

To: National Grid Gas plc (with respect to its gas distribution networks)

(Company Number: 02006000)

Northern Gas Networks Limited

(Company Number: 05167070)

Scotland Gas Networks plc

(Company Number: SC264065)

Southern Gas Networks plc

(Company Number: 05167021)

Wales and West Utilities Limited

(Company Number: 05046791)

(each a "licensee")

Modification of the GD1 Price Control Financial Instruments (the "Price Control Financial Model" (PCFM) and the "Financial Handbook") as required under part B of Special Condition 2A (Governance of GD1 Price Control Financial Instruments) of the Gas Transporter licence issued under Section 7 of the Gas Act 1986 ("the Act")

1. Whereas each licensee operates a gas distribution network and is the holder of a gas transporter licence (the "licence") granted or treated as granted under section 7 of the Act.
2. In accordance with part B of Special Condition 2A (Governance of GD1 Price Control Financial Instruments) of the licence, the Gas and Electricity Markets Authority (the Authority) gave notice on 18 July 2014 (the Notice) that it proposed to modify the Price Control Financial Model and the Financial Handbook of each licensee and by requiring any representations to the modification to be made on or before 15 August 2014.
3. Prior to the close of the consultation period in respect of the Notice, the Authority received 3 representation responses.
4. The Authority has carefully considered in relation to the proposed modification all representations received. Further changes have been incorporated into the marked up version of the Financial Handbook attached as Appendix 3 to this modification to reflect the responses.
5. The Authority gives the following reasons for making the modifications to the PCFM and Financial Handbook:

PCFM Modifications

- to ensure the correct values for the term MOD, calculated by the PCFM, are used in the formula for Base Distribution Network Transportation Activity Revenue, set out in Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity), and are produced for each Distribution Network under the Annual Iteration Process.

Financial Handbook Modifications

- to correct the omission of the terms NTS Exit Capacity (AEx) and Shrinkage Costs (ALSC) from the list in table 2.1 of paragraph 2.5 of chapter 2 of the GD1 Financial Handbook; and
 - to reflect that there may be in some circumstances, a more appropriate value than the existing Pension Scheme Established Deficit (PSED) to use for the purposes of the calculations in the Financial Handbook. This is to ensure that the value that the Authority and the licensees consider to be the most appropriate is used.
6. The effect of the modification(s) will be to:
- make minor modelling changes
 - Amend minor corrections of omission to include the terms AEx and ALSC to the list in table 2.1 of paragraph 2.5 of chapter 2 in the GD1 Financial Handbook; and
 - align the PSED, contained in the Financial Handbook, with a value considered to be more reasonable by both the licensee and the Authority.
7. With regards to paragraph 4 of this modification, the Authority considers it necessary to make additional minor alterations to the modifications set out in the Notice. These alterations are shown in yellow highlight in the attached Appendix 3. The reasons for any differences between the modifications set out in the Notice and the modifications shown in yellow highlight in Appendix 3 are to make minor corrections to omissions in the Financial Handbook outstanding from last year's modification process.

Now therefore

In accordance with the powers contained in Special Condition 2A, paragraph 2A.12, the Authority hereby modifies the Price Control Financial Model and the Financial Handbook of each licensee in the manner specified in Appendices 2 and 3. All modifications to the Financial Handbook are shown in track changes. This decision will take effect on and from 15 September 2014.

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Ian Rowson
Associate Partner, Regulatory Finance and Compliance
Smarter Grids and Governance
Duly authorised on behalf of the
Gas and Electricity Markets Authority
15 September 2014