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Dear Natasha

**Re Notice under Section 23(2) Gas Act 1986 to modify the gas transporter licence held by National Grid Gas plc issued 20 December 2011, Ref 191/11 (“Notice”)**

National Grid Gas welcomes the opportunity to comment on the above Notice relating to the licence conditions to apply for the TPCR4 roll-over. This response is on behalf of National Grid Gas plc (NGG) and is non-confidential.

We note that the licence drafting issued for consultation proposes a change in the dates applying for the TPCR4 permits scheme such that the date it is “cashed-out” is changed from the current date of 31 March 2012 to 31 May 2012. This change was not stated in the Final Proposals dated 28 November 2011. Additionally, as set out in our letters (dated 9 December 2011 and 6 January 2012) we do not agree with your approach to permits provided for the roll-over year and note that this is likely to affect our approach to future incentive schemes.

As already discussed with you, we have identified a number of anomalies with the drafting in the Notice that is proposed to enact the policies stated in Final Proposals and, for completeness, we have included these within the Appendix to this letter. We believe that these corrections need to be reflected in any modifications that accompany an Authority decision published in accordance with Section 23(7) Gas Act 1986.

Yours sincerely

*[By e-mail]*

**Paul Whittaker**  
**UK Director of Regulation**

**Appendix - Detailed Comments on Section 23 Statutory Consultation issued on 20 December 2011 – TPCR4 Rollover, National Grid Gas Licence Drafting**

Page	Condition	Term	NG proposed amendments	Rationale for the proposed change
8	Sp C C8B 3(a)	TOZ <sub>t</sub>	Change the value from "£586,750,000" to "£577,970,000"	Figure did not match to final proposals. The TOMR <sub>t</sub> term needs to match to the final proposals term "Base price control revenue" which is £585.8m. TOMR <sub>t</sub> is the sum of several terms (TOMR <sub>t</sub> = TOZ <sub>t</sub> - TOZA <sub>t</sub> + TOF <sub>t</sub> + TOG <sub>t</sub> - TOK <sub>t</sub> + TOIAT <sub>t</sub> ). The value in the Section 23 notice was incorrectly calculated to sum to the "Base price control revenue", hence has been corrected.
14	Sp C C8B 3(c) (iv)	CxIncRA <sub>t</sub>	The value for CxIncRA <sub>t</sub> is a 9/10 price, hence needs to have RPIF <sub>t</sub> applied.	Section 23 notice did not include inflation term, so has been added to ensure that the licence provides the correct allowances as envisaged by the final proposals.
15	Sp C C8B 3(c) (iv)	CIR <sub>nro</sub>	CIR <sub>nro</sub>	The "nro" should be subscripted as per equation for CxIncRO <sub>t</sub>
20	Sp C C8C 3(a)	BBIOCA <sub>t</sub>	Remove bracket after "ExXSIBBC <sub>t</sub> "	Original licence drafting had an extra bracket included by mistake so this is a timely housekeeping amendment.
21	Sp C C8C 3(a)	LTDVEn <sub>end</sub>	Change reference for LTDVEn <sub>n</sub> to refer to "paragraph 3(i)" not "paragraph 3(h)"	Original licence drafting had incorrect reference included so this is a timely housekeeping amendment.
29	Sp C C8D 3(i)	LTDVEn <sub>n</sub>	Change wording at the beginning of the paragraph from "For all formula years until the one ending 31 March 2012" to "For the purposes of the calculation of DELINC <sub>t</sub> in Special Condition C8C paragraph 3(a) in respect of the formula year commencing 1 April 2012"	Proposed drafting states that the terms in para 3(i) only apply until 31 March 2012, but the calculation of the permit scheme value takes place on 31 May 2012 (as per changes to Sp C C8C for cashing out permits) which is in the following formula year, hence the proposed

