

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

NOTICE OF REASONS FOR THE DECISION TO MODIFY 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"):
 - (a) gave notice (the "Notice") on 11 August 2008 that it proposed to modify the special conditions of the licence in accordance with the Schedule to the Notice;
 - (b) published the Notice in the manner it considered appropriate; and
 - (c) served a copy of the Notice on NGG.
3. The Authority gave notice of its intention to make the proposed licence modification to the Secretary of State. The Authority did not receive a direction from the Secretary of State not to make the proposed licence modification before the relevant time specified in the Notice.
4. The Authority received no representations in relation to the proposed licence modification before the relevant time specified in the Notice. No representations were withdrawn.
5. On 3 September 2008 NGG gave its written consent to the modification proposed in the Notice.
6. 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, 2 May 2008.

This document is available from the National Grid website at www.nationalgrid.com/UK

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

"National Grid Gas System Operator Incentives from 1 April 2008: Environmental Incentive - Methane Emissions: amendment of Final Proposals", Ofgem, 11 August 2008.

"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.

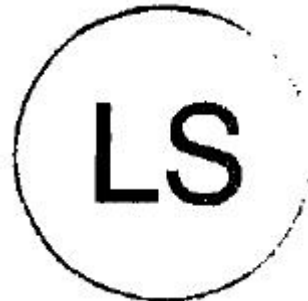
These documents are available free of charge from the Ofgem Research and Information Centre, 9 Millbank, London SW1P 3GE or from the Ofgem website at www.ofgem.gov.uk.

THEREFORE:

In accordance with section 23 of the Act, the Authority hereby modifies the special conditions of NGG's licence in accordance with the Schedule to this Modification with retrospective effect on and from 06:00 hours on 1 April 2008.

This document constitutes a notice of reasons for the decision to modify the special conditions of NGG's licence under section 38A of the Act.

The Official Seal of the Gas and Electricity Markets Authority here affixed is authenticated by the signature of:



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

9 September 2008

SCHEDULE

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 $t \geq 8$, shall take the value 0;

$MEVRP_t$ 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 $t \geq 8$, shall take the value 0;

“compressor” means gas turbine driven plant forming part of the 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.”