

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 5167021)

Wales and West Utilities Limited
(Company Number 05046791)

**Gas Act 1986
Section 23(2)**

Notice of statutory consultation on a proposal to modify the special conditions of the gas transporter licence held by the Licence Holders listed above

1. The Gas and Electricity Markets Authority ('the Authority')¹ proposes to modify the special conditions of the gas transporter licences held by the companies to whom this document is addressed (together "the Licence Holders") granted or treated as granted under section 7 of the Gas Act 1986 by adding a new special condition 4J (Non Gas Fuel Poor Network Extension Scheme Incentive Mechanism) and introducing consequential changes as specified in paragraph 4 of this Notice.
2. We are proposing this modification to implement the Non Gas Fuel Poor Network Extension Scheme Incentive Mechanism. This condition will come into effect from 1 April 2016. This incentive has been introduced following our review of the Non Gas Fuel Poor Network Extension Scheme ("Scheme").² As a result of this modification, the Licence Holders will be incentivised to deliver more gas connections than the targets we placed on each of them in RIIO-GD1 Final Proposals. They can also be penalised if they deliver fewer gas connections than their respective targets.
3. The proposed modification can award the Licence Holders in the next price control period an amount equal to 2.5 per cent of the eligible efficient costs for fuel poor connections they deliver in excess of the targets we have set. If the Licence Holders do not achieve the targets we have set, they can also be penalised by an amount equal to 2.5 per cent of the avoided efficient costs for the fuel poor connections they have not delivered. Licence Holders may also be required to deliver the shortfall in fuel poor connections in the next price control period. A full description of the licence changes applicable to all Licence Holders that we propose to make can be found in Annex A.
4. The proposed modification also contains minor formatting changes applicable to National Grid Gas plc, Southern Gas Networks plc and Northern Gas Networks Limited. The changes applicable to these Licence Holders are contained in Annex B and result from:
 - a. the fact that currently their respective licences do not contain any special conditions numbered as "4I"; and

¹ The terms "the Authority", "we" and "us" are used interchangeably in this document.

² A copy of the Fuel Poor Network Extension Scheme final decision document can be found here: <https://www.ofgem.gov.uk/publications-and-updates/fuel-poor-network-extension-scheme-final-decision-document>

- b. the need for consistency in licence conditions numbering for all Licence Holders to whom this Notice is addressed.
- 5. A copy of the proposed modifications and other documents referred to in this Notice have been published on our website (www.ofgem.gov.uk). Alternatively they are available from our Research and Information Centre, 9 Millbank, London, SW1P 3GE (020 7901 7003).
- 6. Any representations with respect to the proposed licence modification must be made on or before 30 November 2015 to: James Thomson, Office of Gas and Electricity Markets, Cornerstone, 107 West Regent Street, Glasgow, G2 2BA or by email to james.thomson@ofgem.gov.uk.
- 7. We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as not for publication. We prefer to receive responses in an electronic form so they can be placed easily on our website.
- 8. If we decide to make the proposed modifications they will take effect not less than 56 days after the decision is published.

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Paul Branston
Duly authorised on behalf of the
Gas and Electricity Markets Authority

30 October 2015

Annex A

Proposed licence changes applicable to all Licence Holders this notice is addressed.

Special Condition 4J. Non Gas Fuel Poor Network Extension Scheme Incentive Mechanism

Introduction

4J.1 The purpose of this condition is to specify the Non Gas Fuel Poor Network Extension Scheme Connection Targets (“Scheme Connection Targets”) the Licensee must deliver during the Price Control Period and the incentive reward or penalty associated with over or under-deliveries against those outputs.

Part A: Obligation to deliver Scheme Connection Targets in respect of the Non Gas Fuel Poor Connection Extension Scheme

4J.2 Subject to Part B of this condition, the Licensee will be deemed to have delivered the Scheme Connection Targets set out in Annex A of this condition if Non Gas Fuel Poor Network Extension Connections (“Scheme Connections”) are eligible under the Non Gas Fuel Poor Network Extension Scheme.

4J.3 A Scheme Connection for the purposes of this special condition is a Domestic One-off Connection or a Community Connection.

4J.4 The Authority will assess the Licensee’s performance in delivering the Scheme Connection Targets in accordance with the process set out in Part B of this condition for the purposes of determining whether adjustments should be made to the Licensee’s allowed revenue for the Distribution Network Transportation Activity in the Second Price Control Period in accordance with the principles set out in Table 1 in Part C of this condition.

