

To: National Grid Gas plc

**NOTICE OF MODIFICATION OF STANDARD CONDITION 4B (CONNECTION CHARGING METHODOLOGY) AND SPECIAL CONDITION C7 (CHARGING OBLIGATIONS) 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**

1. National Grid Gas plc (the "Licensee") holds a gas transporter licence in respect of its National Transmission System ("NTS Licence") granted or treated as granted pursuant to section 7 of the Gas Act 1986 (the "Act").
2. In accordance with paragraph 23(3) and (4) of the Act, the Gas and Electricity Markets Authority (the "Authority") hereby gives notice that it proposes to modify, in the manner as set out in the schedule to this Notice, Standard Condition 4B (Connection Charging Methodology) of the NTS Licence and consequential amendment to Special Condition C7 (Charging obligations) of its NTS Licence.
3. In summary, the effect of the proposed licence modification is to obligate the Licensee to incorporate, by 31 December 2010, the connection charging methodology maintained under standard condition 4B into the uniform network code and utilise the code modification procedures for modifications to that charging methodology as set out in the Code Governance Review Final Proposals published on 31 March 2010<sup>1</sup> (the "Final Proposals").
4. In summary, the reasons for proposing the licence modification are that, as part of the Code Governance Review, we have identified a number of deficiencies in the existing code arrangements which the Final Proposals seeks to remedy. Particularly, charging methodologies developed by network owners and operators (NWOs) have impacts upon both the operational and siting decisions of market players, as well as having significant distributional effects. Under the existing charging methodology arrangements network users and customers are not able to formally propose modifications to the charging methodologies. We consider that opening up the charging methodologies should enable network users and customers to bring forward innovative changes and address any deficiencies in existing methodologies. Utilising the relevant industry code governance process would be the most efficient and transparent mechanism going forward. This may lead to improvements in cost reflectivity which should promote competition between network users, ultimately to the benefit of customers. The detailed reasons for proposing the licence modification are contained in the following documents:
  - a. Code Governance Review: Final Proposals, Ofgem Ref: 43/10.

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<sup>1</sup> A copy of the Code Governance Review Final Proposals can be found here: [http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=CGR\\_Finalproposals\\_310310.pdf&refer=Licensing/IndCodes/CGR](http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=CGR_Finalproposals_310310.pdf&refer=Licensing/IndCodes/CGR).

- b. Code Governance Review: Governance of charging methodologies: Initial proposals - Ofgem Ref: 108/09.
  - c. Code Governance Review: Major Policy Reviews and Self-Governance - Initial Proposals - Ofgem Ref: 84/09.
  - d. Code Governance Review – role of code administrators and small participant/consumer initiatives – initial proposals - Ofgem Ref: 85/09.
  - e. Review of Industry Code Governance - Environment and Code Objectives - Ofgem Ref: 66/09.
  - f. Review of Industry Code Governance – Code Administrators Working Group - Ofgem open letter, 20 April 2009.
  - g. Review of Industry Code Governance – role of code administrators and small participant/consumer initiatives - Ofgem Ref: 173/08.
  - h. Review of Industry Code Governance – Environment and Code Objectives, Ofgem open letter, 21 November 2008.
  - i. Code Governance Review: Charging methodology governance options - Ofgem Ref: 132/08.
  - j. Review of industry code governance - scope of review - Ofgem Ref: 92/08.
  - k. Corporate Strategy and Plan 2008-2013 - Ofgem Ref: 34/08.
  - l. Open letter announcing review of industry code governance - Ofgem Ref: 284/07.
5. In respect of the proposed consequential amendment to Special Condition C7 (Charging obligations) of the NTS Licence, we note that the proposed modification of Standard Special Condition A5 (Obligation as regard charging methodology) – subject of another notice of modification under Standard Special Condition A2 of the NTS Licence also published today - affects the application of particular provisions of Special Condition C7 (Charging obligations) of the NTS Licence. Those particular provisions of Special Condition C7 insert certain provisions into Standard Special Condition A5 in respect of the NTS Licence which we are proposing to remove. Therefore, we are proposing consequential amendments to those particular provisions of Special Condition C7 of the NTS Licence. Apart from this, the proposed modification of Standard Special Conditions A5 (in all other respects), A11 and A12 do not affect the application of special conditions pertaining to the NTS Licence or the DN Licences.
6. Documents referred to in this Notice are available free of charge from the Ofgem Research and Information Centre, 9 Millbank, Westminster, SW1P 3GE (020 7901 7003 or [library@ofgem.gov.uk](mailto:library@ofgem.gov.uk)) or from the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)).

