MODIFICATION OF SPECIAL CONDITION C8E OF NATIONAL GRID GAS PLC'S GAS TRANSPORTER LICENCE IN RESPECT OF ITS NATIONAL TRANSMISSION SYSTEM UNDER SECTION 23 OF THE GAS ACT 1986[1]

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

Whereas –

1. National Grid Gas plc (the Licence Holder) is the holder of a Gas Transporter Licence (the Licence) in respect of its National Transmission System (the NTS) granted under section 7 of the Gas Act 1986 (the Act).

2. In accordance with section 23 of the Act, the Gas and Electricity Markets Authority (the Authority):

   i. gave notice on 20 April 2012 that it proposed to make a modification to Special Condition C8E (the Condition) of the Licence setting out its effect (the Notice);
   ii. stated the reasons for the proposed modification; and
   iii. required any objections or representations to the modification to be made on or before 18 May 2012.

3. In accordance with section 23(4)(b) of the Act, the Authority gave notice of the proposed modifications to the Secretary of State on 20 April 2012 and has not received a direction not to make the modification before the relevant time period specified in the Notice.

4. The Authority received one consultation response to the Notice. This response was from the Licence Holder. The Licence Holder supported the modification, but highlighted an error in the methodology used to calculate the STPROJz values within paragraph (1)(d)(v) of the Condition. The STPROJz values within paragraph (1)(d)(v) state the £/GWh/year regulated revenue the Licence Holder can recover in respect of the incremental exit capacity term $IExC_{z,t}$. The error caused two of the STPROJz values to be incorrect. The incorrect STPROJz values would not remunerate the Licence Holder for the investment costs associated with the incremental exit capacity, as was intended[2]. The Licence Holder indicated that the correct STPROJz values should be stated in the modification direction notice.

5. The error in the STPROJz values has occurred because the values were calculated on the basis of the incremental cost between the capacity increments. To allow the Licence Holder to recover the level of regulated revenue intended under paragraph (1)(d)(v), the STPROJz values should have been calculated independently of each other. We have now recalculated the STPROJz values within paragraph (1)(d)(v) of the Condition consistent with the corrected methodology. Consequently, we have amended the STPROJz values such that for $IExC_{z,t}$ = 657, the STPROJz value is now £116,244, and that for $IExC_{z,t}$ = 1010, the STPROJz is now £111,232. The STPROJz term for $IExC_{z,t}$ = 353 is unchanged. We have made this amendment because it will provide the Licence Holder with a level of funding consistent with that intended under the Notice[3].

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

[2] For the avoidance of doubt, the investment costs for which the Licence Holder is to be remunerated have not changed and remain as stated in our December 2011 consultation. A copy of our December consultation is available at the following location: http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=SE Revenue driver consultation document.pdf&refer=Networks/Trans/GasTransPolicy/RevenueDrivers

[3] In the Notice and its accompanying letter, we confirmed our intention to implement revenue drivers in a manner consistent with our December 2011 consultation 'Determining revenue drivers for South East exit capacity'.

6. The Authority has carefully considered the response to the Notice and believes that no modifications other than those outlined in paragraph 5 are required to achieve the necessary effect. The amended provisions of Special Condition C8E are consolidated and attached hereto as Schedule A.

7. In accordance with section 38A of the Act, the Authority gives the following reasons for making the licence modifications. The licence modifications are necessary:

   • to allow the Licence Holder to recover additional revenue for NTS obligated incremental exit flat capacity it makes available at Combined Cycle Gas Turbine (CCGT) exit points in the South East quadrant of the NTS;

   • to allow the Licence Holder to recover additional revenue for NTS obligated incremental exit flat capacity it makes available at storage site exit points connecting to the Bacton terminal;

   • to remove existing revenue drivers for CCGT power stations in the South East quadrant of the NTS which are no longer required as a result of the general revenue driver for CCGT exit points in the South East quadrant of the NTS; and

   • to make other minor changes to facilitate the introduction of these revenue drivers.

8. Further details of the reasons were published by the Authority on 20 April 2012 in the document: "Decision letter: Determining revenue drivers for South East exit capacity".

