

**MODIFICATION PURSUANT THE NTS OPERATOR'S GAS  
TRANSPORTER LICENCE OF NATIONAL GRID GAS PLC  
PURSUANT TO SECTION 23 OF THE GAS ACT 1986, AND**

**NOTICE PURSUANT TO SECTION 38A OF THE GAS ACT 1986  
OF THE REASONS FOR THE DECISION OF THE GAS AND  
ELECTRICITY MARKETS AUTHORITY TO MODIFY THE NTS  
OPERATOR GAS TRANSPORTER LICENCE OF  
NATIONAL GRID GAS PLC**

**WHEREAS**

1. National Grid Gas plc ("NGG NTS") holds a gas transporter licence (the "Licence") treated as granted by the Gas and Electricity Markets Authority (the "Authority") under section 7 of the Gas Act 1986 (the "Act") in respect of the NTS (within the meaning in Standard Special Condition A3 (Definitions and Interpretation) of the Licence ("SSC A3")) and is the NTS Operator (within the meaning in SSC A3).
2. In accordance with section 23(3) of the Act, the Authority gave notice on 21 February 2008 on the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)) (the "Notice") that it proposed to:
  - i. Alter Special Condition C1B (Amendments to Standard Special Conditions A37 (Availability of Resources) and A40 (Price Control Review Information));
  - ii. Alter Special Condition C8B (The NTS transportation owner activity revenue restriction); and
  - iii. Add Special Condition C26 (Gas Conveyed to Independent Systems), (all, the "Conditions") of the Licence and the Authority specified that any representations or objections to the proposed modifications to the Conditions must be made on or before 20 March 2008.

In accordance with section 38A(1)(b) of the Act, the reasons for the decision of the Authority to modify the Conditions 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 SSC A3; 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.

4. Further details of the reasons are 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 available free of charge from the Ofgem library (telephone: 020 7901 7003) or on the Ofgem website ([www.ofgem.gov.uk](http://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 (BERR) and available on its website ([www.berr.gov.uk](http://www.berr.gov.uk));
  - c. *'Proposal to continue cross-subsidy arrangements for independent systems'*, Government Response Document, November 2007, published by BERR and available on its website ([www.berr.gov.uk](http://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 available free of charge from the Ofgem library (telephone: 020 7901 7003) or on the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)); and
  - e. *'GDCPR: Second Licence Drafting Consultation'*, Ofgem, 11 December 2007, ref: 290/07; published on behalf of the Authority, and available free of charge from the Ofgem library (telephone: 020 7901 7003) or on the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)).
5. In accordance with section 23(4) of the Act the Authority sent a copy of the Notice to the Secretary of State, NGG NTS, Health and Safety Executive and the Consumer Council and did not receive by 20 March 2008 or at all, a direction from the Secretary of State not to make any modification.
6. By 20 March 2008 the Authority received 1 representation from the NTS Operator and received no objections to the proposed modifications.
7. The representation suggested textual revisions to the proposed Special Conditions in Part C of the Licence.
8. The Authority has duly considered the representation and has made the following revisions in response to the representation about textual revisions:
  - i. Special Condition C8B – delete the words “[revise IS<sub>t</sub> term]”;

