

NOTICE UNDER SECTION 23(2) OF THE GAS ACT 1986

The Gas and Electricity Markets Authority ("the Authority") hereby gives notice pursuant to section 23(2) of the Gas Act 1986 ("the Act") as follows:

- 1.** The Authority proposes to modify the gas transporter licence held by National Grid Gas Plc (NTS) granted or treated as granted under 7 of the Act by amending Special Condition C26.
- 2.** The reason why the Authority proposes to make this licence modification is to implement the decision to amend NGG's licence to allow SGN to recover the increased costs of conveying gas to independent systems. The reasons for these changes are detailed in the Glenmavis decision document published on 06 January 2012. In summary, the effects of the proposed licence modification are:
 - (a) amending table 1 in Special Condition C26 to allow NGG to recover the increased costs of conveying gas that SGN have incurred;
 - (b) to amend the definition of "independent system" within Special Condition C26, to more correctly reflect both the policy intent and current implementation of the condition¹;
 - (c) to revise Special Condition C26 to implement the new approach to the RPI indexation method that is to apply to allowed revenues from the formula year commencing on 1 April 2012
- 3.** The effect of the proposed modification is to modify the Special Conditions of the licence in accordance with the Schedule to this Notice.
- 4.** A copy of the proposed modification(s) and other documents referred to in this notice are available (free of charge) from the Ofgem library (telephone 020 7901 1600) or on the Ofgem website (www.ofgem.gov.uk).
- 5.** Any representations on the proposed licence modifications may be made on or before 03 February 2012 to: Natasha Ranatunga, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to natasha.ranatunga@ofgem.gov.uk.
- 6.** 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 However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.
- 7.** If the Authority decides to make the proposed modification it will take effect 56 days after the decision is published.

Rachel Fletcher
Acting Senior Partner – Smarter Grids and Governance: Distribution
Duly authorised on behalf of the Gas and Electricity Markets Authority
06 January 2012

¹ The Final Proposals for the current Gas Distribution Price Control specifically remove the costs for running the independent systems from SGN's allowance, on the basis that they are to be recovered through Special Licence Condition C26.

SCHEDULE

PROPOSED MODIFICATION OF THE SPECIAL CONDITIONS OF NATIONAL GRID GAS (NTS) PLC'S GAS TRANSPORTERS LICENCE IN RESPECT OF ITS NATIONAL TRANSMISSION SYSTEM UNDER SECTION 23 OF THE GAS ACT 1986

Special Condition C26: Gas Conveyed to Independent Systems

1. Pursuant to the direction given by the Secretary of State on 19 March 2008, regarding the Continuation of the Cross-Subsidy Arrangements for Independent Systems (the "Direction") the licensee is required, until 31 March 2013, to comply with this licence condition.

Bulk Price Differential

2. The licensee shall, subject to it having received all the information it requires from DN operators to enable it to do so, by 30 April in each formula year, in respect of each independent system:
 - (a) make a reasonable estimate of the bulk price differential for that formula year ($BPDE_t$); and
 - (b) calculate, in formula years commencing on and after 1 April 2009, any adjustment (whether of a positive or a negative amount) ($BPDADJ_t$) in formula year t which relates to the difference between:
 - (i) the estimate of the bulk price differential it calculated in the preceding formula year ($BPDE_{t-1}$); and
 - (ii) the actual amount of the bulk price differential in that preceding formula year ($BPDA_{t-1}$)in accordance with the following formula:

$$BPDADJ_t = BPDA_{t-1} - BPDE_{t-1}.$$

For the avoidance of doubt, for the formula year commencing 1 April 2008, $BPDADJ_t = 0$.

3. The licensee shall, in respect of each independent system, pay to the relevant shipper an amount equal to a proportionate amount of the sum of the amounts calculated pursuant to paragraph 2 ($BPDE_t + BPDADJ_t$) quarterly (or at such

frequency as may be agreed with the relevant shipper) during the formula year in which the calculation in paragraph 2(a) was made.

