

To the Company Secretary:

National Grid Gas plc (with respect to its gas distribution networks)
(Company Number: 02006000)

Directions issued by the Gas and Electricity Markets Authority to National Grid Gas plc (with respect to its gas distribution networks) under the Special Conditions of its gas transporter licence in respect of the Annual Iteration Process for the GD1 Price Control Financial Model

WHEREAS

1. National Grid Gas Plc (with respect to its gas distribution networks) ('the licensee') is the holder of a gas transporter licence ('the licence') granted under section 7 of the Gas Act 1986 that includes Special Conditions. These directions refer to all of the licensee's gas Distribution Networks as specified in Special Condition 1A (Restriction of revenue in respect of the Distribution Network Transportation Activity: definitions) of the licence.
2. For the purposes of these directions:
 - (a) the expression 'Formula Year t' has the same meaning as is given for it in Special Condition 1A and references to Formula Year t-1 are to be construed accordingly; and
 - (b) Formula Year t is the Formula Year that commences on 1 April 2015 and ends on 31 March 2016 ('Formula Year 2015/16').
3. Special Condition 2B (Annual Iteration Process for the GD1 Price Control Financial Model) requires the Gas and Electricity Markets Authority to:
 - (a) carry out the Annual Iteration Process for the GD1 Price Control Financial Model; and
 - (b) direct the value of the term MOD for Formula Year t;by 30 November in Formula Year t-1.
4. The following Special Conditions provide for the Authority to direct revised PCFM Variable Values for the licensee for the purpose of the Annual Iteration Process for the GD1 Price Control Financial Model which forms part of Special Condition 2A (Governance of the GD1 Price Control Financial Instruments) of the licence:
 - (a) Special Condition 1D (NTS Exit Capacity Cost Adjustment) in respect of AEx values;
 - (b) Special Condition 1F (Revenue adjustments for performance in respect of gas Shrinkage and environmental emissions) in respect of ALSC values;
 - (c) Special Condition 3A (Legacy price control adjustments) in respect of LAR values, (and the component term values PAR, TAR, FAR, CAR, SAR, IFIAR and IAEAR) and LRAV values, (and the component term values FRAV, CRAV, MRAV and SRAV);
 - (d) Special Condition 3B (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments) in respect of ALC, AOC, ACO and ARE values;
 - (e) Special Condition 3C (Specified financial adjustments) in respect of EDE, APFE, TTE, TGIE and CDE values;
 - (f) Special Condition 3D (The Innovation Roll-out Mechanism) in respect of IRM values;
 - (g) Special Condition 3E (Mains and Services Replacement Expenditure) in respect of RE values; and
 - (h) Special Condition 3F (Arrangements for the recovery of uncertain costs) in respect of IAECB, IAEEPS, IAELLC, IAESW, IAESM, IAECA and IAEFP values.

5. Each of the Special Conditions referred to in paragraph 4:
 - (a) sets out the basis on which any revisions to relevant PCFM Variable Values are to be determined; and
 - (b) where applicable, specifies the price control financial methodology in accordance with which revisions to the relevant PCFM Variable Value(s) are to be determined and the chapter of the GD1 Price Control Financial Handbook containing that methodology.

6. The reason for these directions is to revise the PCFM Variable Values as used in the Annual Iteration Process for the GD1 Price Control Financial Model (as each of those terms is defined in Special Condition 1A). The Annual Iteration Process is used to calculate values for the term MOD, that are used in the formulae set out in Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity).

7. In accordance with requirements set out in the Special Conditions referred to in paragraph 4, on 13 November 2014, the Authority gave notice of the revised PCFM Variable Values that it proposed to direct by 30 November in Formula Year t-1 and specified that any representations concerning the proposed values should be made within fourteen days.

8. The Authority received no representations.


NOW the Authority pursuant to the provisions of the Special Conditions referred to in paragraphs 3 and 4, **HEREBY DIRECTS** that:

- the PCFM Variable Values referred to in paragraph 4 are to be revised as shown in Schedule 1 to this direction; and
- the term MOD for the licensee for Formula Year 2015/16 is to take the values as follows:

East of England	£-7.6 m.
North West	£-8.6 m.
West Midlands	£-5.2 m.
London	£-1.7 m.

Schedule 2 to these directions shows the complete PCFM Variable Values Table (as that item is defined in Special Condition 1A) including the values revised under this direction (in bold font) and the values that have not been revised under this direction.

This constitutes notice of the reasons for the Authority's decision pursuant to section 38A of the Gas Act 1986.