7. Any representations or objections to the proposed licence modification may be made on or before 1 July 2010 to:

Clare Cameron  
Licensing and Codes Manager, Industry Codes & Licensing  
Ofgem  
9 Millbank  
Westminster  
SW1P 3GE

Or by email to [industrycodes@ofgem.gov.uk](mailto:industrycodes@ofgem.gov.uk)

8. 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.
9. Subject to the outcome of this statutory consultation, consideration of respondents' views and consent of the Licensee, it is the intention of the Authority to direct the proposed modification to Standard Condition 4B and Special Condition C7 of the NTS Licence to have effect on and from 31 December 2010.

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**Mark Cox, Associate Partner, Industry Codes and Licensing**

**Duly authorised on behalf of the Gas and Electricity Markets Authority**

**3 June 2010**

## SCHEDULE

### PROPOSED MODIFICATION OF STANDARD CONDITION 4B OF THE NTS LICENCE

Standard condition 4B of the NTS Licence is proposed to be modified in the manner set out in this schedule:

#### PART III: AMENDMENTS TO THE STANDARD CONDITIONS:

##### Amendment to Standard Condition 4B

Standard condition 4B is amended as follows (the proposed insertions are shown underlined and the proposed deletions are shown crossed-through):

#### Standard Condition 4B. Connection Charging Methodology

1. Subject to paragraph 2, where any pipe is supplied and laid by the licensee in discharge of the duty imposed by section 10(2)(a) of the Act, for the purpose of connecting premises ("the premises concerned") to a relevant main, the licensee may charge the person requiring the connection ("the person concerned") in respect of the cost of supplying and laying the pipe-  
provided that in a case in which the supply of gas is to domestic premises, the licensee shall only so charge in respect of the cost of supplying and laying the pipe insofar as it is attributable to the supplying and laying of -
  - a. so much of the pipe as is laid upon property owned or occupied by the person concerned, not being property dedicated to public use; and
  - b. so much of the pipe as is laid for a greater distance from a relevant main than 10 metres, although not on such property as is mentioned in subparagraph (a).
2. Paragraph 1 shall have effect as if the proviso thereto were omitted where –
  - a. the person concerned may be required in pursuance of regulations made, or having effect as if made, under section 10(7) of the Act to make a payment in respect of the expenses of the main used for the purpose of making the connection; or
  - b. the premises concerned are in an area designated for the purposes of standard condition 4C (Charging of Gas Shippers – Supplemental Connection Charges) and the charges to be made of a gas shipper by the licensee in respect of the conveyance of gas to those premises would include a supplemental charge where appropriate.
3. The licensee shall by 1 April 2008 determine and comply with a connection charging methodology approved by the Authority showing the methods by which, and the principles on which, (consistently with its duties under section 9 of the Act)-
  - a. where a connection is required in pursuance of subsection (2) of section 10 of the Act, charges in respect of the cost of connecting, supplying and laying a pipe or the expenses of the laying of a main are normally to be determined in different cases or circumstances;
  - b. where a connection is required in a case not falling within subsection (1)(a) or (b) of the said section 10 and the premises are not likely to be supplied with gas at a rate exceeding that from time to time mentioned in subsection (8) of the said section 10 (subject to section 8A(1) of the Act, 2,196,000 kilowatt hours in any period of 12 months), the charges to be made for the

connection, including charges for supplying and laying a pipe are to be determined;

