

Direction issued pursuant to Special Condition 1F of the Gas Transporter Licence (Revenue Adjustments for Performance in Respect of Gas Shrinkage and Environmental Emissions) to:

- **National Grid Gas plc (NGG) in respect of its gas distribution networks;**
- **Scotland Gas Networks Limited (SGN);**
- **Northern Gas Networks Limited (NGN); and**
- **Wales and the West Utilities Limited (WWU)**

(collectively known as the "Gas Distribution Networks" (the "GDNs"))

1. This direction is issued by the Gas and Electricity Markets Authority (the "Authority") pursuant to paragraph 1F.26 of Special Licence Condition 1F of the Gas Transporter Licence (the "Licence") granted or treated as granted under section 7 of the Gas Act 1986 (the "Act") to each of the GDNs (the "Licensees").
2. Special Licence Condition 1F of the Licence (the "Condition") provides for adjustments to performance in respect of gas shrinkage and environmental emissions. Paragraph 1F.12 of the Condition requires each Licensee to maintain a Shrinkage and Leakage Model (the "Model" or the "SLM") as approved by the Authority.
3. Part E of the Condition sets out the arrangements for the modification of the Model. It requires each Licensee to annually review the Model in order to assess how it can better achieve the objective set out in paragraph 1F.13 of the Condition¹. Where a modification is proposed to the Model, paragraph 1F.20 requires each Licensee to consult with other Gas Transporters, gas shippers and other interested parties and allow them a period of not less than 28 days within which to make their representations. Following the consultation, the Licensee must make publicly available and submit to the Authority a report (the "SLM Modification Report") in accordance with the provisions of paragraph 1F.21 of the Condition.
4. Where the Authority considers that the modification set out in the SLM Modification Report submitted by the Licensee, as compared with the existing provisions of the Model, would better achieve the objective set out in paragraph 1F.13 of the Condition, it may issue directions requiring the Licensee, in conjunction with all other GDNs to revise:
 - a) the Model in such manner as specified in the directions;
 - b) the allowed shrinkage and leakage volumes set out in Appendices 2 and 3 to Special Condition 1F; and
 - c) the allowance for shrinkage costs set out in Appendix 1 to account for any revisions made.
5. In accordance with paragraph 1F.20 of the Condition, on 15 May 2014 NGG furnished the Authority (on behalf of all the GDNs) with a SLM Modification Report (i.e. Modification Report No. 04) including changes made as a result of the industry consultation and comments from the Authority.
6. After careful consideration of the SLM Modification Report and the responses to the consultation, and having regard to the objective set out in paragraph 1F.13 of the Condition, the Authority decided to approve Modification Report No. 04.

¹ Paragraph 1F.13 of the Condition states: "The Shrinkage and Leakage Model must be designed to facilitate the accurate calculation and reporting of gas Shrinkage and gas Leakage in or from each Distribution Network operated by the Licensee."

7. However, an error was made in the original direction implementing our decision to approve Modification Report No. 04. This direction amends the previous direction and corrects that error.
8. In accordance with paragraph 1F.26 of the Condition, the Authority hereby directs each of the GDNs to replace the table in Appendix 1 of Special Condition 1 (Distribution Network allowance in respect of Shrinkage costs) with the table in Appendix 1 of this direction.
9. This direction shall have immediate effect and shall remain in effect until such time as the Authority may revoke or vary the Direction in writing upon reasonable notice.

Dated: 03 August 2015

A handwritten signature in black ink, appearing to read 'Paul Branston', with a stylized, looping flourish above the name.

Paul Branston

Associate Partner, Gas Networks

Signed on behalf of the Authority and authorised for that purpose by the Authority

Appendix 1: Distribution Network allowance in respect of Shrinkage costs for the period beginning on 1 April 2013 and ending on 31 March 2021

Distribution Network	Correct Allowance (£m 2009/10 prices)							
	t=1	t=2	t=3	t=4	t=5	t=6	t=7	t=8
NGGD EoE	11.80	10.80	10.67	7.92	7.74	7.55	7.36	7.18
NGGD Lon	6.10	5.46	5.35	4.30	4.19	4.07	3.96	3.85
NGGD NW	9.00	8.38	8.27	5.76	5.59	5.40	5.24	5.08
NGGD WM	7.00	6.79	6.79	5.01	4.88	4.77	4.67	4.54
Northern Gas Networks Ltd	10.00	9.61	9.39	8.99	8.87	8.77	8.55	8.35
Scotland Gas Networks plc	5.20	4.80	4.70	4.60	4.47	4.37	4.25	4.14
Southern Gas Networks plc	13.30	13.10	13.00	12.68	12.48	12.28	12.06	11.56
Wales & West Utilities Ltd	8.80	8.62	8.62	8.42	8.32	8.22	8.02	7.82