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System Operators,
Transportation System
Owners, Shippers, Suppliers,
Customers and Other
Interested Parties

Your Ref:
Our Ref:
Direct Dial: 020 7901 7240
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29 April 2008

Dear Colleague

**Information Provision in respect of NGG's External System Operator
Incentive Scheme**

National Grid Gas (NGG) currently provides the following information to the Authority¹ in respect of its procurement and use of system management services, i.e. services in relation to its External System Operator (SO) Incentive Scheme:

- (i) information relating to the residual balancing incentive and the system balancing incentive under special condition C14 of NGG's transporter licence;
- (ii) information relating to the quality of information incentive on an informal basis.

Going forwards, we consider that it would be appropriate for this information to be provided to the Authority under a single, formal arrangement, namely an information request by the Authority under special condition C5 of NGG's transporter licence. This approach has the advantage of being more flexible and proportionate than detailing a rigid set of information to be provided under special condition C14 of its transporter licence.

It should be noted that this approach is consistent with the approach taken for the purposes of requesting information in relation to the electricity external SO Incentive scheme under National Grid Electricity Transmission's transmission licence. It is also the approach that is currently being put in place under the regulatory reporting regime under NGG's price control.

¹ Ofgem is the Office of the 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. Ofgem's primary aim is to bring choice and value to all gas and electricity customers by promoting competition and regulating monopolies. The Authority was established by the Utilities Act 2000 and its powers are provided for under the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998, the Utilities Act 2000, the Enterprise Act 2002 and the Energy Act 2004. The terms "Ofgem", "we" and "the Authority" are used interchangeably in this letter.

Attached to this letter is a section 23 notice that proposes modifying special condition C14 of NGG's transporter licence by removing the requirement for NGG to provide information relating to the residual balancing incentive and the system balancing incentive under the terms of its licence.

Subject to the outcome of this statutory consultation, the Authority will issue a formal information request under special condition C5 of NGG's transporter licence at the same time as directing the licence modification. It should be noted that failure to comply with such a request by NGG may result in the enforcement of the relevant licence condition and the imposition of a financial penalty.² Ofgem may also request information from NGG on an ad hoc basis as and when it is required.

Please contact Kirsten Hall on 020 7901 7362 or Alessandro Rubino on 020 7901 7311 if you would like to discuss any aspect of this letter further.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew Wright', with a long horizontal line extending from the end of the signature.

Andrew Wright
Managing Director, Markets

² Under section 30A of the Gas Act 1986, where the Authority is satisfied that a licence holder has contravened or is contravening any relevant condition, the Authority may, subject to section 30C, impose on the licence holder a penalty of such amount as is reasonable in the circumstances of the case.

NOTICE OF MODIFICATION OF THE SPECIAL CONDITIONS OF NATIONAL GRID GAS PLC'S GAS TRANSPORTER LICENCE IN RESPECT OF ITS NATIONAL TRANSMISSION SYSTEM UNDER SECTION 23 OF THE GAS ACT 1986

1. National Grid Gas plc ("NGG") holds a gas transporter licence (the "licence") in respect of its National Transmission System ("NTS") treated as granted pursuant to section 7 of the Gas Act 1986 (the "Act").
2. In accordance with section 23(3) and (4) of the Act, the Gas and Electricity Markets Authority (the "Authority") gives notice that it proposes to modify the Special Conditions of the licence in accordance with the Schedule to this Notice.
3. The proposed licence modification amends Special Condition C14 by removing the requirement on NGG to provide the Authority with information relating to NGG's residual balancing incentive and system balancing incentive. In the future, the Authority considers that it would be appropriate for this type of information to be provided in accordance with an information request under Special Condition C5(14) of the licence. This approach has the advantage of being more flexible and proportionate than the detailing of a rigid set of information to be provided under Special Condition C14. However, it will still enable the Authority to monitor effectively NGG's procurement and use of system management services and its performance against its incentive scheme.
4. Subject to the outcome of this statutory consultation, consideration of respondents' views and the consent of NGG being given, it is the intention of the Authority that the proposed licence modification shall have effect on and from 06:00 hours on 1 June 2008.
5. Any representations or objections to the proposed licence modification may be made before 27 May 2008 and sent to:

Andrew Wright
Managing Director, Markets
Ofgem
9 Millbank
London SW1P 3GE

or by e-mail to GB.markets@ofgem.gov.uk.

