

To: National Grid Gas Plc

**Gas Act 1986
Section 23(1)(a)**

**MODIFICATION OF THE GAS TRANSPORTER LICENCE HELD BY NATIONAL GRID
GAS Plc**

Whereas –

1. National Grid Gas (NGG) Plc (the Licence Holder) is the holder of a gas transporter licence (the Licence) granted or treated as granted under section 23(2) of the Gas Act 1986 (the Act).
2. In accordance with section 23(2) of the Act the Gas and Electricity Markets Authority (the Authority¹) gave Notice on 12 June 2014 (the Notice) that it proposed to modify Special Condition 11F: Gas conveyed to Independent Systems, of the Licence and by requiring any representations to the modification to be made on or before 10 July 2014.
3. In accordance with section 23(4)(b) of the Act, the Authority gave notice that it proposed to make the modification to the Secretary of State on 12 June 2014 and has not received a direction not to make the modification.
4. Prior to the close of the consultation period in respect of the Notice, we received, and have carefully considered, one response. This response, from Scotia Gas Networks, has been placed on the Ofgem website. It supported our proposed amendment and agreed that the proposed total amount of transportation charges to be recovered was accurate and appropriate.
5. The Authority gives the following reasons for making the licence modification:

In our Final Proposals for the previous gas distribution price control (GDPCR1) we said we would allow Scotia Gas Networks to recover efficient costs in relation to supplying gas to the Statutory Independent Undertakings (SIUs). The SIUs are four towns in Scotland which are not on the gas network. Scotia Gas Networks (SGN) has an obligation to supply these towns with gas and is allowed to recover its revenue via NGG and the charges it imposes on customers across Great Britain.

After the Glenmavis LNG facility in Scotland closed, SGN incurred additional costs in securing supplies of LNG from the Avonmouth facility near Bristol for the winter of 2012/13. SGN requested additional costs of £5.2m (2009/10 prices) which we considered to be efficient. These costs include additional transportation costs and booking costs for procuring LNG from Avonmouth.

6. The effect of the modification is to allow NGG to recover operating expenditure (opex) of **£5.781m** (£5.2m plus financing costs) in 2015/16. The recovered costs can then be passed to SGN in accordance with NGG's licence.
7. Where an application for permission to appeal the Authority's decision is made to the Competition and Markets Authority under section 23B of the Act, Rule 5.7 of

¹ In this document, the terms "Authority", "Ofgem", "we" and "us" are used interchangeably.

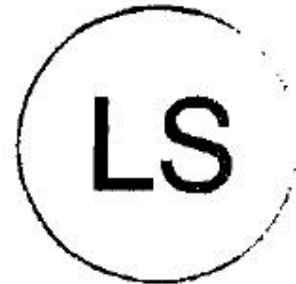
the CMA's Energy Licence Modification Appeals Rules² requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-confidential notice setting out the matters required in Rule 5.2. The attached Schedule 1 provides a list of the relevant licence holders in relation to this modification. The meaning of 'relevant licence holder' is set out in section 23(10) of the Act.

Now therefore

In accordance with the powers contained in section 23(1)(a) of the Act, the Authority hereby modifies the gas transporter licence of National Grid Gas plc in the manner specified in attached Schedule 2. This decision will take effect on and from 22 September 2014

This document constitutes notice of the reasons for the decision to modify the gas transporter licence held by National Grid Gas as required by section 38A of the Act.

**The Official Seal of the Gas and Electricity Markets Authority
here affixed is authenticated by the signature**



**Andrew Burgess
Duly authorised on behalf of the
Gas and Electricity Markets Authority**

25 July 2014

² The rules were published by the Competition Commission in September 2012. On 1 April 2014, the Competition Commission was abolished and its functions transferred to the Competition and Markets Authority (CMA).

Schedule 1 – Relevant Licence Holders³

National Grid Gas plc

³ Gas licence holders are listed at: <https://www.ofgem.gov.uk/publications-and-updates/all-gas-licensees-registered-addresses>

Schedule 2 – Modification to National Grid Gas Plc Gas Transporter Licence

Special Condition 11F: Gas conveyed to Independent Systems

Introduction

- 11F.1 This condition comes into force and has effect in this Licence in accordance with the provisions of Part A below.
- 11F.2 The purpose of this condition is to put in place a framework that will provide for the continuation of the cross-subsidy arrangements that were in force under this Licence at 31 March 2013 (“the arrangements”) with respect to Independent Systems in the event that the Secretary of State issues a new direction to that effect.
- 11F.3 The framework requires the Licensee to recover amounts from Gas Shippers and then pay those amounts to DN Operators and Relevant Shippers in order to facilitate the continuation of the arrangements.

