

MODIFICATION OF SPECIAL CONDITION C8E (4) OF NATIONAL GRID GAS PLC'S GAS TRANSPORTER LICENCE IN RESPECT OF ITS NATIONAL TRANSMISSION SYSTEM UNDER SECTION 23(3) OF THE GAS ACT 1986

NOTICE OF REASONS FOR THE DECISION TO MODIFY SPECIAL CONDITION C8E (4) OF NATIONAL GRID GAS PLC'S GAS TRANSPORTER LICENCE UNDER SECTION 38A OF THE GAS ACT 1986

Whereas -

1. National Grid Gas plc ("NGG") is the holder of 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) of the Act, the Gas and Electricity Markets Authority (the "Authority")

- i. gave notice ("the Notice") on 12 November 2010 that it proposed to make modification to Part C of Special Condition C8E(4) of the Licence setting out its effect;
- ii. stated the reasons for the proposed modification; and
- iii. served copy of the Notice on the Licensee requiring any objections or representations to the modifications to be made on or before 10 December 2010.

3. In accordance with section 23(4)(b) of the Act, the Authority gave notice to the Secretary of State on 12 November 2010 and has not received a direction not to make the modification before the relevant time period specified in the Notice.

4. Prior to the close of the consultation period in respect of the Notice, the Authority received two written responses. Each respondent indicated that they agreed with the proposed amendment to the Licence.

5. The Licence Holder gave written consent to the proposed modification on 25 November 2010¹.

6. The Authority has carefully considered the consent received and the other responses and considers no further amendment is necessary to the Notice.

7. In accordance with section 38A of the Act the Authority gives the following reasons for making the Licence modification:

- to provide the Authority with an additional month to consider the exit capacity substitution methodology statement submitted by NGG pursuant to paragraph 4(b)(i) of Special Condition C8E, if it decides to conduct an impact assessment.
- to provide the Authority with an additional month to consider the exit capacity revision methodology statement submitted by NGG pursuant to paragraph 4(c)(i) of Special Condition C8E, if it decides to conduct an impact assessment.

Further details of the reasons were set out by the Authority in the covering letter and Section 23 Notice of Proposed Modification of the Special Conditions of National Grid Gas PLC's Gas Transporter Licence in respect of its National Transmission System under Section 23(3) of the Gas Act 1986, published on 12 November 2010, reference 139/10.

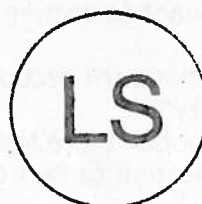
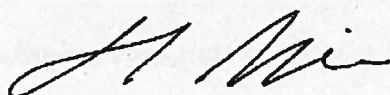
¹ This consent and the two responses received to the consultation are available free of charge from the Ofgem Research and Information Centre, 9 Millbank, London SW19 3GE or from the Ofgem website at www.ofgem.gov.uk

This document is available free of charge from the Ofgem Research and Information Centre, 9 Millbank, London SW1P 3GE or on the Ofgem website at www.ofgem.gov.uk.

THEREFORE

In accordance with section 23(1)(a) of the Act, the Authority hereby modifies the Licence in the manner specified in Schedule A, with effect on and from 20 December 2010.

This document constitutes notice pursuant to 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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Hannah Nixon
Partner, Transmission
Duly Authorised on behalf of the Authority
20 December 2010

Schedule A

Special Condition C8E Paragraph (4)(b)

