

Notice under section 23 of the Gas Act 1986

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

1. The Authority proposes to modify the gas transporter licence treated as granted under section 7 of the Act (the "licence") to National Grid Gas plc ("NGG NTS") in respect of the NTS (within the meaning given to "NTS" in Standard Special Condition A3 (Definitions and Interpretation) of the licence) by -
 - a. Altering Special Condition C1B (Amendments to Standard Special Conditions A37 (Availability of Resources) and A40 (Price Control Review Information));
 - b. Altering Special Condition C8B (The NTS transportation owner activity revenue restriction); and
 - c. Adding Special Condition C26 (Gas Conveyed to Independent Systems)

the draft texts of which are in Schedule 1 hereto.

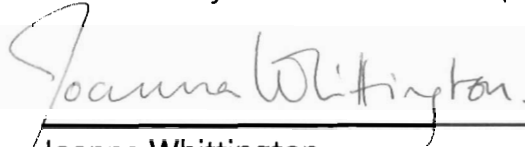
2. The reasons why the Authority proposes to make these licence modifications and their effect are mainly set out in various documents including:
 - a. *'Gas Distribution Price Control Review Initial Proposals Document*, Ofgem, 29 May 2007, ref: 125/07; published on behalf of the Authority, and is available free of charge from the Ofgem library (telephone: 020 7901 7003) or on the Ofgem website (www.ofgem.gov.uk);
 - b. *'Proposal to continue cross-subsidy arrangements for independent systems'*, Consultation Document August 2007, published by the Department of Business, Enterprise and Regulatory Reform and available on its website (www.berr.gov.uk);
 - c. *'Proposal to continue cross-subsidy arrangements for independent systems'*, Government Response Documents November 2007, published by the Department of Business, Enterprise and Regulatory Reform and available on its website (www.berr.gov.uk);
 - d. *'Gas Distribution Price Control Review', Final Proposals Decision and Supplementary Appendices Documents*, Ofgem, 3 December 2007, ref: 285 and 285a/07; published on behalf of the Authority, and are available free of charge from the Ofgem library (telephone: 020 7901 7003) or on the Ofgem website (www.ofgem.gov.uk); and

- e. *'GDCPR: Second Licence Drafting Consultation'*, Ofgem, 11 December 2007, ref: 290/07,

and in summary, the reasons for the proposed licence modifications are to implement those changes to the regulatory framework which have been consulted on as part of, or in conjunction with the Gas Distribution Price Control Review for every gas transporter that is a DN operator (within the meaning given to "DN operator" in Standard Special Condition A3 (Definitions and Interpretation) of the gas transporter licence); in particular, those changes that introduce in the licence, the continuation of cross-subsidy arrangements (currently in the form of undertakings by gas transporters) in respect of consumers whose premises are connected to an independent system (within the meaning given to "independent system" in standard condition 1 (Definitions and Interpretation) of the gas transporter licence) and those changes that revise the IS_t element of the NTS TO cost pass-through adjustment TOF_t term in paragraph 3(b) of Special Condition C8B, as well as the changes to Special Condition C1B that retain in that condition, only the requirement for NGG NTS to maintain such data as will enable the Authority to carry out comparative pipe-line system analysis.

3. The effect of these licence modifications is to protect the interests of consumers by ensuring that a consumer connected to an independent system pays an equivalent charge to a consumer connected to the main pipe-line system operated by the same gas transporter.
4. Any representations or objections to either or both of the proposed modifications must be made in writing on or before 20 March 2008 to Ayesha Uvais, Office of Gas and Electricity Markets (Ofgem) 9 Millbank, London SW1P 3GE (0207 901 7307) or via email to Ayesha.Uvais@ofgem.gov.uk and if a respondent does not wish its response to be made public, the response should be clearly marked as not for publication.

5. Subject to any representations or objections made to any of the proposed modifications, the making of the modifications is dependent on a Direction regarding the continuation of cross-subsidy arrangements to be issued by the Secretary of State before 1 April 2008.

A handwritten signature in black ink that reads "Joanna Whittington". The signature is written in a cursive style and is positioned above a horizontal line.

Joanna Whittington
Director, Gas Distribution

Duly authorised on behalf of the
Gas and Electricity Markets Authority

21 February 2008

SCHEDULE 1 TO THE NOTICE UNDER SECTION 23 GAS ACT 1986

[Special Conditions C1B, C8B & C26]

Special Condition C1B: Amendment to A40 (Price Control Review Information)

Amendment to Standard Special Condition A40: Price Control Review Information

1. The following text shall be inserted after paragraph 3(b) in Standard Special Condition A40 (Price Control Review Information):

“(c) keep and maintain such data as will permit the assessment by the Authority of historic and forecast network performance of the pipe-line system to which the licence relates, as may be required under the price control review reporting rules, to facilitate comparative analysis over time for reporting under the price control review reporting rules of:

- (i) geographic areas of and network assets within the pipe-line system to which the licence relates, and
- (ii) pipe-line systems for the conveyance of gas within Great Britain, and
- (iii) pipe-line systems for the conveyance of gas in Great Britain and in other countries.”