- c. where a connection or disconnection is required in the case of any premises likely to be, or which have been, supplied with gas at a rate exceeding that from time to time mentioned in subsection (8) of the said section 10, the charges to be made for the connection or disconnection including, so far as appropriate, charges for supplying or laying a pipe or main and charges in respect of anything done or provided in connection with the connection or disconnection in different cases or circumstances are to be determined;
  - d. without prejudice to sub-paragraph (a), in the circumstances mentioned in subsection (10) of the said section 10 (read with any regulations under subsection (11) thereof), charges under the said subsection (10) are normally to be determined in different cases and circumstances;
  - e. where a connection is required to a pipe comprised in the pipe-line system to which this licence relates to enable gas to be introduced into, or taken out of that system, charges in respect of the connection are normally to be determined in different cases or circumstances; and
  - f. where a connection is required for works including, in particular, works to increase the capacity of a high pressure pipe-line and by way of the supply and installation of a pipe-line, charges in respect of the connection are normally to be determined in different cases or circumstances.
4. The licensee shall, for the purpose of ensuring that the connection charging methodology continues to achieve the relevant objectives:
- a. review the connection charging methodology at least once in every year; and
  - b. subject to the network code modification procedures as defined in Standard Special Condition A11 (Network Code and Uniform Network Code) and paragraph 5A and 6, make such modifications (if any) of the connection charging methodology as are necessary for the purpose of better achieving the relevant objectives.
5. In paragraph 4 and below, the relevant objectives are that:
- a. compliance with the connection charging methodology facilitates the discharge by the licensee of the obligations imposed on it under the Act and by this licence;
  - b. compliance with the connection charging methodology facilitates competition in the supply of gas, and does not restrict, distort, or prevent competition in the transportation of gas conveyed through pipes;
  - c. compliance with the connection charging methodology results in charges which reflect, as far as is reasonably practicable (taking account of implementation costs), the costs incurred by the licensee in its transportation business and, where the Act enables, to charge a reasonable profit;
  - d. so far as is consistent with sub-paragraphs (a), (b) and (c), the connection charging methodology, as far as is reasonably practicable, properly takes account of developments in the licensee's transportation business; and
  - a. compliance with the connection charging methodology ensures that the licensee shall not show any undue preference towards, or undue discrimination against, any person who operates, or proposes to operate, a pipe-line system in relation to the connection of that system to the pipe-line system to which this licence relates.

5A. Unless the Authority directs otherwise, paragraph 6 of this condition shall apply where a report in respect of any proposal for modification of the connection

charging methodology is furnished in accordance with paragraph 6 of this condition as in force at 30 December 2010 to the Authority before 31 December 2010.

6. The licensee shall not make a modification to the connection charging methodology ~~unless it has furnished the Authority with a report setting out:~~
  - ~~a. the terms proposed for modification;~~
  - ~~b. how the proposed modification would better achieve the relevant objectives; and~~
  - ~~c. a timetable for implementing the modification and the date with effect from which the modification (if made) is to take effect, being not earlier than the date on which the period referred to in the sub-paragraph below will expire;~~  
~~provided that where the licensee has complied with the requirements above, it will not make any modification to the connection charging methodology where the Authority has within 28 days (or within three months if the Authority intends to undertake an impact assessment) of the report being furnished to it under sub-paragraph (b) in accordance with paragraph 6 of this condition as in force at 30 December 2010 given a direction to the licensee that the modification shall not be made.~~
7. Where changes to the connection charging methodology are made in accordance with network code modification procedures as defined in Standard Special Condition A11 (Network Code and Uniform Network Code) or in accordance with paragraph 5A and 6 of this condition ~~t~~The licensee shall, ~~before making the modification:~~
  - a. revise the connection charging methodology so that it sets out the changed methods and principles and specifies the date from which it is to have effect; and
  - b. furnish the Authority with a copy of the revised connection charging methodology.
8. The licensee shall -
  - a. publish the connection charging methodology under paragraph 3 or 7 in such manner as will secure adequate publicity for it and, in the case of a connection charging methodology furnished under paragraph 7, shall so publish it before the effective date thereof;
  - b. publish with any such connection charging methodology so published a statement that any complaint in respect of a charge to which the connection charging methodology relates, if not resolved between the licensee and the complainant, may be referred to the Authority by letter addressed to the Authority at an address specified in the statement; and
  - c. send a copy of any such connection charging methodology and statement so published to any person who asks for one.
9. The licensee shall prepare and furnish the Authority with a statement, or revision or amendment of a statement, which:
  - a. sets out the basis on which charges will be made for the provision of connections to the pipe-line system to which this licence relates;
  - b. where appropriate and practicable, is in such form and with such details and examples as are necessary to illustrate to any person requiring a connection how charges are applied for different categories of connection; and
  - c. is in accordance with connection charging methodology.

