications", Ofgem, November 2006
- "Transmission Price Control Review - Final Proposals", Ofgem, December 2006
- "Transmission Price Control Review: Draft licence conditions (gas) 2nd informal consultation", Ofgem, January 2007
- "Notice under section 23 (3) of the Gas Act 1986", Ofgem, February 2007
- "Modification of the Gas Transporter Licence Under Section 23 of the Gas Act 1986", Ofgem, March 2007
- "Section 38A notice in respect of reasons for the decision to modify the licence of National Grid Gas plc", Ofgem, March 2007
- "Transmission Price Control Review: Third consultation on draft licence modifications (Gas transmission) - appendices", Ofgem, April 2007

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Summary

This document sets out further drafting of the changes that we are proposing to the licence of NGG NTS to give effect to TPCR Final Proposals. It builds upon the text published in January 2007 and our discussions with NGG NTS.

The document identifies the main developments in the legal text since the publication of the January informal consultation and highlights those areas where further work will be undertaken. Nevertheless, it represents the first opportunity to publish a package of licence drafting that includes the legal text relating to the revised entry regime. We would welcome comments from interested parties in these areas.

There are a small number of conditions that require further work before they can be published, including:

- Special conditions C8F and C8G - setting out the other various incentives for the system operator activity; and
- Special conditions C11 and C24 - the network planning code and network model;

We expect to publish these conditions in the form of a supplementary open letter on 30 April 2007.

Responses to the draft legal text accompanying this document and the supplementary open letter are required by 24 May 2007, although it would be helpful if respondents could highlight issues of substance by 8 May 2007 (however detailed responses are not required on these until 24 May).

1. Developments in the licence drafting

Chapter Summary

This chapter identifies the key features of the changes that we are proposing to make to the licence of NGG NTS to implement TPCR Final Proposals in full. It identifies the main developments in the licence drafting since the second informal consultation document that we published in January 2007.

Questions

Question 1.1: We would welcome comments on the draft legal text set out in appendices 5 to 9.

Introduction

1.1. Under the existing regime, the main obligations for the remuneration of NGG NTS in respect of both the NTS transportation owner (TO) and NTS system operation (SO) activities are set out in one licence condition (Special Condition C8B). The January consultation outlined our intention to restructure the existing C8B into a number of new separate conditions that will cover different aspects of the TO and SO regime. We consider that our proposed restructuring of the existing condition will make the licence more transparent, provide greater clarity and be easier to enforce.

1.2. Our proposed approach is to amend the current licence condition to create the following conditions:

- Special Condition C8B (The NTS transportation owner activity revenue restriction), which sets out the principal TO price control obligations and formula;
- Special Condition C8C (The NTS system operation activity revenue restriction), which sets out the principal SO revenue restriction;
- Special Condition C8D (NTS gas entry incentives, costs and revenues), which includes the detailed provisions relating to the gas entry regime to inform the derivation of the TO and SO revenues and costs referred to in Special Conditions C8B and C8C respectively;
- Special Condition C8E (NTS gas exit incentives, costs and revenues), which includes the licence provisions relating to the gas offtake regime to inform the derivation of TO and SO revenues referred to in Special Conditions C8B and C8C respectively;
- Special Condition C8F (Other NTS System Operator external incentives, costs and revenues), which will capture the licence provisions relating to SO activities such

as system balancing, residual gas balancing and the quality of information necessary for the operation of Special Condition C8C; and

- Special Condition C8G (NTS System Operator internal incentives, costs and revenues), which will set out the detailed provisions relating to the management of the internal costs of the system operator activity referred to in Special Condition C8C.

1.3. In the January consultation, we provided draft legal text for a number of Special Conditions including Special Conditions C8B and C8E for comment. However, we did not include draft legal text relating to the entry regime as there still remained a significant amount of work to be completed in what is a complex area of the regulatory regime.

