



Consumers and their
representatives, gas
transporters, gas shippers, gas
suppliers and other interested
parties

*Promoting choice and
value for all customers*

Direct Dial: 020 7901 7009
Email: stuart.cook@ofgem.gov.uk

Date: 11 May 2010

Dear Colleague

Notice under section 23 of the Gas Act 1986 - Special Condition C8G of National Grid Gas Plc's (NGG) National Transmission System (NTS) Gas Transporter licence with respect to System Operator internal incentives, costs and revenues

We are proposing to modify NGG's gas transporter licence to replace two cost terms in paragraph 1(b) of Special Condition C8G (NTS System Operator internal incentives, costs and revenues) which have unintentionally become undefined following changes to Special Condition C8F. The two terms to be replaced are:

- **"SBIC"** which is the SO (System Operator) System Balancing Incentive Costs; and
- **"RBIC"** which is the SO Residual Balancing Incentive Costs.

Special Condition C8F of the Licence was amended to introduce new SO incentives with effect from 1 April 2009¹. The definitions of the SBIC and RBIC terms previously contained in Special Condition C8F were removed. However, these terms are still referred to in Special Condition C8G for the purposes of obtaining the correct value for Internal Operating Costs ("IOC") in Special Condition C8G. An unintended consequence is that these terms have been undefined since 1 April 2009.

The impact of leaving Standard Condition C8G unchanged is that the cost terms RBIC and SBIC would no longer be deducted from the IOC term. As a consequence, an apparent overspend of IOC against the internal cost incentive target (referred to as IOIT in paragraph 1(b) of Special Condition C8G) would occur with the result that the performance under this incentive would be incorrectly represented.

The SO incentive changes of 1 April 2009 removed the definition of SBIC and disaggregated this term into its components for the purposes of transparency. The disaggregated components ("SC" (system costs), "OMC" (operating margins services costs) and "OMPC" (potential future operating margins services costs)) are proposed to be used in Special Condition C8G to re-establish the intended value of SBIC from 1 April 2009. RBIC has been

¹ National Grid Electricity Transmission and National Grid Gas System Operator Incentives from 1 April 2009. The section 23 Decision Notice dated 31 March 2009 can be found here: <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=169&refer=Markets/WhIMkts/EffSystemOps/SystOpIncent>

relabelled RBC following minor clarification of the term (but is otherwise unchanged) and is proposed to be used in Special Condition C8G to re-establish the intended value of RBIC from 1 April 2009.

The proposed amendments are set out in the Schedule to the Notice issued under section 23 of the Gas Act 1986 accompanied by this letter and we propose that the modification will be effective retrospectively on and from **1 April 2009**.

If you have any comments or questions on this letter, please contact Harvey Beck on 020 7901 7088 or gas.transmissionresponse@ofgem.gov.uk in the first instance.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Stuart Cook', written over a horizontal line.

Stuart Cook
Senior Partner, Transmission and Governance