THEREFORE

9. In accordance with section 23 of the Act, the Authority hereby modifies the Licence in the manner specified in Schedule A attached hereto with effect on and from 26 July 2012.

10. 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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Andy Burgess
Associate Partner, Transmission and Distribution Policy
Duly Authorised on behalf of the Authority

30 May 2012

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Schedule A

1. Special Condition C8E. NTS gas exit incentives, costs and revenues

1.   NTS system operation exit incentives and costs (SOExIRC$_t$)

(d)   Exit capacity investment incentive revenue (ExCIIR$_t$)

This incentive shall apply in respect of all exit periods. For the purposes of paragraph 1(a) of this condition, the exit capacity investment incentive revenue allowed to the licensee in respect of formula year t (ExCIIR$_t$) shall be derived as follows:

$$\text{ExCIIR}_t = (\text{ExCIIR}_{t,}{}^{\text{projspec}} + \text{ExCIIR}_{t,}{}^{\text{swquad}} + \text{ExCIIR}_{t,}{}^{\text{newproj}} + \text{ExCIIR}_{t,}{}^{\text{sequad}} + \text{ExCIIR}_{t,}{}^{\text{storage}}) \times \text{RPIF}$$

where:

ExCIIR$_{t,}{}^{\text{projspec}}$ means the revenue allowed in respect of formula year t, in respect of the anticipated projects set out in paragraph 1(d)(i) of this condition;

ExCIIR$_{t,}{}^{\text{swquad}}$ means the revenue allowed in respect of formula year t, where NTS incremental exit capacity below a specified volume threshold is delivered to NTS exit points in the south west quadrant as set out in paragraph 1(d)(ii) of this condition;

ExCIIR$_{t,}{}^{\text{newproj}}$ means the revenue allowed in respect of formula year t, in respect of the anticipated projects set out in paragraph 1(d)(iii) of this condition;

ExCIIR$_{t,}{}^{\text{sequad}}$ means the revenue allowed in respect of formula year t, in respect of incremental exit capacity delivered to NTS exit points in the south east quadrant as set out in paragraph 1(d)(iv) of this condition;

ExCIIR$_{t,}{}^{\text{storage}}$ means the revenue allowed in respect of formula year t, in respect of incremental exit capacity delivered to NTS exit points which are storage sites connected to the Bacton terminal as set out in paragraph 1(d)(v) of this condition;

RPIF$_t$ 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.

(i)   Determination of ExCIIR$_{t,}$ $^{\text{projspec}}$

RDPROJSPEC$_{p,t}$ means the project specific revenue driver in respect of anticipated project p and formula year t as set out in the table below;

Anticipated project p	Project description	RDPROJSPEC$_{p,t}$ £ /year
Langage power station Phase 1	To deliver NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity of 40GWh/day at the Langage power station in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i) or 1(d)(ii) of this condition;	£10,614,681
Langage power station Phase 2	To deliver NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity of 18GWh/day at the Langage power station subsequent to the delivery of 40GWh/day as outlined for Langage Phase 1 above and in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i) or 1(d)(ii) of this condition;	£6,145,342
Marchwood power station	To deliver NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity of 39.84GWh/day at the Marchwood power station in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i) or 1(d)(ii) of this condition; and	£5,028,007

Anticipated project p	Project description	RDPROJSPEC$_{p,t}$ £ /year
Pembroke (Phase 1)	To deliver NTS incremental exit shipper capacity or NTS obligated incremental exit flat capacity of 103.2GWh/day at the Pembroke power station in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i) or 1(d)(ii) of this condition.	£7,150,943

(ii)   **Determination of ExCIIR$_{t,}$ ^{swquad}**

INCCAP$_{z, t}$ = TINCCAP$_{z, t}$ + OIExC$_{z,t}$

where:

TINCCAP$_{z, t}$ means NTS incremental exit flat capacity or NTS incremental exit shipper capacity, registered or capable of being registered for the transitional exit period (or such later date as the Authority may direct from time to time in writing), in respect of formula year t and NTS exit point z in GWh/day in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i), 1(d)(ii), 1(d)(iii), 1(d)(iv) or 1(d)(v) of this condition, and:

(A) the licensee has received a specific user commitment as outlined in the statement published pursuant to paragraph 1 of Special Condition C18 (Licensee's methodology for determining the release of exit capacity volumes); or

(B) the Authority has made a determination pursuant to paragraph 4(d)(v); and

$OIExC_{z,t}$ means NTS obligated incremental exit flat capacity in respect of formula year t and NTS exit point z in GWh/day in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i), 1(d)(ii), 1(d)(iii), 1(d)(iv) or 1(d)(v) of this condition;

(iii) Determination of $ExCIIR_{t,}^{newproj}$

$RDNEWPROJ_{z,t}$ means the revenue driver in (£/GWh/year) in formula year t for each new NTS exit point z set out in the table below.

NTS Exit Point z	Project description	$RDNEWPROJ_{z,t}$ £ /GWh/year
Gilwern	To deliver NTS incremental exit shipper capacity or NTS obligated incremental flat capacity of 20.215 GWh/day at Gilwern in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i), 1(d)(ii) or 1(d)(iii);	£1,457
Tonna (Baglan Bay)	To deliver NTS incremental exit shipper capacity or NTS obligated incremental flat capacity of 20.983 GWh/day at Tonna (Baglan Bay) in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i), 1(d)(ii) or 1(d)(iii); and	£1,389
Pembroke (Phase 2)	To deliver NTS incremental exit shipper capacity or NTS obligated incremental flat capacity of 20 GWh/day at Pembroke power station in respect of which a revenue driver has not previously been applied pursuant to paragraphs 1(d)(i), 1(d)(ii) or 1(d)(iii)	£1,458

(iv) Determination of $ExCIIR_{t,}{}^{sequad}$

(A) The maximum revenue allowed to the licensee in respect of the release of incremental exit capacity relating to NTS exit points in the south east quadrant in formula year t ($ExCIIR_t{}^{sequad}$) shall be determined in accordance with the following formula:

$$ExCIIR_{t,}{}^{sequad} = \sum_{all\,z\,in\,sequad} (ExCIIRS_{z,t} \times INDEX_z)$$

where:

sequad   means NTS exit points in the south east quadrant and which are set out below:

NTS exit points z in the South East quadrant
Horndon
Barking (Horndon)
Stanford Le Hope (Coryton)
Coryton 2 (Thames Haven) Power
Shorne
Middle Stoke (Damhead Creek, aka Kingsnorth Power Station)
Grain Power Station

$INDEX_z$ means the relevant input price indexation factor for the formula year in which NTS obligated incremental exit flat capacity associated with the NTS exit point z is delivered and shall take the value of 1.14 for formula year 2011/12 and subsequent formula years; and

$ExCIIRS_{z,t}$ means the revenue allowance calculated in accordance with the relevant formula specified in the table below:

where: $IExC_{z,t} \leq 50$ GWh/d	$ExCIIRS_{z,t}$ shall be calculated using the formula specified in paragraph 1(d)(iv)(C) of this condition ("Formula A");
where: 50 GWh/d $< IExC_{z,t} \leq 100$ GWh/d	$ExCIIRS_{z,t}$ shall be calculated using the formula specified in paragraph 1(d)(iv)(D) of this condition ("Formula B");
where: 100 GWh/d $< IExC_{z,t} \leq 150$ GWh/d	$ExCIIRS_{z,t}$ shall be calculated using the formula specified in paragraph 1(d)(iv)(E) of this condition ("Formula C");
where:	$ExCIIRS_{z,t}$ shall be calculated

150 GWh/d $<$ IExC$_{z,t}$ $\leq$ 200 GWh/d	using the formula specified in paragraph 1(d)(iv)(F) of this condition ("Formula D");
where: IExC$_{z,t}$ > 200 GWh/d	ExCIIRS$_{z,t}$ shall be calculated using the formula specified in paragraph 1(d)(iv)(G) of this condition ("Formula E");

(B) For the purpose of the above table, IExC$_{z,t}$ is calculated in accordance with the following formula :

$$IExC_{z,t} = INCCAP_{z,t} \times RDEL_{z,t}$$

where

INCCAP$_{z,t}$ shall take the same meaning as it does in paragraph 1(d)(ii) of this condition; and

RDEL$_{z,t}$ shall take the same meaning as it does in paragraph 1(d)(ii) of this condition.