1.4. The purpose of this document is to set out the revised draft legal text, which has been developed by Ofgem after considering the comments that we have received in response to the January consultation and our bilateral discussions with NGG NTS. The legal text represents Ofgem's current view and should not be construed as acceptable to NGG NTS. **The proposed text is set out in appendices 5 to 9 of this document.**

1.5. The draft text included as part of this document also includes our proposed drafting for the gas entry regime. We believe that we have made significant progress over the last few months, although we acknowledge that further work to refine the drafting is required. **We would therefore specifically welcome comments from interested parties on the proposed draft text of special conditions C8C and C8D.**

1.6. We have also undertaken a formal consultation pursuant to section 23 of the Gas Act on amendments to the existing Special Condition C8B to implement the final proposals for various other system operator incentives. These proposed changes will be captured in the restructured special conditions C8F and C8G. The text for these special conditions will be published shortly for comment.

1.7. We have also undertaken a formal consultation pursuant to section 23 of the Gas Act on amendments to the existing Special Condition C3 to implement changes to the maximum prices that apply to the supply of LNG storage services. This consultation is due to close on 27 April 2007. We also propose to introduce obligations on NGG NTS to develop a competitive framework for the provision to the licensee of certain LNG services. The policy issues underlying this were consulted upon in March 2007¹.

¹ "Treatment of National Grid LNG storage services and Section 23(3) notice to modify Special Condition C3", Ofgem, 30 March 2007, 69/07

Main developments since January

Principal revenue restrictions and disapplication provisions

1.8. The principal revenue restrictions for the NTS transportation owner activity and the NTS system operator activity are set out in special conditions C8B and C8C respectively.

1.9. Since January we have made a number of amendments to detailed provisions of the TO revenue restriction (Special Condition C8B). These changes have focused upon refining the mechanisms for cost recovery under the various incentive regimes as well as introducing a modified disapplication process. The main elements of the changes to recognise are:

- cost recovery of logged up cost items from 1 April 2012;
- development of the capital expenditure incentive consistent with the changes agreed in respect of the electricity transmission licences; and
- the move to a minimum 18-month period before disapplication of the revenue restriction, whether in whole or in part, may take effect.

1.10. This document includes draft legal text for Special Condition C8C for the first time. Similar to the TO revenue restriction in Special Condition C8B, Special Condition C8C sets out:

- The definition of system operator revenue, and its components;
- The formula for setting the maximum amount that NGG NTS can recover from its SO activities in any given year;
- Obligations on NGG NTS to use its best endeavours to set charges in a manner that does not recover more income from users of the National Transmission System than the maximum amount determined by the principal restriction; and
- The provisions enabling NGG NTS to seek disapplication of the system operator revenue restriction, whether in whole or in part.

1.11. A key element of the draft legal text is the introduction of the overall cap on NGG NTS's exposure to the buyback incentives.

Components of revenue and attribution of costs and revenues.

1.12. As noted above, we propose to structure the revenue restriction in two parts setting out the formulae for the TO and SO activities in separate conditions. These will be supplemented by licence conditions that provide the details of the regulatory regime which underpin particular terms in principal restrictions.

1.13. This document provides some minor revisions to the drafting in respect of the proposed gas offtake obligations (Special Condition C8E) and our current working draft of the legal text relating to the gas entry regime (Special Condition C8D). The

drafting represents our current thoughts on what is a complex area and we would welcome views from interested parties regarding the proposed mechanics associated with some of the policy areas, particularly in relation to the entry regime.

1.14. The Authority approved implementation of Modification Proposal 0116V "Reform of the NTS Offtake Arrangements" on 5 April 2007 with an implementation date of 1 April 2008. As a consequence, we have amended the offtake licence drafting to accommodate this decision. In order to ensure consistency between the entry and exit sections of the licence, we have also included drafting to reflect a best endeavours obligation with respect to the cap on incremental buyback and intend to develop a permit framework for inclusion within Special Condition C8E.