Amendment to Special Condition C8B of NGG NTS's licence.

[revise IS_t term]

IS_t means an amount in respect of the recovery of costs incurred in respect of arrangements associated with the conveyance of gas to independent systems and identified in paragraph [6] of Special Condition C26 (Gas Conveyed to Independent Systems) in respect of any formula year commencing on or after 1 April 2008.

Special Condition C26: Gas Conveyed to Independent Systems

1. Pursuant to the direction given by the Secretary of State on xx XX 2008, regarding the Continuation of the Cross-Subsidy Arrangements for Independent Systems (the “Direction”) the licensee is required, until 31 March 2013, to comply with this licence condition.

Bulk Price Differential

2. The licensee shall, subject to it having received all the information it requires from DN operators to enable it to do so, by 30 April in each formula year, in respect of each independent system:

(a) make a reasonable estimate of the bulk price differential for that formula year (BPDEt); and

(b) calculate, in formula years commencing on and after 1 April 2009, any adjustment (whether of a positive or a negative amount) (BPDADJt) in formula year t which relates to the difference between:

(i) the estimate of the bulk price differential it calculated in the preceding formula year (BPDEt-1); and

(ii) the actual amount of the bulk price differential in that preceding formula year (BPDAt-1)

in accordance with the following formula:

$$\text{BPDADJt} = \text{BPDAt-1} - \text{BPDEt-1}.$$

For the avoidance of doubt, for the formula year commencing 1 April 2008, BPDADJt = 0.

3. The licensee shall, in respect of each independent system, pay to the relevant shipper an amount equal to a proportionate amount of the sum of the amounts calculated

pursuant to paragraph 2 (BPDEt +BPDADJt) quarterly (or at such frequency as may be agreed with the relevant shipper) during the formula year in which the calculation in paragraph 2(a) was made.

Distribution Network Additional costs payment

4. The licensee shall pay to the relevant DN operator the amount set out in Table 1 in respect of the additional costs to serve the independent system operated by that DN operator (“additional costs payments”) denoted by “ACPS_t” and “ACPW_t”. Such amounts shall, prior to payment, be adjusted to take account of the change in the retail prices index between the formula year commencing 1 April 2005 and the relevant formula year set out in Table 1 in accordance with the following formulae:

$$ACPS_t = SGNACP_t \times ISPIT_t$$

and

$$ACPW_t = WWUACP_t \times ISPIT_t$$

Where:

ISPIT_t is the Independent Systems price indexation adjustment term which shall be calculated using the following formula:

$$ISPIT_t = \left(1 + \frac{RPI_t}{100} \right) \times ISPIT_{t-1}$$

Where ISPIT_t shall take the value 1 in respect of the formula year commencing 1 April 2005.

Where RPI_t shall be as defined in paragraph 8 and, for example and the avoidance of doubt, a RPI_t of 5% would be entered as 5 in the formula not 0.05.

Table 1

£m, 2005-06 prices	2008-09	2009-10	2010-11	2011-12	2012-13
Scotland Gas Networks plc (SGNACP _t)	6.0	5.4	5.4	5.4	5.4
Wales & West Utilities Limited (WWUACP _t)	0.1	0.1	0.1	0.1	0.1

5. The licensee shall pay to the relevant DN operator a proportionate amount of the additional costs payments for the relevant formula year on a quarterly basis during that formula year or as otherwise agreed with the DN operator to whom the payment is to be made.

Recovery

6. The licensee shall recover an amount equal to the aggregate of:

- (i) the sum of the amounts calculated pursuant to paragraph 2 (BPDEt+BPDADJt) ; and
- (ii) the additional costs payments made to the relevant DN operators under paragraph 5 (ACPSt + ACPWt) from shippers in the relevant formula year to which such payments relate.

7. The licensee shall by 31 July in each formula year submit to the Authority a statement setting out:

- (i) the bulk price differential payments made pursuant to paragraph 3; and
- (ii) the additional costs payments made pursuant to paragraph 5 in the previous formula year.

8. In this condition:

“bulk price differential” means the volume of LPG conveyed to consumers connected to each relevant independent system in the relevant formula year, multiplied by the difference between the reasonable estimate (made by the licensee) of

- (i) the actual delivered price of LPG supplied to consumers connected to the relevant independent system; and
- (ii) the average price of gas consisting principally of methane supplied to large industrial customers in Great Britain.

“DN” has the meaning given in Standard Special Condition A3 (Definitions

operator” and Interpretation).

“independent system” has the meaning given to the term “independent system” in Standard Special Condition A3 (Definitions and Interpretation), save that, for the purposes of this condition only, such independent systems shall only include those independent systems through which the gas conveyed to consumers consists wholly or mainly of LPG.

“LPG” means a mix of hydrocarbon gases including propane and butane in accordance with BS EN 589:2004

“relevant shipper” for the purposes of this condition only, means in relation to any premises connected to an independent system, a gas shipper which has made arrangements with the DN operator which operates the LDZ in which that independent system is situated under which LPG is to be transported to consumers.

“RPI_t” has the meaning given in paragraph 3(a)(ii) of Special Condition C8B (NTS transportation owner activity revenue restriction).