10. The licensee shall not show any undue preference towards, or undue discrimination against, any person who operates, or proposes to operate, a pipe-line system in relation to the connection of that system to the licensee's pipe-line system.
11. The licensee shall:
  - a. publish the statement under paragraph 9 in such manner as will secure adequate publicity for it; and
  - b. send a copy of any statement under paragraph 9 to any person who asks for one.
12. References in this condition to charges exclude references to supplemental charges within the meaning of standard condition 4C (Charging of Gas Shippers – Supplemental Connection Charges).
13. The licensee shall establish, and keep up to date, a register (or separate registers for different areas) of pipes which have vested in it and become its property by virtue of section 10(6) of the Act and fall within section 10(13)(b) but have not been declared relevant mains under section 10(13) thereof; and an entry in the register in respect of a particular pipe-
  - a. shall contain sufficient particulars to enable the pipe to be identified;
  - b. shall be made within 28 days of the pipe vesting in, and becoming the property of, the licensee; but
  - c. shall be deleted, as soon as is reasonably practicable, if the pipe in question is subsequently declared a relevant main under the said section 10(13).
14. The licensee shall make arrangements for a copy of the said register (or of the information contained therein) to be available for inspection, electronically, where possible at reasonable times, if it has area offices, at those offices or, if it has not, at its principal office; and, for the purposes hereof, "area office" means one which is fixed for an area for the purposes of section 46(3) of the Act.
15. In this condition, any reference to the making of a charge -
  - a. in relation to the supplying or laying of a pipe in pursuance of section 10(2)(a) of the Act, is a reference to requiring that the person requiring the connection defrays the whole or a part of the cost thereof;
  - b. in relation to the laying of a main used for the purpose of making a connection and in the circumstances mentioned in section 10(7) of the Act, is a reference to requiring, in pursuance of regulations under that provision, that the person requiring the connection pays an amount in respect of the expenses of the laying of the main; and
  - c. in the circumstances mentioned in subsection (10) of section 10 of the Act (read with any regulations under subsection (11) thereof), is a reference to requiring the person requiring a connection to be made or maintained in pursuance of subsection (2) or (3) of the said section 10 to make such payments as are mentioned in the said subsection (10),  
and cognate expressions shall be construed accordingly.

## PROPOSED MODIFICATION OF SPECIAL CONDITION C7 OF THE NTS LICENCE

Paragraph 2 (Amendments to Standard Special Condition A5 (Obligations as Regard Charging Methodology)) of Special Condition C7 of the NTS Licence is proposed to be modified in the manner set out in this schedule. The proposed deletions are shown crossed through and the proposed insertions are shown underlined.

### 2. Amendments to Standard Special Condition A5 (Obligations as Regard Charging Methodology)

Standard Special Condition A5 (Obligations as Regard Charging Methodology) shall be amended by:-

~~(a) inserting the words “and/or DN operators as appropriate” after “consulted relevant shippers” in sub-paragraph (a) of paragraph 2 and after “made by relevant shippers” in sub-paragraph (b) (ii) of paragraph 2;~~

(a) ~~(b)~~ in paragraph 2A, the insertion of the following in sub-paragraph (b) in substitution for the words “NOT USED”:

“(b) use its reasonable endeavours:

(i) not to make any changes to the charging methodology more frequently than twice in each formula year and for such changes to take place on 1 April and/or 1 October in each formula year or at such other time as the Authority may by notice in writing direct; and

(ii) only to make changes to the charging methodology in relation to NTS exit capacity (including NTS exit flat capacity and NTS exit flow flexibility) on 1 October in each formula year or at such other time as the Authority may by notice in writing direct”

(b) ~~(c)~~ In paragraph 11:

(i) the deletion of “and” at the end of the “transportation arrangements” definition;

(ii) the deletion of “thereof.” and replacement by “thereof; and” at the end of the “supply of transportation services” definition; ~~and~~

~~(iii) the insertion of the following definition after the definition of “supply of transportation services”:-~~

~~“as appropriate” means, in the context of consulting DN operators pursuant to sub-paragraphs (a) and (b) of paragraph 2, that DN operators shall be consulted if a modification to the charging methodology in relation to NTS exit flat capacity and/or NTS exit flow flexibility is proposed by the licensee.~~