Andrew Wright
Managing Director, Markets
Duly authorised on behalf of the Gas and Electricity Markets Authority



29 April 2008

SCHEDULE

PROPOSED MODIFICATION OF THE SPECIAL CONDITIONS OF NATIONAL GRID GAS PLC'S GAS TRANSPORTERS LICENCE IN RESPECT OF ITS NATIONAL TRANSMISSION SYSTEM UNDER SECTION 23 OF THE GAS ACT 1986

1. In Special Condition C14 (Information to be provided to the Authority in connection with the transportation system revenue restriction in respect of the NTS transportation owner activity and NTS system operation activity), in paragraph 1:

(a) omit:

Residual balancing incentive information			
STIP _t	Sum of total daily residual balancing incentive payments	Formula years	By 30 June in formula year t+1
STIP _t	Sum of total daily residual balancing incentive payments	Year to date	Monthly 2 weeks after month end
RBIR _t	Residual gas balancing incentive revenue	Formula years	By 30 June in formula year t+1
RBIR _t	Cumulative balance and end of year forecast of residual gas balancing incentive revenue	Year to date	Monthly 2 weeks after month end
SDPIP _t	Sum of daily price incentive payments	Formula years	By 30 June in formula year t+1
SDPIP _t	Sum of daily price incentive payments	Year to date	Monthly 2 weeks after

			month end
$SDLIP_t$	Sum of daily linepack incentive payments	Formula years	By 30 June in formula year $t+1$
$SDLIP_t$	Sum of daily linepack incentive payments	Year to date	Monthly 2 weeks after month end
$DPIP_{d,t}$	Daily price incentive payment	For each day in the month in question	2 weeks after month end
$DLIP_{d,t}$	Daily linepack incentive payment	For each day in the month in question	2 weeks after month end
$PPM_{d,t}$	Daily residual balancing price performance measure	For each day in the month in question	2 weeks after month end
$LPM_{d,t}$	Linepack performance measure	For each day in the month in question	2 weeks after month end
$OLP_{d,t}$	Opening linepack levels NTS linepack at 06:00 hours on day D	For each day in the month in question	2 weeks after month end
$CLP_{d,t}$	Closing linepack levels NTS linepack at 06:00 hours on	For each day in the month	2 weeks after month end

	day D+1	in question	
$SAP_{d,t}$	System average price	Daily	D+1
$TMIBP_{d,t}$	Highest market offer price in relation to an eligible market balancing action	Daily	D+1
$TMISP_{d,t}$	Lowest market offer price in relation to an eligible market balancing action	Daily	D+1

(b) omit:

System balancing incentive information			
$SBIR_t$	System balancing incentive revenue	Formula years	By 30 June in formula year t+1
$SBIR_t$	Cumulative balance and end of year forecast of system balancing incentive revenue	Year to date	Monthly 4 weeks after month end
$GCIR_t$	Gas cost incentive revenue	Formula years	By 30 June in formula year t+1
$GCIR_t$	Cumulative balance and end of year forecast of gas cost incentive revenue	Year to date	Monthly 4 weeks after month end
	Daily system gas balancing volumes	For each day in the month	2 weeks after month end

		in question	
$SRIR_t$	System reserve incentive revenue	Formula years	By 30 June in formula year $t+1$
$SRIR_t$	Cumulative balance and end of year forecast of system reserve incentive revenue	Year to date	Monthly 4 weeks after month end
$GCCP_t$	Gas cost incentive performance measure	Formula years	By 30 June in formula year $t+1$
$GCCP_t$	Gas cost incentive performance measure	Year to date	Monthly 4 weeks after month end
$SRCP_t$	System reserve performance measure	Formula years	By 30 June in formula year $t+1$
$SRCP_t$	System reserve performance measure	Year to date	Monthly 4 weeks after month end
	Volume and price of Transco plc's storage bookings by storage facility	For each day in the month in question	2 weeks after month end
GC_t	Costs incurred in the provision of NTS shrinkage other than ECC_t	Formula years	By 30 June in formula year $t+1$

ECC_t	Costs incurred in purchasing and procuring fuel for electric compressors on the NTS	Formula years	By 30 June in formula year $t+1$
$UDQI_{t-2,q,d}$	Sum of gas shippers' user daily quantity inputs at Bacton, Barrow, Easington, St Fergus, Teesside, Theddlethorpe, Isle of Grain and Miford Haven	For each day of the year for formula year $t-2$	By 30 June in formula year $t+1$
$UDQI^S_{t-2,q,d}$	Sum of gas shippers' user daily quantity input at storage connection point S	For each day of the year for formula year $t-2$	By 30 June in formula year $t+1$
$UDQO^S_{t-2,q,d}$	Sum of gas shippers' user daily quantity output at storage connection point S	For each day of the year for formula year $t-2$	By 30 June in formula year $t+1$
$GCIT_t$	NTS SO gas cost incentive target	Formula years	By 30 June in formula year $t+1$
$GCRP_t$	NTS SO gas cost reference price	Formula years	By 30 June in formula year $t+1$

(c) omit:

Other information required for general market monitoring			
	Daily system demand	Daily	D+1

	Daily interconnector flows at Bacton and at Moffat	For each day in the month in question	Two weeks after month end
	Daily system allocations by entry terminal by gas shipper	For each day in the month in question	Four weeks after month end
	Daily gas shipper imbalances	For each day in the month in question	Four weeks after month end
	Gas shipper system entry capacity holdings excluding daily sales by gas shipper by terminal by day	For each day in the week in question	One week after week end