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Direction issued to National Grid Gas Plc (NGG) by the Gas and Electricity Markets Authority pursuant to paragraph 8D.3 of Special Condition 8D¹ and paragraph 3D.38 of Special Condition 3D² of NGG's Gas Transporter Licence.

1. Special Condition 8D of National Grid Gas Plc's (NGG) Gas Transporter Licence places an obligation on NGG to develop and undertake a Scheme of Work to facilitate the establishment of a long term external gas system operator incentive to reduce targeted greenhouse gases.³

2. Paragraph 8D.3 of Special Condition 8D allows for the Authority to direct the recovery of up to 60% of the non recoverable costs up to a maximum of £300,000 pursuant to GHGCT as specified in Special Condition 3D (NTS System Operator external incentives, costs and revenues).

3. On 31 July 2013 NGG provided a statement of non recoverable costs incurred during the relevant formula year ending 31 March 2013 in relation to Special Condition 8D of its gas transporter licence. Further information was provided on 3 December 2013. This set out that NGG had incurred costs of £193,136 up to 31 March 2013 which they deemed to be non recoverable as defined by Special Condition 8D and that these costs were efficiently incurred. NGG requested Ofgem to provide it with a Direction to recover 60% of these non recoverable costs pursuant to paragraph 3D.38 of Special Condition 3D of its Gas Transporter Licence.

4. Having considered the statement submitted by NGG, the Authority has determined that the costs sought by NGG are non recoverable costs as defined in Special Condition 8D and were efficiently incurred.

5. The Authority therefore directs that the value of GHGCT in respect of formula year 2012/13 shall be £115,882, 60% of the total non recoverable cost incurred of £193,136, thereby permitting NGG to recover a total of £115,882 as provided for under paragraph 8D.3 of Special Condition 8D and paragraph 3D.38 of Special Condition 3D of the gas transporter licence.

Dated: 27 June 2013

Philippa Pickford

Interim Associate Partner, Markets

Duly authorised on behalf of the Gas and Electricity Markets Authority

¹ Formerly paragraph 7 of Special Condition C28

² Formerly paragraph 6(b) of Special Condition C8F

³ According to Paragraph 8D.6 of Special Condition 8D, the Scheme of Work should include: i) an approach, estimated costs and timetable, ii) the development of a methodology for the quantification of NGG's Greenhouse Gas Emissions, and iii) projects relating to alternatives to venting natural gas (see <https://www.ofgem.gov.uk/ofgem-publications/39987/national-grid.pdf>)