Page	Condition	Term	NG proposed amendments	Rationale for the proposed change
				drafting does not pick up the correct values.
29	Sp C C8D 3(j)	ROLTDVE $n_n$	Change wording at the beginning of the paragraph from "For the formula year commencing on 1 April 2012" to "For the purposes of the calculation of DELINC <sub>t</sub> in Special Condition C8C paragraph 3(a) in respect of the formula year commencing 1 April 2013"	Proposed drafting states that the terms in para 3(j) only apply for the formula year commencing 1 April 2012, but the calculation of the permit scheme for rollover value takes place on 31 May 2013 (as per changes to Sp C C8C for cashing out permits) which is in the following formula year, hence the proposed drafting does not pick up the correct values.
52	Sp C C8E 5(d)	LTDVEx <sub>n</sub>	Change wording at the beginning of the paragraph from "For all formula years until the one ending 31 March 2012" to "For the purposes of the calculation of DELINC <sub>t</sub> in Special Condition C8C paragraph 3(a) in respect of the formula year commencing 1 April 2012"	Proposed drafting states that the terms in para 5(d) only apply until 31 March 2012, but the calculation of the permit scheme value takes place on 31 May 2012 (as per changes to Sp C C8C for cashing out permits) which is in the following formula year, hence the proposed drafting does not pick up the correct values.
53	Sp C C8E 5(e)	ROLTDVE $x_n$	Change wording at the beginning of the paragraph from "For the formula year commencing on 1 April 2012" to "For the purposes of the calculation of DELINC <sub>t</sub> in Special Condition C8C paragraph 3(a) in respect of the formula year commencing 1 April 2013"	Proposed drafting states that the terms in para 5(e) only apply for the formula year commencing 1 April 2012, but the calculation of the permit scheme for rollover value takes place on 31 May 2013 (as per changes to Sp C C8C for cashing out permits) which is in the following formula year, hence the proposed drafting does not pick up the correct values.
55	Sp C C8G	Title of condition	Change "Special Condition C8E" to "Special Condition C8G"	Incorrect condition reference

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55	Sp C C8G 1(a)	SOIntlCR <sub>t</sub>	In order to include a fixed figure for the Base SO costs, suggest equation is amended to include a new term "BaseSOC <sub>t</sub> " with a value of £51.6m plus RPIF <sub>t</sub> and to remove "ICEIRC <sub>t</sub> " term as per drafting for Sp C C8G already provided.	Section 23 notice did not include a change to this term, but the drafting needs to change to ensure that the licence provides the correct allowances as per Table 48 of final proposals (Total costs of in 2009/10 prices of £64.8m) – split into Base SO costs of £51.6m with remainder as per line for Non-controllable costs for NGGT SO of £13.2m (which will be included by the IX <sub>t</sub> term)
56	Sp C C8G 1(b)	IOIRC <sub>t</sub>	To support the inclusion of a fixed figure for the Base SO costs, suggest equation is amended to only provide the incentive revenue as (Costs – Target)*(1-Sharing factor) as per drafting for Sp C C8G already provided.	Section 23 notice did not include a change to this term, but the drafting needs to change to ensure that the licence provides the correct allowances as envisaged by the final proposals.
57	Sp C C8G 1(c)	ICEIRC <sub>t</sub>	Suggest that this is removed and Sp C C8G is re-drafted to include a fixed figure from the financial model for the Base SO costs as per drafting for Sp C C8G already provided.	Section 23 notice did not include a change to this term, but the drafting needs to change to ensure that the licence provides the correct allowances as envisaged by the final proposals.
57	Sp C C8G 1(c)	NTS SO regulatory asset value	Suggest that this is removed and Sp C C8G is re-drafted to include a fixed figure from the financial model for the Base SO costs as per drafting for Sp C C8G already provided.	Section 23 notice did not include a change to this term, but the drafting needs to change to ensure that the licence provides the correct allowances as envisaged by the final proposals.
58	Sp C C8G 1(d)	NC <sub>t</sub>	Change equation to remove IT <sub>t</sub> and IP <sub>t</sub> as values are included in "BaseSOC <sub>t</sub> " term	Section 23 notice did not include a change to this term, but the drafting needs to change to ensure that the licence provides the correct allowances as envisaged by the final proposals.
59	Sp C C8G 1(d)	IT <sub>t</sub>	Remove IT <sub>t</sub> definition and table as value is included in "BaseSOC <sub>t</sub> " term	Section 23 notice did not include a change to this term, but the drafting

Page	Condition	Term	NG proposed amendments	Rationale for the proposed change
				needs to change to ensure that the licence provides the correct allowances as envisaged by the final proposals.
59	Sp C C8G 1(d)	$IP_t$	Remove $IP_t$ definition and table as value is included in "BaseSOC <sub>t</sub> " term	Section 23 notice did not include a change to this term, but the drafting needs to change to ensure that the licence provides the correct allowances as envisaged by the final proposals.
60	Sp C C8G 1(d)	$IX_t$	Change value for t=11 from £5.346m to £13.246m	Figure did not match to final proposals, Table 48 (Non-controllable costs for NNGT SO)