

**To the Company Secretary:**

National Grid Gas plc with respect to its National Transmission System  
(Company Number 02006000)

**DIRECTIONS ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY TO NATIONAL GRID GAS PLC UNDER THE SPECIAL CONDITIONS OF ITS GAS TRANSMISSION LICENCE IN RESPECT OF THE ANNUAL ITERATION PROCESS FOR THE RIIIO-GT1 PRICE CONTROL FINANCIAL MODEL**

**WHEREAS**

1. National Grid Gas plc ('the licensee') is the holder of a gas transmission licence ('the licence') granted or treated as granted, with respect to its National Transmission System, under section 7 of the Gas Act 1986 ('the Act').
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 (Definitions and Interpretation) for the purposes of the Special Conditions referred to in this direction, and references to Formula Year t-1 are to be construed accordingly; and
  - (b) Formula Year t for the purposes of these directions is the Formula Year that commences on 1 April 2016 and ends on 31 March 2017 ('Formula Year 2016/17').
3. Special Condition 4B (Annual Iteration Process for the GT1 Price Control Financial Model) requires the Gas and Electricity Markets Authority ('the Authority') to:
  - (a) carry out the Annual Iteration Process for the GT1 Price Control Financial Model; and
  - (b) direct the value of the term MOD and SOMOD for Formula Year t, for the purposes of the formulae that are specified in Special Condition 2A (Restriction of NTS Transportation Owner Revenue) and Special Condition 3A (Restriction of NTS System Operation Revenue);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 GT1 Price Control Financial Model that forms part of Special Condition 4B of the licence:
  - (a) Special Condition 5A (Legacy price control adjustments – NTS Transportation Owner) in respect of LAR values (and the component term values TAR, CAR, and SAR) and LRAV values (and the component term values CRAV, and SRAV) and/or Special Condition 6A (Legacy price control adjustments – NTS System Operator) in respect of SOLAR values (and the component term value SOCAR) and SOLRAV (and its component term value SOCRAV);
  - (b) Special Condition 5B (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – NTS Transportation Owner) in respect of ALC, ARC, AOC, ACO, ANC, ALU, ARU, AOU and ACU values and/or Special Condition 6B (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – NTS System Operator) in respect of SOANC and SOACO values;
  - (c) Special Condition 5C (Specified financial adjustments – NTS Transmission Owner) in respect of EDE, APFE, TTE, TGIE and CDE values and/or Special Condition 6C (Specified financial adjustments – NTS System Operator) in respect of SOEDE, SOAPFE, SOTTE, SOTGIE and SOCDE values;
  - (d) Special Condition 5D (The Innovation Roll-out Mechanism) in respect of IRM values;
  - (e) Special Condition 5E (Arrangements for the recovery of uncertain costs) in respect of IAEEPS, IAEPD, IAEQL, IAENF, IAEIE, and IAEAH values and/or Special Condition 6D

(Arrangements for the recovery of SO uncertain costs) in respect of SOIAEEPS and SOIAECA values;

- (f) Special Condition 5F (Determination of Incremental Obligated Entry Capacity volumes and the appropriate revenue drivers to apply) in respect of EnCIt values; and
- (g) Special Condition 5G (Determination of Incremental Obligated Exit Capacity volumes and the appropriate revenue drivers to apply) in respect of EXCIt 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, where applicable,
- (b) 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 GT1 Price Control Financial Handbook containing that methodology.

6. The reason for these directions is to revise PCFM Variable Values are used in the Annual Iteration Process for the GT1 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 terms MOD and SOMOD that are used in the formulae set out in Special Condition 2A (Restriction of NTS Transportation Owner Revenue) and Special Condition 3A (NTS System Operator – Revenue Restriction) respectively.

7. In accordance with requirements set out in the Special conditions referred to in paragraph 4, on 9 November 2015 the Authority gave notice of the revised PCFM Variable Values that it proposed to direct by 30th November in Formula Year t-1 and specified that any representations concerning the proposed values should be made within fourteen days of receiving the notice.

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 and component term values referred to in paragraph 4 are to be revised as shown in Schedule 1 to this direction; and
- the terms MOD and SOMOD for the licensee for Formula Year 2016/17 are to take the values £10.5m and £1m.