- ii. Special Condition C8B – in the definition of  $IS_t$  replace the words “paragraph [6]” with the words “paragraph 6”;
- iii. Special Condition C26 – in paragraph 1 replace the words “xx XX 2008” with the words “19 March 2008”;
- iv. Special Condition C26 – in paragraph 2(a) replace “(BPDE<sub>t</sub>)” with “(BPDE<sub>t</sub>)”;
- v. Special Condition C26 – in paragraph 2(b) replace “(BPDADJ<sub>t</sub>)” with “(BPDADJ<sub>t</sub>)” and replace the words “formula year t” with the words “formula year  $t$ ”;
- vi. Special Condition C26 – in paragraph 2(b)(i) replace “(BPDE<sub>t-1</sub>)” with “(BPDE<sub>t-1</sub>)”;
- vii. Special Condition C26 – in paragraph 2(b)(ii) replace “(BPDA<sub>t-1</sub>)” with “(BPDA<sub>t-1</sub>)”, replace “BPDADJ<sub>t</sub>=BPDA<sub>t-1</sub>-BPDE<sub>t-1</sub>” with “BPDADJ<sub>t</sub>=BPDA<sub>t-1</sub>-BPDE<sub>t-1</sub>” and replace “BPDADJ<sub>t</sub>=0” with “BPDADJ<sub>t</sub>=0”;
- viii. Special Condition C26 – in paragraph 3 replace “(BPDE<sub>t</sub>+BPDADJ<sub>t</sub>)” with “(BPDE<sub>t</sub>+BPDADJ<sub>t</sub>)”;
- ix. Special Condition C26 – in paragraph 4 replace “ACPSt” with “ACPSt” and replace “ACPWt” with “ACPWt”;
- x. Special Condition C26 – in paragraph 6(i) replace “(BPDE<sub>t</sub>+BPDADJ<sub>t</sub>)” with “(BPDE<sub>t</sub>+BPDADJ<sub>t</sub>)”; and
- xi. Special Condition C26 – in paragraph 6(ii) replace “(ACPSt+ACPWt)” with “(ACPSt+ACPWt)”.

## **NOW THEREFORE**

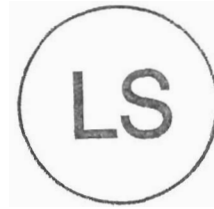
In accordance with its powers under section 23(1)(a) of the Act the Authority **HEREBY MODIFIES** the Conditions in NGG NTS gas transporter licence treated as granted under section 7 of the Act in the manner contained in the attached Schedule **WITH EFFECT** on and from 1 April 2008 and **THE CONDITIONS AS MODIFIED SHALL HAVE EFFECT OR CONTINUE IN EFFECT ON AND FROM 1 APRIL 2008.**

This document also constitutes the notice of reasons under section 38A(1)(b) of the Act for the Authority’s decision to modify the Licences.

Dated the 31<sup>st</sup> day of March 2008

The official seal of the Gas and Electricity Markets Authority here affixed is authenticated by the signature of

Steve Smith



**Managing Director, Networks**

**Authorised on behalf of the Gas and Electricity Markets Authority**

## **SCHEDULE**

***[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.**

IS<sub>t</sub> 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 19 March 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 (BPDE<sub>t</sub>); and

(b) calculate, in formula years commencing on and after 1 April 2009, any adjustment (whether of a positive or a negative amount) (BPDADJ<sub>t</sub>) 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 (BPDE<sub>t-1</sub>); and

(ii) the actual amount of the bulk price differential in that preceding formula year (BPDA<sub>t-1</sub>)

in accordance with the following formula:

$$\text{BPDADJ}_t = \text{BPDA}_{t-1} - \text{BPDE}_{t-1}.$$

For the avoidance of doubt, for the formula year commencing 1 April 2008,

$$\text{BPDADJ}_t = 0.$$

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 (BPDE<sub>t</sub> +BPDADJ<sub>t</sub>) 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<sub>t</sub>” and “ACPW<sub>t</sub>”. 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<sub>t</sub> 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<sub>t</sub> shall take the value 1 in respect of the formula year commencing 1 April 2005.

Where RPI<sub>t</sub> shall be as defined in paragraph 8 and, for example and the avoidance of doubt, a RPI<sub>t</sub> 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 <sub>t</sub> )	6.0	5.4	5.4	5.4	5.4
Wales & West Utilities Limited (WWUACP <sub>t</sub> )	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 ( $BPDE_t + BPDADJ_t$ ); and
- (ii) the additional costs payments made to the relevant DN operators under paragraph 5 ( $ACPS_t + ACPW_t$ ) 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 <sub>t</sub> ”	has the meaning given in paragraph 3(a)(ii) of Special Condition C8B (NTS transportation owner activity revenue restriction).