(b) Exit substitution methodology statement

- (i) The licensee shall, on or before 1 April 2008 or such later date as the Authority may direct in writing, prepare and submit for approval by the Authority an exit capacity substitution methodology statement, setting out the exit capacity substitution methodology which it shall use to substitute NTS exit capacity.
- (ii) Unless the Authority otherwise directs (such direction to be made within two months of the receipt by the Authority of a statement prepared pursuant to paragraph 4(b)(i) of this condition, or within three months if the Authority intends to undertake an impact assessment, the intention of which the Authority shall notify the licensee in writing within a reasonable time after receiving that statement) the licensee shall, when substituting NTS exit capacity, use reasonable endeavours to apply the methodology set out in that statement, from the earlier of:
 - (aa) the date of receipt of a notice from the Authority approving the statement; or
 - (bb) the date being two months after the statement was submitted to the Authority or three months after the statement was submitted if the Authority indicates its intention to undertake an impact assessment.
- (iii) The licensee shall if so directed by the Authority and in any event at least once a year, review the exit capacity substitution methodology prepared pursuant to paragraph 4(b)(i) of this condition in consultation with relevant shippers, DN operators and interested parties and seek to make such modifications as it considers reasonably necessary to better meet the objectives (the "exit capacity substitution objectives") set out below:
 - (aa) ensuring that exit capacity substitution is effected in a manner which is compatible with the physical capability of the pipeline system to which this licence relates;
 - (bb) avoiding material increases in the costs (including NTS exit constraint management costs in respect of NTS exit capacity previously allocated by

the licensee to relevant shippers or DN operators) that are reasonably expected to be incurred by the licensee as a result of substituting NTS exit capacity; and

- (cc) in so far as is consistent with (aa) and (bb) above, facilitating effective competition between relevant shippers.
- (iv) Except where the Authority directs otherwise, before submitting the exit capacity substitution methodology statement prepared pursuant to paragraph 4(b)(i) of this condition or before modifying its exit capacity substitution methodology statement, the licensee shall:
 - (aa) when modifying its exit capacity substitution methodology statement, send a copy of the proposed modifications to the Authority and to any person who asks for one;
 - (bb) consult relevant shippers, DN operators and interested parties and allow them a period of not less than 28 days in which to make representations;
 - (cc) within 14 days of the close of the consultation referred to in paragraph 4(b)(iv)(bb) of this condition submit to the Authority a report setting out:
 - (A) the modifications originally proposed (if any);
 - (B) the representations made by relevant shippers, DN operators and interested parties (if any) to the licensee and not withdrawn; and
 - (C) any changes to the modifications proposed as a result of such representations;
 - (dd) where the Authority directs that sub-paragraphs (aa), (bb) and (cc) of paragraph 4(b)(iv) of this condition or any of them shall not apply, comply with such other reasonable requirements as are specified in that direction.
- (v) The licensee shall be entitled to modify its exit capacity substitution methodology statement at any time pursuant to paragraph 4(b)(iii) of this condition, save that it shall not modify such statement:

- (aa) if within 28 days (or 3 months if the Authority intends to undertake an impact assessment, the intention of which the Authority shall notify the licensee in writing within a reasonable time after receiving the report referred to in paragraph 4(b)(iv)(cc) of this condition) from the date on which the Authority receives the report referred to in paragraph 4(b)(iv)(cc) of this condition the Authority directs the licensee not to make the modification; or
 - (bb) where there is no such direction, until the expiry of 28 days (or 3 months if the Authority intends to undertake an impact assessment the intention of which the Authority shall notify the licensee in writing within a reasonable time after receiving the report referred to in paragraph 4(b)(iv)(cc) of this condition) from the date on which the Authority receives the report referred to in paragraph 4(b)(iv)(cc) of this condition; or
 - (cc) where paragraph 4(b)(iv)(dd) in this condition applies, before the day as agreed with the licensee and specified in any direction made pursuant to that paragraph.
- (vii) The licensee shall make the exit capacity substitution methodology statement from time to time applicable to the pipeline system to which this licence relates available on its website (and in such other manner as appears to the licensee to be appropriate).