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

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



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

**30 November 2015**

**Schedule 1 to Directions issued by the Gas and Electricity Markets Authority to National Grid Gas plc with respect to its National Transmission System dated 30 November 2015**

N.B. All values below are shown in £m to one decimal place with the exception of CDE, which is shown as a percentage to two decimal places. The table below includes revised PCFM Variable Values for the Transmission Operator (TO) and the System Operator (SO).

[illegible]

National Grid Gas plc	Revised PCFM Variable Values							
PCFM Variable Value Name and determination provision	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
TTE Part B of Special Condition 5C	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
TGIE Part B of Special Condition 5C	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
CDE Part C of Special Condition 5C	No revision	No revision	No revision	<b>2.38%</b>	<b>2.38%</b>	<b>2.38%</b>	<b>2.38%</b>	<b>2.38%</b>
IRM Part F of Special Condition 5D	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
IAEEPS Part B of Special Condition 5E	<b>26.9</b>	<b>18.2</b>	<b>10.8</b>	<b>12.7</b>	<b>32.0</b>	<b>32.7</b>	<b>20.5</b>	<b>6.4</b>
IAEPD Part B of Special Condition 5E	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
IAEQL Part B of Special Condition 5E	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
IAENF Part B of Special Condition 5E	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
IAEIE Part B of Special Condition 5E	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
IAEAH Part B of Special Condition 5E	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
EnCI <sub>t</sub> Part F of Special Condition 5F	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
ExCI <sub>t</sub> Part F of Special Condition 5G	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
SOLAR Parts A and B of Special Condition 6A	No revision							
SOLRAV Parts A and B of Special Condition 6A	No revision							
SOANC Part B of Special Condition 6B	No revision	<b>27.3</b>	No revision	No revision	No revision	No revision	No revision	No revision

National Grid Gas plc	<i>Revised PCFM Variable Values</i>							
<i>PCFM Variable Value Name and determination provision</i>	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
SOACO Part B of Special Condition 6B	No revision	<b>40.2</b>	No revision	No revision	No revision	No revision	No revision	No revision
SOEDE Part A of Special Condition 6C	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
SOAPFE Part A of Special Condition 6C	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
SOTTE Part B of Special Condition 6C	No revision	No revision	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
SOTGIE Part B of Special Condition 6C	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
SOCDE Part C of Special Condition 6C	No revision	No revision	No revision	<b>2.38%</b>	<b>2.38%</b>	<b>2.38%</b>	<b>2.38%</b>	<b>2.38%</b>
SOIAEEPS Part C of Special Condition 6D	<b>12.6</b>	No revision	No revision	No revision	No revision	No revision	No revision	No revision
SOIAECA Part C of Special Condition 6D	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision

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

**LAR**                **7.3**  
 SAR                13.3  
 TAR                0  
 CAR                -6.0

**LRAV**            **63.7**  
 SRV                38.1  
 CRAV            25.6

**Schedule 2 to Directions issued by the Gas and Electricity Markets Authority to National Grid Gas plc with respect to its National Transmission System dated 30 November 2015**

