

NOTICE UNDER SECTION 23 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:

The Authority proposes to modify the gas transporter licence (the "licence") treated as granted pursuant to section 7 of the Act to National Grid Gas plc in respect of the NTS (within the meaning given to "NTS" in Standard Special Condition A3 (Definitions and Interpretation) of the licence) by altering Special Condition C8G (NTS System Operator internal incentives, costs and revenues) (the "condition") of the licence as set out in the Schedule to this Notice.

1. The effect of the proposed licence modification is to:
 - (a) extend the meaning and application of the formula for Non-incentivised costs (NC_t) to include a revenue adjustment term ($IXLU_t$) that facilitates the full recovery by the licensee of logged up costs incurred by it in respect of its NTS system operation activity in the period 1 April 2008 to 31 March 2012 in respect of certain charges levied on the licensee by xoserve, the agency referred to in Standard Special Condition A3 (Agency) of the licence; and
 - (b) omit current references in the condition to formula years $t=1$ to $t=5$ and in their stead, refer to formula years $t=6$ to $t=10$.
2. The reasons why the Authority proposes to make the licence modification were published by the Authority in various documents including -
 - a) "National Grid Gas NTS price control allowance for xoserve", Ofgem open letter, 20 December 2007; and
 - b) "Decision on National Grid Gas NTS's price control allowance for xoserve", Ofgem open letter, 1 May 2008,published on behalf of the Authority and 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, and in summary the reasons for the proposed licence modifications are to make textual revisions to the condition and also to set out in the condition a mechanism to enable the recovery of an appropriate level of allowed revenues for the licensee in relation to xoserve's costs.
3. Subject to the Secretary of State making a direction under section 23(5) of the Act, the Authority considering any objections which are duly made and not withdrawn and the licensee consenting to the modification, it is the intention of the Authority that the proposed licence modification shall take retrospective effect on and from 06:00 hours on 1 April 2008.
4. Any representations or objections to the proposed licence modification must be made on or before 6 June 2008 and sent to:

Steve Smith
Managing Director, Networks
Ofgem
9 Millbank
London
SW1P 3GE,

or by e-mail to Steve.Smith@ofgem.gov.uk, and if a respondent does not wish its response to be made public, that response should be clearly marked as not for publication.

A handwritten signature in black ink, consisting of several overlapping, horizontal, wavy lines that suggest the name 'Steve Smith'.

Steve Smith
Managing Director, Networks
Duly authorised on behalf of the Gas and Electricity Markets Authority
9 May 2008

SCHEDULE TO THE NOTICE UNDER SECTION 23 OF THE GAS ACT 1986

1. Special Condition C8G (NTS System Operator internal incentives, costs and revenues) is amended as set out in paragraphs 2 and 3 below.

- (a) "t=1", where it appears, substitute "t=6";
- (b) "t=2", where it appears, substitute "t=7";
- (c) "t=3", where it appears, substitute "t=8";
- (d) "t=4", where it appears, substitute "t=9";
- (e) "t=5", where it appears, substitute "t=10".

2. For paragraph (d) (Non-incentivised costs (NC_t)), substitute:

"(d) Non-incentivised costs (NC_t)

The non-incentivised costs allowed to the licensee in respect of formula year t (NC_t) shall be derived in the following manner:

$$NC_t = (IT_t + IP_t + IX_t + IXLU_t) \times \left[1 + \left(\frac{IRPI_t}{100} \right) \right]$$

where:

IT_t means the licensee's tax allowance in respect its NTS system operation activity in respect of formula year t as set out in the following table:

Variable	Formula years				
	t=6	t=7	t=8	t=9	t=10
IT _t (£ million, 04/05 prices)	3.1	2.1	1.3	0.0	-0.4

IP_t means the licensee's pension cost allowance in respect of its NTS system operation activity in respect of formula year t as set out in the following table:

Variable	Formula years				
	t=6	t=7	t=8	t=9	t=10
IP_t (£ million, 04/05 prices)	6.7	6.9	6.8	7.1	7.1

IX_t means the relevant proportion (in respect of its NTS system operation activity) of the charge levied on the licensee by the agency (as defined in Standard Special Condition A15 (Agency)) in respect of formula year t as set out in the following table:

Variable	Formula years				
	t=6	t=7	t=8	t=9	t=10
IX_t (£ million, 04/05 prices)	6.6	10.6	14.5	9.3	6.6

$IXLU_t$ means the revenue adjustment term, whether of a positive or of a zero value, required to effect the full recovery by the licensee of logged up costs (adjusted for financing costs) and in all formula years shall take the value zero except for the formula year commencing on 1 April 2012 for which it shall take a value being the relevant proportion of the total

of the expenditure incurred by the licensee in respect of its NTS system operation activity in the period 1 April 2008 to 31 March 2012 in respect of charges levied on the licensee by the agency (as defined in Standard Special Condition A15 (Agency)) for:

(a) information technology systems development costs; and

(b) the provision of services

resulting from changes to the industry frameworks, subject to the licensee having demonstrated to the Authority that such costs have been efficiently incurred. For the avoidance of doubt, the changes to the industry frameworks in respect of which the licensee shall be entitled to recover its expenditure in respect of charges levied by the agency shall include:

(a) Entry capacity base line swapping associated with the entry capacity substitution obligation;

(b) The introduction of the 0.52p/kWh limit on buying-back incremental capacity;

(c) Energy balancing changes;

(d) European driven changes – change of gas day times to facilitate cross border flows and information provision costs;

(e) 20% of any costs attributable to major changes to the reconciliation by difference process; and

(f) Shipper driven UNC modification proposals – 100% of GEMINI system expenditure, 11% of other system expenditure.

The total amount of these logged up costs is not to exceed £10.5m (04/05 prices)

IRPI_t has the same meaning ascribed to it in paragraph 1(b) of this condition.”