Special Condition C8E Paragraph (4)(c)

(c) Exit revision methodology statement

- (i) The licensee shall, on or before 1 April 2008 or such later date as the Authority may direct in writing, prepare and submit for approval by the Authority an exit capacity revision methodology statement, setting out the exit capacity revision methodology which it shall use to revise the level of NTS baseline exit flat capacity as a result of its obligations set out in paragraphs 3(c)(ii) and 3(c)(iii) of this condition.
- (ii) Unless the Authority otherwise directs (such direction to be made within two months of the receipt by the Authority of a statement prepared pursuant to

paragraph 4(c)(i) of this condition or within three months if the Authority intends to undertake an impact assessment, the intention of which the Authority shall notify the licensee in writing within a reasonable time after receiving that statement) the licensee shall, when revising the level of NTS baseline exit flat capacity, use reasonable endeavours to apply the methodology set out in that statement, from the earlier of:

(aa) the date of receipt of a notice from the Authority approving the statement;
or

(bb) the date being two months after the statement was submitted to the Authority or three months after the statement was submitted if the Authority indicates its intention to undertake an impact assessment.

(iii) The licensee shall, if so directed by the Authority, and in any event at least once a year, review the exit capacity revision methodology set out in the statement prepared pursuant to paragraph 4(c)(i) of this condition in consultation with relevant shippers, DN operators and interested parties and seek to make such modifications as it considers reasonably necessary to better meet the exit capacity revision objectives (the "exit capacity revision objectives") set out below:

(aa) ensuring that exit capacity revision is effected in a manner which is compatible with the physical capability of the pipeline system to which this licence relates;

(bb) avoiding material increases in the costs (including NTS exit capacity constraint management costs in respect of NTS exit capacity previously allocated by the licensee to relevant shippers or DN operators) that are reasonably expected to be incurred by the licensee as a result of revising the level of NTS baseline exit capacity; and

(cc) in so far as is consistent with (aa) and (bb) above, facilitating effective competition between relevant shippers.

(iv) Except where the Authority directs otherwise, before submitting the exit capacity revision methodology statement pursuant to paragraph 4(c)(i) of this condition or

before modifying its exit capacity revision methodology statement, the licensee shall:

- (aa) when modifying its exit capacity revision methodology statement, send a copy of the proposed modifications to the Authority and to any person who asks for one;
 - (bb) consult relevant shippers, DN operators and interested parties and allow them a period of not less than 28 days in which to make representations;
 - (cc) within 14 days of the close of the consultation referred to in paragraph 4(c)(iv)(bb) of this condition submit to the Authority a report setting out:
 - (A) the modifications originally proposed (if any);
 - (B) the representations made by relevant shippers, DN operators and interested parties (if any) to the licensee and not withdrawn; and
 - (C) any changes to the modifications proposed as a result of such representations;
 - (dd) where the Authority directs that sub-paragraphs (aa), (bb) and (cc) of this paragraph or any of them shall not apply, comply with such other reasonable requirements as are specified in that direction.
- (v) The licensee shall be entitled to modify its exit capacity revision methodology statement at any time pursuant to paragraph 4(c)(iii) of this condition, save that it shall not modify such statement:
- (aa) if within 28 days (or 3 months if the Authority intends to undertake an impact assessment the intention of which the Authority shall notify the licensee in writing within a reasonable time after receiving the report referred to in paragraph 4(c)(iv)(cc) of this condition) from the date on which the Authority receives the report referred to in paragraph 4(c)(iv)(cc) of this condition the Authority directs the licensee not to make the modification; or
 - (bb) where there is no such direction, until the expiry of 28 days (or 3 months if the Authority intends to undertake an impact assessment the intention of

which the Authority shall notify the licensee in writing within a reasonable time after receiving the report referred to in paragraph 4(c)(iv)(cc) of this condition) from the date on which the Authority receives the report referred to in paragraph 4(c)(iv)(cc) of this condition; or

(cc) where paragraph 4(c)(iv)(dd) in this condition applies, before the day as agreed with the licensee and specified in any direction made pursuant to that paragraph.

(vii) The licensee shall make the exit capacity revision methodology statement from time to time applicable to the pipeline system to which this licence relates available on its website (and in such other manner as appears to the licensee to be appropriate)