1.15. This document also provides updated drafting regarding the allocation of costs and revenues across NGG NTS' transportation business (Special Conditions C9 and C10).

Network monitoring and reporting rules

1.16. The process of the TPCR is wider than re-setting the revenue restrictions of the licensees. As part of the TPCR we consulted on a number of specific measures that in our view would enhance and strengthen the regulatory regime - including by putting in place measures to improve the basis upon which future price control reviews can be undertaken.

1.17. The January consultation document set out proposed licence drafting which include the following areas:

- Development of output measures;
- Network investment planning; and
- Regulatory reporting.

1.18. We have made some changes to the proposed text in the light of comments from interested parties and discussions with NGG NTS. The main changes relate to:

- minor changes in the legal text relating to the reporting obligations that will be faced by NGG NTS. These changes have been made to reflect those provisions introduced for the electricity transmission licensees;
- refinement to the proposed process for developing a network planning code; and
- minor changes to the obligations to develop network output measures.

2. Gas entry

Chapter Summary

This chapter describes the changes we are proposing to make to the licence of NGG NTS in respect of the detail of how NGG NTS's incentives for the delivery of entry capacity operate. It covers the capacity release obligations, the manner in which revenues adjust if NGG NTS provides extra capacity in response to demand from shippers, and the way in which NGG NTS's allowed revenues adjust relative to any costs it incurs in buying back entry capacity.

Questions

Question 2.1: Do you support the proposed structure of the legal text?

Question 2.2: Do you have any comments on the proposed buy back incentive mechanisms?

Question 2.3: Do you have any comments on the detail of the drafting for the release of additional entry capacity and the proposed arrangements for capacity substitution, transfer and trade?

Introduction

2.1. Our proposed licence modifications for gas entry will largely be contained in a new Special Condition C8D, which will have three parts covering:

- The calculation of the entry capacity component of SO maximum revenue (Part A);
- The definition of the entry capacity component of SO revenue (Part B); and
- Capacity release obligations (including capacity trade and transfer) (Part C).

2.2. Each area of change is discussed in turn below. This is prefaced by a short description of the approach we have adopted in developing the structure and form of the draft licence modifications for gas entry. The chapter concludes by discussing other issues concerning the implementation of TPCR Final Proposals for gas entry arrangements, and by providing an overview of the relevant appendices.

Entry capacity element of maximum SO revenue (Part A)

2.3. The first part of the proposed new special Condition C8D sets out the detail of how the maximum SO revenue is influenced by the release of additional entry capacity and the costs incurred by NGG NTS in buying back entry capacity that cannot be delivered. There are four component parts of the calculation:

- Release of additional entry capacity ('Revenue Drivers');
- Operational buy-back scheme;
- Milford Haven buy-back scheme; and
- Incremental buy-back scheme.

Revenue drivers

2.4. The TO maximum revenue is set at a level commensurate with the obligations on NGG NTS to release the specified baseline volumes of entry capacity at each entry point. These baseline volumes can, through capacity substitution (see below) be re-allocated between entry points without triggering the need for additional funding.

2.5. However, if net additional entry capacity is released, then additional funding is triggered through the revenue driver mechanism. The mechanism for calculating the addition to the maximum revenue is outline in Special Condition C8D.

Buy back regime

2.6. Special Condition C8D sets out the relationships between the various buy back costs incurred by NGG NTS and the maximum SO revenues allowed under the principal revenue restriction. These incentive mechanisms apply to operational capacity buy back, Milford Haven buy back and incremental capacity buy back.

2.7. Structurally, the buy back incentive mechanisms are a profit/losses sharing scheme. There is a central target for the costs to be incurred, and sharing factors (50 per cent either side of the target) if costs are higher or lower than this central target, up to the maximum annual profit and loss that is allowed under the scheme.