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 Ian Rowson

28 November 2014

**Associate Partner, Regulatory Finance,
 Duly authorised on behalf of the Gas and Electricity Markets Authority**

NGGD East of England	<i>Proposed Revised PCFM Variable Values</i>							
<i>PCFM Variable Values names and and determination provision</i>	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Part D of Special Condition 3F	revision	revision	revision	revision	revision	revision	revision	revision
IAESM Part D of Special Condition 3F	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
IAECA Part D of Special Condition 3F	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
IAEFP Part D of Special Condition 3F	1.2	No revision	No revision	No revision	No revision	No revision	No revision	No revision

NGGD East of England

Component term values used to determine the values for LAR and LRAV in the table above:

PAR = 0.6
 TAR = 0.0
 CAR = 0.2
 FAR = 0.4
 SAR = 0.0
 IFIAR = 0.1
 IAEAR = 0.0

CRAV = -5.5
 MRAV = -0.2
 FRAV = 2.3
 SRAV = 0.0

NGGD London	<i>Proposed Revised PCFM Variable Values</i>							
<i>PCFM Variable Values names and determination provision</i>	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
IAESM Part D of Special Condition 3F	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
IAECA Part D of Special Condition 3F	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
IAEFP Part D of Special Condition 3F	0.5	No revision	No revision	No revision	No revision	No revision	No revision	No revision

NGGD London

Component term values used to determine the values for LAR and LRAV in the table above:

PAR = 0.6

TAR = 0.0

CAR = -1.4

FAR = 0.0

SAR = 0.1

IFIAR = 0.0

IAEAR = 0.0

CRAV = -2.9

MRAV = 0.0

FRAV = -0.3

SRAV = -2.3

NGGD North West	<i>Proposed Revised PCFM Variable Values</i>							
<i>PCFM Variable Values names and determination provision</i>	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
IAESM Part D of Special Condition 3F	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
IAECA Part D of Special Condition 3F	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
IAEFP Part D of Special Condition 3F	0.5	No revision	No revision	No revision	No revision	No revision	No revision	No revision

NGGD North West

Component term values used to determine the values for LAR and LRAV in the table above:

- PAR = 0.4
- TAR = 0.0
- CAR = 2.3
- FAR = 0.3
- SAR = 0.1
- IFIAR = 0.0
- IAEAR = 0.0

- CRAV = -16.9
- MRAV = 5.9
- FRAV = 0.2
- SRAV = -2.5

NGGD West Midlands	<i>Proposed Revised PCFM Variable Values</i>							
<i>PCFM Variable Values names and determination provision</i>	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
IAESM Part D of Special Condition 3F	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
IAECA Part D of Special Condition 3F	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
IAEFP Part D of Special Condition 3F	0.4	No revision	No revision	No revision	No revision	No revision	No revision	No revision

NGGD West Midlands

Component term values used to determine the values for LAR and LRAV in the table above:

PAR = 0.1

TAR = 0.0

CAR = -0.3

FAR = 0.4

SAR = 0.0

IFIAR = 0.0

IAEAR = 0.0

CRAV = 4.3

MRAV = -9.0

FRAV = 0.1

SRAV = -0.3

Schedule 2 to Direction issued by the Gas and Electricity Markets Authority to National Grid Gas Plc (with respect to its gas distribution networks) dated 28 November 2014

PCFM Variable Values Table East of England with values revised under the direction shown in bold font

East of England

Input												
East												
Parameter	Licence cond	Units	Term	Constant	Annual values							
PCFM year ending				31 Mar 2016	31 Mar 2014	31 Mar 2015	31 Mar 2016	31 Mar 2017	31 Mar 2018	31 Mar 2019	31 Mar 2020	31 Mar 2021
PCFM Variable Values Table												
Allowed percentage cost of debt	3C	annual real %	CDE		2.92%	2.72%	2.55%	2.55%	2.55%	2.55%	2.55%	2.55%
Actual load related capex	3B	£m 09/10 prices	ALC		29.0	-	-	-	-	-	-	-
Actual other capex	3B	£m 09/10 prices	AOC		17.6	-	-	-	-	-	-	-
Actual controllable opex	3B	£m 09/10 prices	ACO		126.9	-	-	-	-	-	-	-
Actual replacement expenditure	3B	£m 09/10 prices	ARE		81.0	-	-	-	-	-	-	-
Allowed uncertain costs (Enhanced physical site security)	3F	£m 09/10 prices	IAEEPS		-	-	-	-	-	-	-	-
Allowed uncertain costs (Specified street work costs)	3F	£m 09/10 prices	IAESW		2.5	2.4	2.4	2.3	2.2	2.2	2.1	2.1
Allowed uncertain costs (Connection charging boundary change costs)	3F	£m 09/10 prices	IAECCB		-	-	-	-	-	-	-	-
Allowed uncertain costs (Fuel poor network extension scheme)	3F	£m 09/10 prices	IAEFP		1.2	1.2	1.2	1.3	1.4	1.4	1.4	1.3
Allowed uncertain costs (Central agent)	3F	£m 09/10 prices	IAECA		-	-	-	-	-	-	-	-
Allowed uncertain costs (Smart metering roll out costs)	3F	£m 09/10 prices	IAESM		-	-	-	-	-	-	-	-
Allowed uncertain costs (Mains and services replacement expenditure)	3E	£m 09/10 prices	RE		0.1	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Allowed uncertain Costs (Large load connection costs)	3F	£m 09/10 prices	IAELLC		-	-	-	-	-	-	-	-
Allowed innovation roll-out mechanism	3D	£m 09/10 prices	IRM		-	-	-	-	-	-	-	-
NTS Exit Capacity costs	ID	£m 09/10 prices	AEx		24.7	24.7	24.7	24.7	24.7	24.7	24.7	24.7
Shrinkage costs	IF	£m 09/10 prices	ALSC		11.8	11.7	11.6	11.4	11.2	11.0	10.9	10.7
Tax liability allowance adjustments - gearing/interest costs	3C	£m nominal	TGIE		0.0	-	-	-	-	-	-	-
Tax liability allowance adjustments - driven by tax trigger events	3C	£m 09/10 prices	TTE		-	-	(0.4)	-	-	-	-	-
Pension scheme administration and Pension Protection Fund Levy	3C	£m 09/10 prices	APFE		0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Pension scheme deficit revenue allowances	3C	£m 09/10 prices	EDE		4.4	4.4	3.5	3.5	3.5	3.5	3.5	3.5
Legacy price control allowed revenue adjustment	3A	£m 09/10 prices	LAR		1.2							
Legacy price control RAV additions adjustment	3A	£m 09/10 prices	LRAV		(3.4)							