Distribution Network Additional costs payment

3. The licensee shall pay to the relevant DN operator the amount set out in Table 1 in respect of the additional costs to serve the independent system operated by that DN operator ("additional costs payments") denoted by "ACPS_t" and "ACPW_t". Such amounts shall, prior to payment, be adjusted to take account of the change in the retail prices index between the formula year commencing 1 April 2005 and the relevant formula year set out in Table 1 in accordance with the following formulae:

$$ACPS_t = SGNACP_t \times \frac{ISPIT_t RPI_t}{100}$$

and

$$ACPW_t = WWUACP_t \times \frac{ISPIT_t RPI_t}{100}$$

Where:

~~ISPIT_tRPI_t is the price index adjustment term and shall have the same meaning as in paragraph 3(a) of Special Condition C8B (NTS transportation owner activity revenue restriction) of this licence. is the Independent Systems price indexation adjustment term which shall be calculated using the following formula:~~

~~$$ISPIT_t = \left(1 + \frac{RPI_t}{100}\right) \times ISPIT_{t-1}$$~~

~~Where ISPIT_t shall take the value 1 in respect of the formula year commencing 1 April 2005.~~

~~Where RPI_t shall be as defined in paragraph 8 and, for example and the avoidance of doubt, a RPI_t of 5% would be entered as 5 in the formula not 0.05.~~

Table 1

£m, 2005-06 prices	2008-09	2009-10	2010-11	2011-12	2012-13
Scotland Gas Networks plc (SGNACP_t)	6.0	5.4	5.4	5.4	5.4
Wales & West Utilities Limited (WWUACP_t)	0.1	0.1	0.1	0.1	0.1

£m, 2009-10 prices	2012-13
Scotland Gas Networks plc (SGNACP _t)	5.417.1
Wales & West Utilities Limited (WWUACP _t)	0.1

5. The licensee shall pay to the relevant DN operator a proportionate amount of the additional costs payments for the relevant formula year on a quarterly basis during that formula year or as otherwise agreed with the DN operator to whom the payment is to be made.

Recovery

6. The licensee shall recover an amount equal to the aggregate of:
- (i) the sum of the amounts calculated pursuant to paragraph 2 ($BPDE_t + BPDADJ_t$); and
 - (ii) the additional costs payments made to the relevant DN operators under paragraph 5 ($ACPS_t + ACPW_t$) from shippers in the relevant formula year to which such payments relate.
7. The licensee shall by 31 July in each formula year submit to the Authority a statement setting out:
- (i) the bulk price differential payments made pursuant to paragraph 3; and
 - (ii) the additional costs payments made pursuant to paragraph 5 in the previous formula year.
8. In this condition:

“bulk price differential” means the volume of LPG conveyed to consumers connected to each relevant independent system in the relevant formula year, multiplied by the difference between the reasonable estimate (made by the licensee) of

- (i) the actual delivered price of LPG supplied to consumers connected to the relevant independent system; and
- (ii) the average price of gas consisting principally of methane supplied to large industrial customers in Great Britain.

"DN operator" has the meaning given in Standard Special Condition A3 (Definitions and Interpretation).

"independent system" has the meaning given to the term "independent system" in Standard Special Condition A3 (Definitions and Interpretation), save that, for the purposes of this condition only, such independent systems shall only include those independent systems through which the gas conveyed to consumers consists wholly or mainly of LPG or LNG.

"LPG" means a mix of hydrocarbon gases including propane and butane in accordance with BS EN 589:2004.

"LNG" has the same meaning as set out in Special Condition C1 (Amendments to Standard Special Conditions relating to LNG)

"relevant shipper" for the purposes of this condition only, means in relation to any premises connected to an independent system, a gas shipper which has made arrangements with the DN operator which operates the LDZ in which that independent system is situated under which LPG or LNG is to be transported to consumers.

"RPI_t" is the price index adjustment term and shall have the same meaning as in paragraph 3(a) of Special Condition C8B (NTS transportation owner activity revenue restriction) of this licence.~~has the meaning given in paragraph 3(a)(ii) of Special Condition C8B (NTS transportation owner activity revenue restriction).~~