

To: National Grid Gas plc (with respect to the National Transmission System)
(Company Number: 02006000)
(the "licensee")

NOTICE UNDER SECTION 23(2) OF THE GAS ACT 1986

The Gas and Electricity Markets Authority ("the Authority") hereby gives notice pursuant to section 23(2) of the Gas Act 1986 ("the Act") as follows:

1. The Authority proposes to modify the gas transporter licence (the licence) held by National Grid Gas plc (the licensee) with respect to the National Transmission System by modifying the GT1 Price Control Financial Model (PCFM) that forms part of Special Condition 4A (Governance of GT1 Price Control Financial Instruments) ("SC 4A") of the licence as set out in paragraphs 4 and 5.

Assessment of the effect and impact of the intended modification

2. The Authority considers that the change set out in paragraph 4 could have a significant impact on the licensee and any of the other persons referred to in paragraph 4A.4 of SC 4A because it will significantly increase the value of the term SOMOD, calculated under the Annual Iteration process for the PCFM, that is used in the formula for Base NTS System Operation Revenue set out in Special Condition 3A (Restriction of NTS System Operation Revenue) of the licence.
3. The Authority considers that the change set out in paragraph 5 would not be likely to have a significant impact on the licensee and any of the other persons referred to in paragraph 4A.4 of SC 4A because it constitutes a minor labelling change.

PCFM Modifications

4. The Authority proposes to update the licensee's opening levels of allowed expenditure in relation to Enhanced Security Costs by adding £12.6m of SO Data centre capex, so that the values contained in the PCFM are consistent with the Authority's final proposals for the RIIO-GT1 price control.
5. The Authority also proposes to amend the title of the NGGT SO Input worksheet from "NGGT TO" to "NGGT SO", to correct a drafting error.
6. The Authority's reasons for proposing the modification set out in paragraphs 4 and 5 are:
 - (a) in the case of the change set out in paragraph 4, to ensure that the appropriate values for the term SOMOD are calculated for use in the formula for Base NTS System Operation Revenue set out in Special Condition 3A (Restriction of NTS System Operation Revenue) of the licence; and
 - (b) in the case of the change set out in paragraph 5 to apply an appropriate label to the NGGT SO Input worksheet of the PCFM.

7. The proposed modifications to the PCFM are detailed in Appendices 1 and 2 of this Notice, which consist of:
 - (a) an Oak report setting out the modifications to the PCFM (Appendix 1); and
 - (b) a copy of the PCFM incorporating the modifications (Appendix 2).
8. Copies of this Notice and other documents referred to in it are available on the Ofgem website (www.ofgem.gov.uk).
9. In accordance with Section 23(2) of the Gas Act 1986, the Authority hereby gives notice that it proposes to make modifications to the PCFM as set out in paragraphs 4 and 5 of this Notice.
10. Any representations with respect to the proposed modifications to the PCFM must be made on or before 28 August 2015, and addressed to: Gareth Wu, Regulatory Finance Team, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to gareth.wu@ofgem.gov.uk.
11. All responses will normally be published on Ofgem's website. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.
12. If the Authority decides to make the proposed modification it will take effect not less than 56 days after the decision is published.



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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
30 July 2015