Part A: Relevant directions with respect to this condition

- 11F.4 The framework described above applies with respect to the Licensee from the date on which the Secretary of State has issued a direction requiring the Licensee to do all such things under this condition as are necessary to secure the continuation of the arrangements.
- 11F.5 On or at any time after the date of any direction under paragraph 11F.4, the Authority may bring this condition into force in this Licence by issuing a direction for that purpose to the Licensee.
- 11F.6 A direction under paragraph 11F.5 may give effect to different parts of this condition in such manner as is specified in the direction and at such different times as may be so specified or are to be determined in accordance with its provisions.

Part B: Requirements relating to the Bulk Price Differential

- 11F.7 The Licensee must, 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 and 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 each Formula Year commencing on and after 1 April 2014, any adjustment (whether of a positive or negative amount) ($BPDADJ_t$) in Formula Year t which relates to the difference between:

- (i) its estimate of the Bulk Price Differential for 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, the Licensee must calculate the value of $BPDADJ_t$ for the Formula Year commencing on 1 April 2013 in accordance with that term as it was in force in this Licence as at 31 March 2013.

11F.8 The Licensee must, in respect of each Independent System, pay to the Relevant Shipper a proportionate amount of the sum of the amounts calculated pursuant to paragraph 11F.7 ($BPDE_t + BPDADJ_t$) on a quarterly basis (or at such other intervals of time as may be agreed with the Relevant Shipper) during the Formula Year in which the calculation in paragraph 11F.7(b) was required to be made.

Part C: Requirements relating to Distribution Network additional costs

11F.9 The Licensee must pay to the relevant DN Operator the amount that is applicable to that operator by virtue of Table 1 below (denoted by either the term SGNACP or the term WWUACP, as the case may be) in respect of the additional costs of serving the customers connected to those Independent Systems operated by that DN Operator (“additional costs payments”), subject to such adjustment as may be necessary by virtue of paragraph 11F.10.

11F.10 The additional costs payments must, prior to payment, be adjusted to take account (in the form of either the term ACPS or the term ACPW, as the case may be) the price index adjustment factor in Formula Year t as follows:

$$ACPS_t = SGNACP_t \times RPIF_t$$

or

$$ACPW_t = WWUACP_t \times RPIF_t$$

where:

$RPIF_t$ has the value given to it by Part D of Special Condition 2A (Restriction of NTS Transportation Owner Revenue).

Table 1: Transportation charges (£m, 2009/10 price levels)

Licensee / Formula Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Scotland Gas Networks plc (SGNACP _t)	-	23.306	11.445 <u>17.226</u>	11.468	11.491	11.514	11.537	11.561
Wales & West Utilities Limited (WWUACP _t)	-	0.204	0.100	0.100	0.100	0.100	0.100	0.100

11F.11 The Licensee must pay to the relevant DN Operator a proportionate amount of the full amount represented by the term ACPS or ACPW (as the case may be) for the relevant Formula Year on a quarterly basis during that year or at such other intervals of time as may be agreed with the DN Operator to whom the payment is to be made.

Part D: Recovery and reporting of costs by the Licensee

11F.12 The Licensee must use reasonable endeavours to recover an amount equal to the total amount represented by:

- (a) the sum of the amounts calculated pursuant to paragraph 11F.7 (BPDE_t + BPDADJ_t); and
- (b) the payments made to the relevant DN Operators under paragraph 11F.11 (ACPS_t + ACPW_t),

from Gas Shippers in the relevant Formula Year to which such amounts or payments (as the case may be) relate.

11F.13 For the purposes of Special Condition 2B (Calculation of allowed pass-through items) the term IS_t will be calculated as:

$$IS_t = BPDE_t + BPDADJ_t + ACPS_t + ACPW_t$$

11F.14 The Licensee must by 31 July in each relevant Formula Year submit to the Authority a statement that sets out:

- (a) each of the Bulk Price Differential payments made by the Licensee to Relevant Shippers in the previous Formula Year pursuant to paragraph 11F.8; and
- (b) each of the payments made by the Licensee to DN Operators in the previous Formula Year pursuant to paragraph 11F.11.

11F.15 The statement submitted under paragraph 11F.14 must be in such form and provide such detail as the Authority may reasonably require.

Part E: Interpretation

11F. 16 For the purposes of this condition, the following definitions apply:

Bulk Price Differential means the volume of LPG conveyed to consumers who are connected to each relevant Independent System in the relevant Formula Year, multiplied by the difference between:

- (a) the reasonable estimate (made by the Licensee) of the actual delivered price of LPG supplied to consumers connected to the relevant Independent System; and
- (b) the average price of gas consisting principally of methane supplied to large industrial customers in Great Britain;

Relevant Shipper has the meaning given to the term “relevant shipper” in Standard Special Condition A3, except that, for the purposes of this condition only, means a Gas Shipper that has made arrangements with the DN Operator that operates the LDZ in which that Independent System is situated under which LNG or LPG is to be transported to consumers at the premises.