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PCFM Variable Values Table for North West with values revised under the direction shown in bold font

North West

Input													
North West													
	Parameter	Licence condition	Units	Term	Constant	Annual values							
	PCFM year ending				31 Mar 2014	31 Mar 2014	31 Mar 2015	31 Mar 2016	31 Mar 2017	31 Mar 2018	31 Mar 2019	31 Mar 2020	31 Mar 2021
PCFM Variable Values Table													
	Allowed percentage cost of debt	3C	annual real %	CDE		2.92%	2.72%	2.55%	2.55%	2.55%	2.55%	2.55%	2.55%
	Actual load related capex	3B	£m 09/10 prices	ALC		13.9	-	-	-	-	-	-	-
	Actual other capex	3B	£m 09/10 prices	AOC		16.7	-	-	-	-	-	-	-
	Actual controllable opex	3B	£m 09/10 prices	ACO		87.0	-	-	-	-	-	-	-
	Actual replacement expenditure	3B	£m 09/10 prices	ARE		69.7	-	-	-	-	-	-	-
	Allowed uncertain costs (Enhanced physical site security)	3F	£m 09/10 prices	IAEEPS		-	-	-	-	-	-	-	-
	Allowed uncertain costs (Specified street work costs)	3F	£m 09/10 prices	IAESW		1.0	1.0	0.9	0.8	0.8	0.7	0.6	0.6
	Allowed uncertain costs (Connection charging boundary change costs)	3F	£m 09/10 prices	IAECCB		-	-	-	-	-	-	-	-
	Allowed uncertain costs (Fuel poor network extension scheme)	3F	£m 09/10 prices	IAEFP		0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4
	Allowed uncertain costs (Central agent)	3F	£m 09/10 prices	IAECA		-	-	-	-	-	-	-	-
	Allowed uncertain costs (Smart metering roll out costs)	3F	£m 09/10 prices	IAESM		-	-	-	-	-	-	-	-
	Allowed uncertain costs (Mains and services replacement expenditure)	3E	£m 09/10 prices	RE		1.9	3.0	3.0	3.0	3.0	3.0	3.0	3.0
	Allowed uncertain Costs (Large load connection costs)	3F	£m 09/10 prices	IAELLC		-	-	-	-	-	-	-	-
	Allowed innovation roll-out mechanism	3D	£m 09/10 prices	IRM		-	-	-	-	-	-	-	-
	NTS Exit Capacity costs	1D	£m 09/10 prices	AEx		31.3	31.3	31.3	31.3	31.3	31.3	31.3	31.3
	Shrinkage costs	1F	£m 09/10 prices	ALSC		9.0	8.8	8.7	8.5	8.3	8.1	7.9	7.7
	Tax liability allowance adjustments - gearing/interest costs	3C	£m nominal	TGIE		0.0	-	-	-	-	-	-	-
	Tax liability allowance adjustments - driven by tax trigger events	3C	£m 09/10 prices	TTE		-	-	(0.3)	-	-	-	-	-
	Pension scheme administration and Pension Protection Fund Levy	3C	£m 09/10 prices	APFE		0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
	Pension scheme deficit revenue allowances	3C	£m 09/10 prices	EDE		3.3	3.3	2.7	2.7	2.7	2.7	2.7	2.7
	Legacy price control allowed revenue adjustment	3A	£m 09/10 prices	LAR		3.1							
	Legacy price control RAV additions adjustment	3A	£m 09/10 prices	LRAV		(13.2)							

