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Date: 19 June 2015

Dear Colleagues

Decision to modify Special Condition 3D and insert new Special Conditions 8J and 8K to National Grid Gas plc's gas transporter licence to introduce the System Operator (SO) incentive scheme for the period 2015/16-2017/18

This letter sets out the Authority's decision to modify Special condition 3D and insert new Special Conditions 8J and 8K into National Grid Gas plc (NGG)'s gas transporters licence. We are making these changes to introduce the gas SO incentive scheme for 2015/16-2017/18.

Background to the licence modifications

NGG, as the System Operator (SO) for Great Britain, is responsible for balancing the gas transmission system on a continuous basis. We regulate the actions of the SO to ensure its operational costs are optimised, delivering value for money to the consumer. Building on statutory obligations which require the SO to act in an economic, efficient and co-ordinated manner, we have historically driven the performance of the SO and shaped aspects of its behaviour through incentives.

Two of these incentives expire on 31 March 2015 and a third incentive expires on 31 March 2016. We have consulted on introducing a new incentive, based on the existing incentives, and updating and developing the scheme. Although they expire in different years, we combined their review to efficiently engage with industry and set them to expire in March 2018.¹

Our views

We did not receive any responses to our final proposals and statutory consultation on proposed licence modifications to introduce the 2015/16-2017/18 gas SO incentive scheme.

However, our proposed licence drafting in the statutory consultation has been amended to more accurately reflect the definition of "Maintenance Days" in the Uniform Network Code (UNC), by reflecting that Advice Notice Days are a subset of the existing definition of Maintenance Plan Day. In our view, this drafting change increases the clarity of the licence. It does not change the substance of the policy as set out in our Final Proposals.

¹Our final proposals and statutory consultation on proposed licence changes to implement the SO incentive schemes for 2015-17 can be found at: <https://www.ofgem.gov.uk/publications-and-updates/gas-system-operator-incentives-review-2015-18-final-proposals>

No further changes have been made to the drafting of our proposed licence modifications set out in our final proposals and statutory consultation document. However, please note that, unlike the version of the drafting published in our statutory consultation, we have tracked all changes to reflect the drafting that has been deleted or moved.

Our decision

We have decided to proceed with the modifications to Special Condition 3D and insert new Special Conditions 8J and 8K into NGG's licence as set out in the decision notice referred to below. These modifications to the licence will take effect on 14 August 2015 and will apply to the period from 1 April 2015.

A decision notice modifying NGG's licence has today been issued to NGG. The statutory decision notice has also been published on our website.²

Next steps

The licence modification will take effect on 14 August 2015.

If you have any questions regarding the content of this letter, please contact Amy OMahoney on 020 7901 7000 or by email soincentive@ofgem.gov.uk.

Yours faithfully

Mark Copley
Associate Partner, Wholesale Markets

² The direction letter can be found at www.ofgem.gov.uk/publications-and-updates/decision-gas-system-operator-incentives-review-2015-18