

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 effect of the proposed licence modification is to put in place a new environmental incentive scheme. The new incentive scheme relates to methane emissions resulting from compressor venting. It will apply for the year 1 April 2008 to 1 April 2009.
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 take retrospective effect on and from 06:00 hours on 1 April 2008.
5. Information in relation to the proposed licence modification is contained in the following document:

"National Grid Gas (NTS) SO Environmental Incentive - Initial Proposals Consultation", National Grid, May 2008.

This document is available from the National Grid website at <http://www.nationalgrid.com/uk>

6. The reasons why the Authority proposes to make the licence modification were published by the Authority in the following documents:

"National Grid Gas's SO incentives from 1 April 2008: Environmental Incentive – Methane Emissions: Final Proposals", Ofgem, 2 July 2008.

"National Grid Electricity Transmission and National Grid Gas System Operator Incentives from 1 April 2008: Final proposals and statutory licence consultations", Ofgem, February 2008.

These documents are 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.

7. Any representations or objections to the proposed licence modification may be made by 31 July 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.

A handwritten signature in black ink, appearing to read 'Andrew Wright', with a long horizontal line underneath it.

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

3 July 2008

SCHEDULE

PROPOSED 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. Special Condition C8F (NTS System Operator external incentives, costs and revenues) is amended as set out in paragraphs 2 and 3 below.
2. In paragraph (1) (External cost incentive revenue ($SOOIRC_t$)), subparagraph (a) (Principal formula):

(a) for the formula from which $SOOIRC_t$ is derived, substitute:

$$"SOOIRC_t = SBIRC_t + RBIRC_t + QIIR_t + MEVR_t";$$

(b) after the definition of $QIIR_t$, insert:

" $MEVR_t$ means the methane emissions venting incentive revenue allowed to the licensee in respect of formula year t and shall be calculated in accordance with paragraph 5 of this condition."

3. After paragraph (4) (Quality of information incentive ($QIIR_t$)), insert:

"(5) Methane emissions venting incentive revenue ($MEVR_t$)

(a) For the purposes of paragraph 1(a) of this condition, the methane emissions venting incentive revenue ($MEVR_t$) allowed to the licensee in respect of formula year t shall be derived in the following manner:

(i) if $MEVTL_t < MEV_t < MEVTU_t$,

then $MEVR_t = 0$; but

(ii) if $MEVTL_t \geq MEV_t$,

then $MEVR_t = (MEVTL_t - MEV_t) * MEVRP_t$; otherwise

(iii) $MEVR_t = (MEVTU_t - MEV_t) * MEVRP_t$

(b) For the purposes of this condition:

$MEVTL_t$ means the methane emissions incentive target volume lower limit (in tonnes of natural gas) which, in respect of formula year $t=7$, shall take the value 1982 and, in respect of formula year $t \geq 8$, shall take the value 0;

MEV_t means the methane emissions performance volume (in tonnes of natural gas) in formula year t resulting from venting;

MEVTU_t means the methane emissions incentive target volume upper limit (in tonnes of natural gas) which, in respect of formula year t=7, shall take the value 2191 and, in respect of formula year t≥8, shall take the value 0; and

MEVRP_t means the methane emissions incentive reference price (in £/tonne of natural gas) which, in respect of formula year t=7 shall take the value £437, and, in respect of formula year t≥8, shall take the value 0.

“compressor” means plant and equipment forming part of a pipe-line system to which this licence relates that is used by the licensee to increase the pressure of gas in part of that pipe-line system; and

“venting” means the release of gas from a compressor as a result of:

- a) Starting a compressor;
- b) Purging a compressor;
- c) Depressurising a compressor; or
- d) The leakage of gas through a seal around the shaft of a compressor.”