

MODIFICATION OF SPECIAL CONDITION C8G OF NATIONAL GRID GAS PLC'S GAS TRANSPORTER LICENCE IN RESPECT OF ITS NATIONAL TRANSMISSION SYSTEM UNDER SECTION 23(1)(a) OF THE GAS ACT 1986

NOTICE OF REASONS FOR THE DECISION TO MODIFY SPECIAL CONDITION C8G OF NATIONAL GRID GAS PLC'S GAS TRANSPORTER LICENCE UNDER SECTION 38A OF THE GAS ACT 1986

Whereas:

1. National Grid Gas plc ("the Licensee") is the holder of a Gas Transporter Licence in respect of its National Transmission System ("the Licence") granted or treated as granted under section 7 of the Gas Act 1986 ("the Act").
2. In accordance with section 23(3) of the Act the Gas and Electricity Markets Authority ("the Authority") gave notice ("the Notice") on 11 May 2010 that it proposed to modify Special Condition C8G of the Licence requiring any objections or representations to the proposed modification to be made on or before 9 June 2010.
3. In accordance with section 23(4)(b) of the Act, the Authority gave notice of its intention to modify Special Condition C8G of the Licence to the Secretary of State and did not receive a direction from the Secretary of State not to make the modification.
4. On 19 May 2010 the Licensee gave written consent to the proposed modification subject to a clarification of the definition of the term "OMPC_t" to clarify which costs are relevant to the term "IOC_t" within the licence. The Authority considers the suggested amendment to be clarificatory and has made the change as follows:
 - a. In the definition of the "OMPC_t" term, the words "in respect of formula year t" are inserted after the words "means the total cost incurred by the licensee" and the words "total cost" are now "total costs".
 - b. A typographical error in which the term "formula years" is repeated in the same definition has also been amended to remove the repeated phrase.
5. Prior to the close of the consultation period in respect of the Notice, the Authority received no other responses in relation to the proposed modifications.
6. In accordance with section 38A of the Act, the reason for making this decision to modify the Licence 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.
7. 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. Therefore, the Authority proposed to modify the Licence retrospectively from 1 April 2009. For

¹ National Grid Electricity Transmission and National Grid Gas System Operator Incentives from 1 April 2009.

the avoidance of doubt, in the revised text set out in the schedule to this modification, reference to $t=8$ is for the formula year starting 1 April 2009.

8. Further details of the reasons for making the Licence modification are published by the Authority in the letter dated 11 May 2010 (reference 59/10) which accompanied the Notice.
9. Copies of the documents referred to in this modification 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 the powers contained in section 23(1)(a) of the Act, the Authority hereby modifies Special Condition C8G of the Licence in the manner set out in the schedule to this modification, with effect on and from 1 April 2009.

This document also constitutes notice of reasons for the decision to modify the 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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Stuart Cook
Senior Partner, Transmission and Governance
Duly Authorised on behalf of the Authority
18 June 2010



SCHEDULE

MODIFICATION OF SPECIAL CONDITION C8G OF THE LICENCE UNDER SECTION 23(1)(a) OF THE GAS ACT 1986

Special Condition C8G of the Licence is modified in the manner specified in this schedule:

Special Condition C8G. NTS System Operator internal incentives, costs and revenues. Paragraph (1)(b) (Internal operating cost incentive revenue (IOIRC_t))

(b) Internal operating cost incentive revenue (IOIRC_t)

The maximum internal operating costs incentive revenue allowed to the licensee in respect of formula year t (*IOIRC_t*) shall be derived in the following manner

If $\left[1 + \left(\frac{\text{IRPI}_t}{100}\right)\right] \times \text{IOIT}_t \geq \text{IOC}_t$, then:

$$\text{IOIRC}_t = \left(\left[1 + \left(\frac{\text{IRPI}_t}{100}\right)\right] \times \text{IOIT}_t \right) - \left(\left(\left[1 + \left(\frac{\text{IRPI}_t}{100}\right)\right] \times \text{IOIT}_t \right) - \text{IOC}_t \right) \times (1 - \text{ICUSF}_t)$$

Otherwise:

$$\text{IOIRC}_t = \left(\left[1 + \left(\frac{\text{IRPI}_t}{100}\right)\right] \times \text{IOIT}_t \right) - \left(\left(\left[1 + \left(\frac{\text{IRPI}_t}{100}\right)\right] \times \text{IOIT}_t \right) - \text{IOC}_t \right) \times (1 - \text{ICDSF}_t)$$

where:

IOIT_t means the internal cost incentive target 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
IOIT _t (£ million, 04/05 prices)	24.2	23.2	25.4	24.6	24.2

IOC_t

means the operating costs incurred in respect of formula year t attributable to the provision of NTS SO activity in accordance with Special Condition C9 (Allocation of revenues and costs for calculations under the price control in respect of the NTS transportation owner activity and NTS system operation activity) other than ExCC_t, EnCBBC_t, ExCBBICP_t, SC_t, OMC_t, OMPC_t, RBC_t, SBIC_t, RBIC_t—Pension Costs and charges levied on the licensee by the agency (as defined in Standard Special Condition A15 (Agency)).

where:

EnCBBC_t shall have the meaning set out in paragraph 3(c) of Special Condition C8D (NTS gas entry incentives, costs and revenues);

ExCBBICP_t shall have the meaning set out in paragraph 1(b) of Special Condition C8E (NTS gas exit incentives, costs and revenues);

ExCC_t shall have the meaning set out in paragraph 1(c)(ii) of Special Condition C8E (NTS gas exit incentives, costs and revenues);

~~SBIC_t shall have the meaning set out in paragraph 2(g) of Special Condition~~

~~C8F (NTS System Operator external incentives, costs and revenues);~~

~~RBIG_t shall have the meaning set out in paragraph 3(a) of Special Condition C8F (NTS System Operator external incentives, costs and revenues);~~

SC_t with effect from formula year t =8, shall have the meaning set out in paragraph 1(a) of the Special Condition C8F (NTS System Operator external incentives, costs and revenues);

OMC_t with effect from formula year t=8, shall have the meaning set out in paragraph 1 (a) of Special Condition C8F (NTS System Operator external incentives, costs and revenues);

OMPC_t means the total costs incurred by the licensee in respect of formula year t in respect of the procurement and utilisation of services that have been paid for the purposes of establishing and testing potential future Operating Margins services and which are not included in the calculation of OMC_t and shall have a zero value for all formula years except formula year t =8;

RBC_t with effect from formula year t=8, shall have the meaning set out in paragraph 1(a) of Special Condition C8F (NTS System Operator external incentives, costs and revenues);

Pension Costs

means the actual cash contributions made to the scheme in respect of both ongoing contributions and deficit payments attributable to the transportation system as well as scheme administration costs and payments made to the Pension Protection Fund (as defined under the Pensions Act 2004)

ICUSF_t means the internal cost upside sharing factor 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
ICUSF _t	0.4	0.4	0.4	0.4	0.4

ICDSF_t means the internal cost downside sharing factor 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
ICDSF _t	0.4	0.4	0.4	0.4	0.4

IRP_t in respect of formula year t, means the percentage change (whether of a positive or a negative value) between (a) the arithmetic average of the retail price index published or determined with respect to each of the six months from July to December (both inclusive) in formula year t-1 and (b) 182.37 (being the value for t-1 in 2004/05).