

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 (the "Licensee") holds a gas transporter licence (the "Licence") in respect of its National Transmission System ("NTS") granted or 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") hereby gives notice that it proposes to modify Special Condition C8G (NTS System Operator internal incentives, costs and revenues) of the Licence in accordance with the Schedule to this Notice.
3. The effect of the proposed modification is to re-establish the values attributed to the terms "SBIC" and "RBIC" referred to in Special Condition C8G of the Licence which are used for the purposes of adjusting the relevant formula so as to obtain the correct value for Internal Operating Costs ("IOC") in Special Condition C8G effective from 1 April 2009.
4. The reason for proposing this modification is that Special Condition C8F of the Licence was amended to introduce new System Operator (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 cross-referred in Special Condition C8G for the purposes of obtaining the correct value for IOC in Special Condition C8G. An unintended consequence of amendment of Special Condition C8F of the Licence is that these terms now have no value attributed to them since 1 April 2009.
5. 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 Special Condition C8G) would occur with the result that the performance under this incentive would be incorrectly represented since 1 April 2009.
6. Note that 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 are "SC" (system costs), "OMC" (operating margins services costs) and "OMPC" (potential future operating margins services costs). We propose that these are used to re-establish the intended value of SBIC from 1 April 2009. RBIC has been relabelled RBC following minor clarification of the term (but is otherwise unchanged) and we propose this term to be used in Special Condition C8G to re-establish the intended value of RBIC from 1 April 2009. These terms are defined in the Schedule to this Notice. For the avoidance of doubt, in the revised text reference to t=8 is for the formula year starting 1st April 2009.
7. Subject to the outcome of this statutory consultation, consideration of respondents' views and the Licensee's consent being given, it is the intention of the Authority to direct the proposed Licence modification to have effect retrospectively on and from **1 April 2009**.

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/WhlMkts/EffSystemOps/SystOpIncent>

8. A copy of the proposed modification and other documents referred to in this Notice are available (free of charge) from the Ofgem Research and Information Centre, 9 Millbank, London SW1P 3GE or on the Ofgem website (www.ofgem.gov.uk).

9. Any representations or objections to the proposed modification may be made on or before **9 June 2010** and sent to:

Stuart Cook
Senior Partner, Transmission & Governance
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE
or by email to: gas.transmissionresponse@ofgem.gov.uk

10. All responses will normally be published on Ofgem's website and held in the Research and Information Centre. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication.



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Stuart Cook, Senior Partner, Transmission and Governance

Duly authorised on behalf of the Gas and Electricity Markets Authority

11 May 2010