For the purposes of paragraph 1(d)(iv)(A) of this condition:

(C) Formula A shall be:

$$ExCIIRS_{z,t} = IExC_{z,t} \times IREx1_i$$

where :

IREx1$_i$ = IRExy$_i$, where y=1.

(D) Formula B shall be:

$$ExCIIRS_{z,t} = (50 \times IREx1_i) + (IExC_{z,t} - 50) \times IREx2_i$$

where :

IREx1$_i$ = IRExy$_i$, where y=1; and

IREx2$_i$ = IRExy$_i$, where y=2.

(E) Formula C shall be:

$$ExCIIRS_{z,t} = (50 \times IREx1_i) + (50 \times IREx2_i) + (IExC_{z,t} - 100)$$
$$\times IREx3_i$$

where :

IREx1$_i$ = IRExy$_i$, where y=1;

IREx2$_i$ = IRExy$_i$, where y=2; and

IREx3$_i$ = IRExz$_i$, where y=3.

(F) Formula D shall be:

ExCIIRS$_{z,t}$ = (50 x IREx1$_i$) + (50 x IREx2$_i$) + (50 x IREx3$_i$) + (IExC$_{z,t}$ − 150) x
IREx4$_i$

where :

IREx1$_i$ = IRExy$_i$, where y=1;

IREx2$_i$ = IRExy$_i$, where y=2;

IREx3$_i$ = IRExy$_i$, where y=3; and

IREx4$_i$ = IRExy$_i$, where y=4.

(G) Formula E shall be:

ExCIIRS$_{z,t}$ = (50 x IREx1$_i$) + (50 x IREx2$_i$) + (50 x IREx3$_i$) + (50 x IREx4$_i$) +
(IExC$_{z,t}$ − 200) x IREx5$_i$

where :

IREx1$_i$ = IRExy$_i$, where y=1;

IREx2$_i$ = IRExy$_i$, where y=2;

IREx3$_i$ = IRExy$_i$, where y=3;

IREx4$_i$ = IRExy$_i$, where y=4; and

IREx5$_i$ = IRExy$_i$, where y=5.

In each of the formulae A to E above

IRExy$_i$ is the revenue allowance for funded incremental obligated exit capacity and shall take the values in accordance with the table below.

Increment	50 GWh/d	100 GWh/d	150 GWh/d	200 GWh/d	250 GWh/d
y =	1	2	3	4	5
£/GWh/year	£266,866	£260,086	£284,328	£317,815	£328,908

(v)   Determination of ExCIIR$_{t,}$ ^{storage}

The maximum revenue allowed to the licensee in respect of the release of incremental exit capacity relating to NTS exit points which are storage sites connected to the Bacton terminal in formula year t (ExCIIR$_t$ ^{storage}) shall be determined in accordance with the following formula:

$$ExCIIR_{t,}{}^{storage} = \sum_{all\,z\,storage\,sites} (IExC_{z,t} \times INDEX_z \times STPROJ_z)$$

Where:

INDEX$_z$ shall take the same meaning as it does in paragraph 1(d)(iv) of this condition; and

IExC$_{z,t}$ is calculated in accordance with the following formula:

$$IExC_{z,t} = INCCAP_{z,t} \times RDEL_{z,t}$$

where

INCCAP$_{z,t}$ shall take the same meaning as it does in paragraph 1(d)(ii) of this condition; and

RDEL$_{z,t}$ shall take the same meaning as it does in paragraph 1(d)(ii) of this condition; and

STPROJ$_z$ is the revenue allowance at NTS exit points which are storage sites connected to the Bacton terminal which shall be determined in accordance with the table below in respect of the incremental exit capacity required for each relevant project(s):

Incremental exit capacity IExC$_{z,t}$ (GWh/d)	STPROJ$_z$ (£/GWh/year)
IExC$_{z,t}$ = 353	£131,004
IExC$_{z,t}$ = 657	£116,244
IExC$_{z,t}$ = 1010	£111,232