**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.**

**National Grid Gas TO**

	Licence Condition	Price Base	Licence term	31 Mar 2014	31 Mar 2015	31 Mar 2016	31 Mar 2017	31 Mar 2018	31 Mar 2019	31 Mar 2020	31 Mar 2021
Allowed percentage cost of debt	5C	annual real %	CDE	2.92%	2.72%	2.55%	<b>2.38%</b>	<b>2.38%</b>	<b>2.38%</b>	<b>2.38%</b>	<b>2.38%</b>
Actual load related capex expenditure	5B	£m 09/10 prices	ALC	<b>3.0</b>	<b>1.2</b>	-	-	-	-	-	-
Actual asset replacement capex expenditure	5B	£m 09/10 prices	ARC	42.9	<b>48.0</b>	-	-	-	-	-	-
Actual other capex expenditure	5B	£m 09/10 prices	AOC	31.0	<b>28.4</b>	-	-	-	-	-	-
Actual controllable opex	5B	£m 09/10 prices	ACO	<b>64.9</b>	<b>69.0</b>	-	-	-	-	-	-
Actual non-operational capex expenditure	5B	£m 09/10 prices	ANC	<b>10.5</b>	<b>10.0</b>	-	-	-	-	-	-
Actual load related capex (uncertain)	5B	£m 09/10 prices	ALU	-	-	-	-	-	-	-	-
Actual asset replacement capex expenditure (uncertain)	5B	£m 09/10 prices	ARU	-	<b>1.9</b>	-	-	-	-	-	-
Actual other capex expenditure (uncertain)	5B	£m 09/10 prices	AOU	30.6	<b>19.9</b>	-	-	-	-	-	-
Actual controllable opex (uncertain)	5B	£m 09/10 prices	ACU	5.1	<b>3.6</b>	-	-	-	-	-	-
Uncertain costs - enhanced security	5E	£m 09/10 prices	IAEEPS	<b>26.9</b>	<b>18.2</b>	<b>10.8</b>	<b>12.7</b>	<b>32.0</b>	<b>32.7</b>	<b>20.5</b>	<b>6.4</b>
Uncertain costs – Pipeline Diversion Costs	5E	£m 09/10 prices	IAEPD	-	-	-	-	-	-	-	-
Uncertain costs (Quarry & Loss Costs), uncertainty rate	5E	£m 09/10 prices	IAEQL	-	-	-	-	-	-	-	-
Innovation Roll out mechanism	5D	£m 09/10 prices	IRM	-	-	-	-	-	-	-	-
Incremental Obligated entry capacity, uncertainty rate	5F	£m 09/10 prices	ENCI	-	-	-	-	-	-	-	-
Incremental Obligated exit capacity, uncertainty rate	5G	£m 09/10 prices	EXCI	-	-	-	-	-	-	-	-
Uncertain costs – Network Flexibility Costs	5E	£m 09/10 prices	IAENF	-	-	-	-	-	-	-	-
Uncertain costs – Industrial Emissions	5E	£m 09/10 prices	IAEIE	-	-	-	-	-	-	-	-
Uncertain costs – One Off Asset Health Costs	5E	£m 09/10 prices	IAEAH	-	-	-	-	-	-	-	-
Tax liability - gearing/interest costs	5C	£m nominal	TGIE	-	-	-	-	-	-	-	-
Tax liability - tax trigger events	5C	£m 09/10 prices	TTE	-	-	-	-	-	-	-	-
Pension scheme administration and Pension Protection Fund Levy	5C	£m 09/10 prices	APFE	2.7	2.6	2.6	2.7	2.6	2.6	2.7	2.6
Pension Scheme Established Deficit	5C	£m 09/10 prices	EDE	26.4	26.4	49.4	49.4	49.4	49.4	49.4	49.4
Legacy price control adjustments to allowed revenue	5A	£m 09/10 prices	LAR	<b>7.3</b>							
Legacy price control adjustments to RAV	5A	£m 09/10 prices	LRAV	<b>63.7</b>							

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**National Grid Gas SO**

	Licence Condition	Price Base	Licence term	31 Mar 2014	31 Mar 2015	31 Mar 2016	31 Mar 2017	31 Mar 2018	31 Mar 2019	31 Mar 2020	31 Mar 2021
Actual non-operational capex expenditure	6B	£m 09/10 prices	SOANC	17.7	<b>27.3</b>	-	-	-	-	-	-
Actual controllable opex	6B	£m 09/10 prices	SOACO	35.3	<b>40.2</b>	-	-	-	-	-	-
Uncertain costs - enhanced security	6D	£m 09/10 prices	SOIAEEPS	<b>12.6</b>	-	-	-	-	-	-	-
Uncertain costs – Central Agency Costs	6D	£m 09/10 prices	SOIAECA	13.5	12.5	18.2	23.8	21.5	16.5	14.0	14.1
Tax liability - gearing/interest costs	6C	£m nominal	SOTGIE	-	-	-	-	-	-	-	-
Tax liability - tax trigger events	6C	£m 09/10 prices	SOTTE	-	-	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Pension scheme administration and Pension Protection Fund Levy	6C	£m 09/10 prices	SOAPFE	-	-	-	-	-	-	-	-
Pension Scheme Established Deficit	6C	£m 09/10 prices	SOEDE	0.2	0.2	0.8	0.8	0.8	0.8	0.8	0.8
Legacy price control adjustments to allowed revenue	6A	£m 09/10 prices	SOLAR	0.3							
Legacy price control adjustments to RAV	6A	£m 09/10 prices	SOLRAV	(3.0)							