2.8. We have provided a number of exclusions and definitions within the Milford Haven buy back incentive scheme, to restrict the exposure to the incentive penalties if, for example, delivery of entry capacity is delayed due to delays in planning consents from central Government. We have also put in a provision to limit the payment made by NGG NTS in respect of incremental entry capacity buy back.

2.9. The detailed mechanics of each of the various schemes is captured in Special Condition C8D.

Definition of the entry capacity component of SO revenue (Part B)

2.10. Special Condition C8D also defines the way revenue recovered from various entry related system operator activities will be treated for the purposes of the TO and SO revenue restrictions.

Capacity release obligations (Part C)

2.11. In addition to the definitions and buy back incentive mechanisms, Special Condition C8D also sets out the regulatory treatment in respect of the release of entry capacity and the obligations on NGG NTS to establish and set out its method for:

- substituting capacity from one entry point to another in the event of demand for additional entry capacity being revealed;
- facilitating the transfer of unsold entry capacity upon request from a shipper; and
- facilitating the trading of sold entry capacity between shippers.

Baseline capacity release obligations and adjustments

2.12. The proposed draft text sets out the obligations that will be placed on NGG NTS in respect of releasing entry capacity. This will comprise two elements:

- The central capacity release obligation setting out the volume of entry capacity to be released for sale at each entry point, with supplementary obligations to hold back 10 per cent of the total baseline obligation until within 18 months of the gas day; and
- Obligations to substitute baseline capacity from one entry point to another to meet entry capacity requirements, before releasing new ("incremental") obligated entry capacity.

2.13. In support of these provisions NGG NTS will be obliged to establish a method for substituting entry capacity from one entry point to another and to publish a statement explaining this method.

Capacity transfer

2.14. The draft legal text of Special Condition C8D requires that NGG NTS establish a method for facilitating the transfer of unsold entry capacity from one entry point to another, at the request of a shipper. Within this context it also stipulates certain timescales for NGG NTS in meeting this obligation. It also obliges NGG NTS to publish a statement explaining its method for capacity transfer.

Capacity trade

2.15. Our proposed drafting also requires NGG NTS to establish a method for facilitating the trade of sold entry capacity between shippers at different entry points and stipulates certain timescales for NGG NTS in meeting this obligation. It also obliges NGG NTS to publish a statement explaining its method for capacity trade.

3. Way forward

Chapter Summary

This chapter sets out the next steps in the implementation process, including the timetable for formally proposing licence changes and possible further developments once the changes have been implemented.

Questions

Question 3.1: Do you have any comments on the proposed timetable?

Next steps in the implementation process

3.1. We are seeking views on the proposed legal text set out as part of this document by 24 May 2007, although it would be desirable if respondents could highlight issues of substance by 8 May 2007 - although detailed responses are not required at that time. We are presently working towards the following timetable with the aim of introducing the revised licence regime in July.

Milestone	Date
Publish revised draft legal text - Third consultation	April 2007 (This document)
Bi-lateral meetings with NGG NTS	April - June 2007
Deadline for responses to third consultation	24 May 2007
Statutory consultation - section 23 notice	June 2007
Decision to modify NGG NTS licence	July 2007

3.2. We have already set out in directing the interim changes to NGG NTS's ²licence that the changes to the gas transportation licence will have retrospective effect from 1 April 2007 and not from the date on which the Authority makes the decision to modify the licence under the Gas Act.

Outstanding issues

3.3. We are aware that it may be necessary to make a small number of minor house keeping changes to the licence as a consequence of the licence restructuring and possibly in the light of other external events. We are primarily focused upon

² "Modification of the Gas Transporter Licence Under Section 23 of the Gas Act 1986", Ofgem, March 2007

delivering the changes necessary to implement TPCR Final Proposals in full as soon as reasonably practicable. As such, we may look to propose such house keeping changes later in the year.

