



To The Company Secretary
National Grid Gas plc
National Grid House
Warwick Technology Park
Gallows Hill, Warwick
CV34 6DA

*Promoting choice and
value for all customers*

MODIFICATION OF THE GAS TRANSPORTER LICENCE UNDER SECTION 23 OF THE GAS ACT 1986

Whereas:

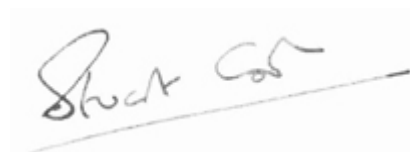
1. National Grid Gas plc, ("the NTS Licensee") is the holder of a gas transporter (GT) licence in respect of the National Transmission System (NTS) ("the NTS Licence") treated as granted under Section 7 of the Gas Act ("the Act").
2. Pursuant to Section 23(3) of the Act, the Gas and Electricity Markets Authority ("the Authority") gave notice on 9 May 2008 ("the Notice") that it proposed to modify a Special Condition of the NTS Licence.
3. Prior to the close of the consultation period in respect of the Notice, the Authority received two responses in relation to the proposed modification of the NTS Licence.
4. The Authority has carefully considered all representations made in relation to the proposed modification of the NTS Licence and not withdrawn.
5. One respondent noted that the timetable for this process had slipped from the initial plan to conclude this before 1 April 2008 and noted that retrospective licence modifications should be avoided. The Authority acknowledges the arguments made against retrospective licence modifications. However, the delay was partly caused by the Licensee submitting new information in response to our deliberations which we had to fully consider.
6. Pursuant to Section 23(4)(b) of the Act, the Authority gave notice of its intention to modify the NTS Licence to the Secretary of State and has not yet received a direction from the Secretary of State not to make the modification.
7. On 16 May 2008 the NTS Licensee gave its written consent to the proposed modification of the NTS Licence.
8. In accordance with Section 38A of the Act, the reasons for making this decision to modify the NTS Licence were published 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 NTS Licensee in relation to xoserve's costs.

Pursuant to the powers contained in section 23(1)(a) of the Act, and with effect from 11 July 2008, the Authority hereby modifies the NTS Licence by amending Special Condition C8G, in the manner set out in the Schedule to this Notice.

The official seal of the Gas and Electricity Markets Authority is affixed to this decision and is authenticated by

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

Stuart Cook
Director, Transmission
Duly authorised on behalf of the Authority
11 July 2008

SCHEDULE

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:

	Formula years				
Variable	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:

	Formula years				
Variable	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.”