

NOTICE UNDER Section 23 (3) OF THE GAS ACT 1986

The Gas and Electricity Markets 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 conditions of the gas transporter licence treated as granted to National Grid Gas plc ("**NGG**") in respect of its National Transmission System ("**NTS**") under section 7 of the Act by amending the current definition of UCAG in Part 2 paragraph 14 (5) (a) of Special Condition C8B: *Restriction of revenue in respect of the NTS transportation owner activity and NTS system operation activity* in the manner set out in Appendix 1 of this Notice
2. On 11th August 2006 Ofgem provided NGG with a letter outlining certain conditions under which it might reconsider the unit cost allowance at the Fleetwood entry point ("**Fleetwood UCA**"). The letter sets out that Ofgem will consider whether the Fleetwood UCA should be revised in the light of new information. This letter is attached to this Notice in Appendix 2.

After the September 2006 QSEC entry capacity auctions, NGG considered that the Fleetwood UCA should be reviewed. This was due to the result of the bidding pattern in these auctions for capacity at the Fleetwood entry point, as releasing this capacity would result in additional network reinforcements.

The Authority accepts that the user commitment for new entry capacity exhibited a flat profile throughout the period and this level of capacity requirement, in the context of the overall pattern of bids received during the QSEC auction, represented a material change and was assessed as warranting revision of the UCAG set out in Special Condition C8B. The flat capacity bid for during the auction had not been anticipated prior to the auction and represented a different profile from that used to determine the UCAG.

The UCAG which is being amended under Special Condition C8B was initially determined and set out in the document: "Determining Unit Cost Allowances (UCAs) for large new entry points & Section 23 notice for Fleetwood", Ofgem, 13 July 2006. This document is available free of charge from the Ofgem Research and Information Centre, 9 Millbank, London SW1P 3GE or from the Ofgem website at www.ofgem.gov.uk

However, revision of the Fleetwood UCAG does not imply that the Authority regards the proposed investments and/or the proposed costs as efficient. At the time of the next price control review the Authority will come to a view on this as part of the overall capex assessment.

3. In summary the effects of the proposed licence modifications are the revision of unit cost allowances gross ("UCAGs") for the new NTS entry point at Fleetwood.

4. Any representations or objections to the proposed licence modifications may be made before 1 June 2007 and sent to:

Robert Hull
Director - Transmission
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE
Or by email to Robert.Hull@ofgem.gov.uk

5. All responses will normally be published on Ofgem's website and held in the Research and Information Centre. However, if respondents do not wish their response to be made public then they should clearly mark their responses as not for publication. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.



David Gray
Managing Director – Networks
Duly authorised on behalf of the Gas and Electricity Markets Authority
2 May 2007

Appendix 1

Special Condition C8B: Restriction of revenue in respect of the NTS transportation owner activity and NTS system operation activity

Part 2: The NTS system operation activity revenue restrictions

Paragraph 14 (5): Entry capacity investment incentive revenue (ECIIRT)

(a) Principal formula

UCAG^j means the unit cost allowance in pounds per kilowatt hour in respect of terminal j and has the value set out in the following table:

Terminal j	UCAG ^j (£/kWh)
Fleetwood	0.267 where $580 \text{ GWh/d} \leq \text{PRIORCIOEC}_m^j < 740 \text{ GWh/d}$

PRIORCIOEC_m^j shall mean the cumulative obligated incremental entry capacity in respect of each day in month m at terminal j at a date to be determined by the Authority.

Appendix 2



Chris Bennett
Regulatory Frameworks Manager
National Grid House
Warwick Technology Park
Gallows Hill, Warwick
CV34 6DA

Your Ref:
Our Ref:
Direct Dial: 020 7901 7339
Email: colin.sausman@ofgem.gov.uk

11 August 2006

Dear Chris,

UCAs for Fleetwood

I refer to your letters of 4 August and 7 August to Robert Hull.

This letter clarifies Ofgem's position on considering the case for further amendments to the UCAs for Fleetwood set out in the notice issued by the Authority under section 23 of the Gas Act 1986 on 13 July 2006 (proposed Fleetwood UCAs) in the light of new information following the auction of long term capacity at Fleetwood that is planned for September 2006. This letter is intended to reflect discussions in the conference call between Ofgem and National Grid Gas (NGG) on 11 July. The proposed process is as follows:

- NGG will submit additional evidence to Ofgem following completion of the planned September 2006 auction in the event that it supports the case that there is a material difference (positive or negative) between the revenue allowance determined by the proposed Fleetwood UCAs and the efficient costs of providing the required level of incremental capacity at Fleetwood.
- Ofgem will consider this new information in the light of its statutory duties, and will come forward with a further amendment to the proposed Fleetwood UCAs if the evidence supports the case that the proposed Fleetwood UCAs are materially too high or too low relative to our view of the efficient costs of providing the required level of incremental capacity at Fleetwood.
- Ofgem will have regard to the level of revenue allowance (as determined by the Fleetwood UCAs we ultimately set through the proposed process set out in this letter), and the network investment associated with this revenue allowance, in considering any future related issues of buy-back costs and subsequent ex post efficiency assessments undertaken by Ofgem – but not to the exclusion of other relevant information.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'C Sausman', written over a light grey rectangular background.

Colin Sausman
Associate Director, Transmission