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Appendix 1 - Consultation Response and Questions

1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

1.2. Responses should be received by no later than 24 May 2007, although initial responses of substance are requested by 8 May 2007, and should be sent to:

- Colin Green
- Head of projects - Transmission
- 9 Millbank, London, SW1P 3GE
- Tel: 020 7901 7143
- E-mail: colin.green@ofgem.gov.uk

1.3. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.4. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.5. Next steps: Having considered the responses to this consultation, Ofgem intends to amend the draft legal text in the light of the comments received with the aim of undertaking a formal statutory consultation pursuant to section 23 of the Gas Act 1986 in June.

1.6. Any questions on this document should, in the first instance, be directed to:

- Colin Green
- Head of projects - Transmission
- 9 Millbank, London, SW1P 3GE
- Tel: 020 7901 7143
- E-mail: colin.green@ofgem.gov.uk

CHAPTER: One

Question 1.1: We would welcome comments on the draft legal text set out in appendices 5 to 9.

CHAPTER: Two

Question 2.1: Do you support the proposed structure of the legal text?

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Question 2.3: Do you have any comments on the detail of the drafting for the release of additional entry capacity and the proposed arrangements for capacity substitution, transfer and trade?

CHAPTER: Three

Question 3.1: Do you have any comments on the proposed timetable?

Appendix 2 – The Authority's Powers and Duties

1.1. Ofgem is the Office of Gas and Electricity Markets which supports the Gas and Electricity Markets Authority ("the Authority"), the regulator of the gas and electricity industries in Great Britain. This Appendix summarises the primary powers and duties of the Authority. It is not comprehensive and is not a substitute to reference to the relevant legal instruments (including, but not limited to, those referred to below).

1.2. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002 and the Energy Act 2004, as well as arising from directly effective European Community legislation. References to the Gas Act and the Electricity Act in this Appendix are to Part 1 of each of those Acts.³

1.3. Duties and functions relating to gas are set out in the Gas Act and those relating to electricity are set out in the Electricity Act. This Appendix must be read accordingly⁴.

1.4. The Authority's principal objective when carrying out certain of its functions under each of the Gas Act and the Electricity Act is to protect the interests of consumers, present and future, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas conveyed through pipes, and the generation, transmission, distribution or supply of electricity or the provision or use of electricity interconnectors.

1.5. The Authority must when carrying out those functions have regard to:

- The need to secure that, so far as it is economical to meet them, all reasonable demands in Great Britain for gas conveyed through pipes are met;
- The need to secure that all reasonable demands for electricity are met;
- The need to secure that licence holders are able to finance the activities which are the subject of obligations on them⁵; and
- The interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.⁶

³ entitled "Gas Supply" and "Electricity Supply" respectively.

⁴ However, in exercising a function under the Electricity Act the Authority may have regard to the interests of consumers in relation to gas conveyed through pipes and vice versa in the case of it exercising a function under the Gas Act.

⁵ under the Gas Act and the Utilities Act, in the case of Gas Act functions, or the Electricity Act, the Utilities Act and certain parts of the Energy Act in the case of Electricity Act functions.

⁶ The Authority may have regard to other descriptions of consumers.

1.6. Subject to the above, the Authority is required to carry out the functions referred to in the manner which it considers is best calculated to:

- Promote efficiency and economy on the part of those licensed⁷ under the relevant Act and the efficient use of gas conveyed through pipes and electricity conveyed by distribution systems or transmission systems;
- Protect the public from dangers arising from the conveyance of gas through pipes or the use of gas conveyed through pipes and from the generation, transmission, distribution or supply of electricity;
- Contribute to the achievement of sustainable development; and
- Secure a diverse and viable long-term energy supply.

1.7. In carrying out the functions referred to, the Authority must also have regard, to:

- The effect on the environment of activities connected with the conveyance of gas through pipes or with the generation, transmission, distribution or supply of electricity;
- The principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed and any other principles that appear to it to represent the best regulatory practice; and
- Certain statutory guidance on social and environmental matters issued by the Secretary of State.