Part B: Procedure for assessing Scheme Connections and associated price control allowed expenditure adjustments

4J.5 By 31 July 2021, the Licensee must provide a report to the Authority (the “Performance Report”) setting out the extent to which it has delivered the Scheme Connection Targets set out in this condition and providing details of its performance assessed by the Authority under paragraph 4I.4 of this condition.

4J.6 In relation to the Licensee’s the Performance Report shall include detailed explanations together with supporting evidence as to why the Licensee reasonably considers that it has delivered from 1 April 2013 to 31 March 2021:

- (a) the Scheme Connection Targets in accordance with the relevant specifications set out in Annex A; and
- (b) any justified over delivery in accordance with the RIIO Principles; or
- (c) any justified under delivery in accordance with the RIIO Principles.

4J.7 The Licensee shall provide such further analysis or information, and in accordance with such timescales, as the Authority considers are reasonably necessary to enable it to undertake its assessment for the purposes of its determinations under paragraph 4I.4 of this condition.

4J.8 A determination by the Authority under paragraph 4J.4 will be of no effect unless the Authority has first:

(a) given notice to the Licensee and to any other interested parties that it proposes to make the determination:

(i) stating the reasons for and the effects of its proposed determination; and

(iii) specifying the time (which must not be less than a period of 56 days) within which representations concerning the proposed determination may be made; and

(b) considered any representations in response to the notice that are duly made and not withdrawn.

Part C: Principles for determining adjustments to allowed revenue

4J.9 The Authority shall determine whether adjustments should be made to allowed revenue in the Second Price Control Period in accordance with the principles set out in Table 1 below:

Table 1: Treatment of under- and over-delivery of the Scheme Connection Targets

<u>Incentives</u>	<u>Justified</u>	<u>Unjustified</u>
<u>Over-delivery</u>	<p><u>Financial reward equal to 2.5 per cent of the additional efficient costs associated with the over-delivery</u></p> <p><u>Where the Non Gas Fuel Poor Network Extension Scheme continues beyond 31 March 2021, we will make a legacy adjustment for the efficient over-delivery in the Second Price Control Period</u></p> <p><u>If the Non Gas Fuel Poor Network Extension Scheme does not continue beyond 31 March 2021, we shall make a legacy adjustment of any over delivered efficient costs during the Second Price Control Period</u></p>	<p><u>No reward</u></p> <p><u>The over- delivery shall not be offset against the relevant output commitment in the Second Price Control Period allowances</u></p>
<u>Under-delivery</u>	<p><u>No penalty</u></p> <p><u>Where the Non Gas Fuel Poor Network Extension Scheme continues beyond 31 March 2021, the under- delivery shall be added to the relevant output commitment</u></p>	<p><u>Financial penalty equal to 2.5 per cent of the avoided efficient costs associated with the under-delivery</u></p> <p><u>Where the Non Gas Fuel Poor Network Extension Scheme</u></p>

	<p><u>in the Second Price Control Period</u></p> <p><u>If the justified under-delivery is as result of the cessation of the Non Gas Fuel Poor Network Extension Scheme, we shall make a legacy adjustment to the Second Price Control Period</u></p>	<p><u>continues beyond 31 March 2021, the under- delivery shall be added to the relevant output commitment in the Second Price Control Period</u></p> <p><u>If the unjustified under-delivery is as result of the cessation of the Non Gas Fuel Poor Network Extension Scheme, we shall make a legacy adjustment to the Second Price Control Period</u></p>
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Part D: Interpretation

4J.10 For the purposes of this condition:

Domestic One-off connection means a connection to a single household, as further clarified in the RIGs issued under Standard Special Condition A40 (Regulatory Instructions and Guidance).

Community Connection means a connection to a number of households, as further clarified in the RIGs issued under Standard Special Condition A40 (Regulatory Instructions and Guidance).

ANNEX A: Scheme Connection Targets

<u>Licensee</u>	<u>Scheme Connection Targets from 1 April 2013 to 31 March 2021</u>
<u>NGGD EOE</u>	<u>12,046</u>
<u>NGGD Lon</u>	<u>2,880</u>
<u>NGGD NW</u>	<u>13,330</u>
<u>NGGD WM</u>	<u>8,360</u>
<u>Northern Gas Networks Ltd</u>	<u>14,500</u>
<u>Scotland Gas Networks plc</u>	<u>17,130</u>
<u>Southern Gas Networks plc</u>	<u>10,367</u>
<u>Wales & West Utilities Ltd</u>	<u>12,590</u>

Annex B

Proposed licence changes applicable only to National Grid Gas plc, Southern Gas Networks plc and Northern Gas Networks Limited

[Insertion of a blank page with the following wording after the provisions of Special Condition 4H]

Special Condition 4I Not Used