

To: National Grid Gas plc

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

NOTICE OF THE REASONS FOR THE DECISION TO MODIFY 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 38A OF THE GAS ACT 1986

Whereas:

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") gave notice on 3 June 2010 (the "Notice") that it proposes to modify, in the manner as set out in the schedule to the Notice, Standard Condition 4B (Connection Charging Methodology) of the NTS Licence and consequential amendment to Special Condition C7 (Charging obligations) of the NTS Licence.
3. In summary, the proposed licence modifications 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 2010¹ (the "Final Proposals").
4. Prior to the close of the consultation period in respect of the Notice, the Authority received no responses in relation to the proposed modifications.
5. In accordance with section 23(4)(b) of the Act, the Authority gave notice of its intention to modify Standard Condition 4B (Connection Charging Methodology) of the NTS Licence and consequential amendment to Special Condition C7 (Charging obligations) of the NTS Licence to the Secretary of State and did not receive a direction from the Secretary of State not to make the modifications.
6. On 1 July 2010 the Licensee gave written consent to the proposed modifications.
7. In accordance with section 38A of the Act, the reasons for modifying Standard Condition 4B (Connection Charging Methodology) and making consequential amendment to Special Condition C7 (Charging obligations) of the NTS Licence are

¹ 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.

that, in summary, 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 making the licence modifications are contained in the following documents:

- a. Code Governance Review: Final Proposals, Ofgem Ref: 43/10.
 - 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.
8. In respect of the consequential amendment to Special Condition C7 (Charging obligations) of the NTS Licence, we note that the modification of Standard Special

Condition A5 (Obligation as regard charging methodology) – subject of another 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 removing. Therefore, we make consequential amendments to those particular provisions of Special Condition C7 of the NTS Licence. Apart from this, the modification of Standard Special Conditions A5 (in all other respects) published today does not affect the application of special conditions pertaining to the NTS Licence.

9. Documents referred to in this modification 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) or from the Ofgem website (www.ofgem.gov.uk).

Therefore:

In accordance with the powers contained in section 23(1)(a) of the Act, the Authority hereby modifies Standard Condition 4B (Connection Charging Methodology) particularly in respect of the NTS Licence and makes consequential amendment to Special Condition C7 (Charging obligations) of the NTS Licence in the manner set out in the schedule to this modification, with effect on and from 31 December 2010.

This document also constitutes notice of reasons for the decision to modify the NTS 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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Mark Cox, Associate Partner, Industry Codes and Licensing

Duly authorised on behalf of the Gas and Electricity Markets Authority

5 July 2010

SCHEDULE

MODIFICATION OF STANDARD CONDITION 4B OF THE NTS LICENCE

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

Amended Standard Condition 4B (Connection Charging Methodology)

Paragraphs 4, 6 and 7 of Standard condition 4B (Connection Charging Methodology) are amended as follows (the insertions are shown underlined and the deletions are shown crossed-through) and new paragraph 5A is inserted:

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.
- 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.

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 modified in the manner set out in this schedule. The deletions are shown crossed through and the 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.~~