1.8. The Authority has powers under the Competition Act to investigate suspected anti-competitive activity and take action for breaches of the prohibitions in the legislation in respect of the gas and electricity sectors in Great Britain and is a designated National Competition Authority under the EC Modernisation Regulation⁸ and therefore part of the European Competition Network. The Authority also has concurrent powers with the Office of Fair Trading in respect of market investigation references to the Competition Commission.

⁷ or persons authorised by exemptions to carry on any activity.

⁸ Council Regulation (EC) 1/2003

Appendix 3 - Glossary

B

Baseline

Baselines define the reference levels of capacity that the transmission licensee is to release. Baselines also determine the levels above (or below) which incremental capacity is defined.

Baseline Capital Expenditure

Baseline capital expenditure is the total amount of capex required in association with the baseline. It includes both load related capex and non-related capex.

C

Capital Expenditure (Capex)

Expenditure on investment in long-lived transmission assets, such as gas pipelines or electricity overhead lines.

G

Gas Distribution Networks (GDNs)

Gas Distribution Networks, of which there are eight, four of which are owned by National Grid Gas plc, and four of which were sold by Transco plc (now National Grid Gas plc) to third party owners on 1 June 2005.

Gas Distribution Price Control Review (GDPCR)

The review of the price control applying to gas distribution networks. The review will extend the existing price control for the year 2007-08 and reset the control for the period commencing 1 April 2008.

Gas Transmission Charging Methodology Forum (GTCMF)

A dedicated forum, established in January 2006, to allow National Grid NTS to provide information to the gas industry on its ongoing review of its Transportation Charging Methodology and other relevant charging methodologies and issues, and to provide an opportunity for users' views to be represented and discussed.

I**Independent Distribution Networks (IDNs)**

Gas Distribution Networks which were sold to third party owners by Transco plc (now National Grid Gas plc) on 1 June 2005. There are four such network companies, which are: Northern Gas Networks Ltd, Scotland Gas Networks plc, Southern Gas Networks plc and Wales & West Utilities Ltd.

Information Quality Incentive Mechanism

A form of incentive design adopted by Ofgem as part of the DPCR which provided companies with the potential for greater rewards if they chose more challenging cost targets.

Innovation Funding Initiative (IFI)

A mechanism to remunerate research & development expenditure by the transmission licensees.

L**Lattice Group Pension Scheme (LGPS)**

A Retirement Benefit Scheme based upon benefits paid as a proportion of final salary or for newer members contributions paid to the scheme. The Scheme is an exempt approved scheme (ICTA'88) and is subject to a trust document. The Scheme is organised and defined by a set of rules, trustees and produces accounts annually and actuarial valuations at least every 3 years (triennially). The Pension Scheme is principally for people working in the Gas Utility Industries.

Liquefied Natural Gas (LNG)

LNG consists mainly of methane gas liquefied at around -260 degrees Fahrenheit. Cooling and liquefying the gas reduces its volume by 600 times such that a tonne of LNG corresponds to about 1,400 cubic metres of methane in its gaseous state. LNG may be stored or transported by special tanker.

Load Related Capex

The installation of new assets to accommodate changes in the level or pattern of electricity or gas supply and demand.

N**National Grid Gas (NGG NTS)**

The licensed gas transporter responsible for the gas transmission system, and four of the regional gas distribution companies.

National Transmission System (NTS)

The high pressure gas transmission system in Great Britain.

Non-Load Related Capex

The replacement or refurbishment of assets which are either at the end of their useful life due to their age or condition, or need to be replaced on safety or environmental grounds.

O**One in Twenty Obligation**

A licence obligation imposed by Standard Special Condition A9 (Pipe-Line System Security Standards) upon both NGG NTS and the GDNs.

Operating Expenditure (Opex)

The costs of the day to day operation of the network such as staff costs, repairs and maintenance expenditures, and overhead.

Operating Margin (OM)

In relation to gas the OM is gas in storage which is reserved by the NTS to ensure the supply of gas is maintained in the event of a network emergency.

P**Pipeline Maintenance Centre (PMC)**

Internal NG group providing specialised maintenance and emergency services for high pressure gas pipelines.

R**Regulatory Asset Value (RAV)**

The value ascribed by Ofgem to the capital employed in the licensee's regulated transmission or (as the case may be) distribution business (the 'regulated asset base'). The RAV is calculated by summing an estimate of the initial market value of

each licensee's regulated asset base at privatisation and all subsequent allowed additions to it at historical cost, and deducting annual depreciation amounts calculated in accordance with established regulatory methods. These vary between classes of licensee. A deduction is also made in certain cases to reflect the value realised from the disposal of assets comprised in the regulatory asset base. The RAV is indexed to RPI in order to allow for the effects of inflation on the licensee's capital stock. The revenues licensees are allowed to earn under their price controls include allowances for the regulatory depreciation and also for the return investors are estimated to require to provide the capital.

Repex

In this consultation this term describes the use of an operating allowance to fund each year's expected non load related capital expenditure.

RPI-X

The form of price control currently applied to network monopolies. Each company is given a revenue allowance in the first year of each control period. The price control then specifies that in each subsequent year the allowance will move by 'X' per cent in real terms.

Re-openers

A process undertaken by Ofgem to re-set the revenue allowances (or the parameters that give rise to revenue allowances) under a price control before the scheduled next formal review date for the relevant price control.

Revenue Driver

A means of linking revenue allowances under a price control to specific measurable events which are considered to influence costs. Revenue drivers are used by Ofgem to increase the accuracy of the revenue allowances.

Rolling Incentives

A measure which ensures licensees are able to retain the rewards of efficiency savings for a period of five years (consistent with the duration of the price control) irrespective of when the efficiency saving is made.

S

Sliding scale

This term is used generically to describe incentive schemes which involve profit (and loss) sharing around a fixed target costs, such as the current form of SO incentives in gas and electricity.

System Operator (SO)

The system operator has responsibility to construct, maintain and operate the NTS and associated equipment in an economic, efficient and co-ordinated manner. In its role as SO, NGG NTS is responsible for ensuring the day-to-day operation of the transmission system.

T

Theoretical Maximum Physical Capacity

An approach to determining the level of baselines which can be characterised as the maximum amount of gas that can be taken through a particular entry or offtake point by reducing supplies at other nodes in order to balance the network but not taking into account interactions with flows elsewhere on the network.

Transmission Connected Customer (TCC)

A customer directly connected to the gas or electricity transmission system.

Transmission Owners (TO)

Companies which hold transmission owner licenses. Currently there are three electricity TOs; NGET, SPTL and SHETL. NGG NTS is the gas TO.

Transmission Price Control Review (TPCR)

The TPCR will establish the price controls for the transmission licensees which will take effect in April 2007 for a 5-year period. The review applies to the three electricity transmission licensees, NGET, SPTL, SHETL and to the licensed gas transporter responsible for the gas transmission system, NGG NTS

U

Unit Cost Allowance (UCA)

A parameter of the current revenue restriction for NGG NTS. A UCA is set for each entry point, and is intended to reflect the cost of providing additional capacity at that point on the network. The actual additional revenue entitlement for NGG NTS if it releases such additional capacity at a particular entry point is a function of the UCA for that entry point. NGG NTS also uses the UCAs as reserve prices in its auctions of entry capacity.

Uniform Network Code (UNC)

As of 1 May 2005, the UNC replaced NGG NTS's network code as the contractual framework for the NTS, GDNs and system users.

V**Vesting Assets**

Assets included in the RAV at the vesting date.

Vesting

The date at which the regulated gas and electricity transmission and distribution companies were privatised.

Appendix 4 - Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

1.2. Please send your comments to:

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