



Making a positive difference
for energy consumers

Company Secretary
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Date: 29 January 2016

Dear Company Secretary

Direction to extend the deadline for National Grid Gas plc to submit a business plan for the Greenhouse Gas Emissions Investigation Mechanism to 31 July 2016, pursuant to Special Condition 8J.2 of the Gas Transporter Licence;

Notice of Reasons for our Decision pursuant to section 38A of the Gas Act 1986

Under Special Condition 8J (SpC 8J) of the Gas Transporter Licence, National Grid Gas plc (NGG) is required to submit a business plan on greenhouse gas (GHG) investigation activities ('the business plan') for our¹ approval. The submission of the business plan is part of the Greenhouse Gas Emissions Incentive Mechanism (GHGIM_t).

In this letter, we set out our decision to extend the deadline for NGG to submit the business plan. We direct NGG to submit the business plan to us for approval by 31 July 2016.

The Greenhouse Gas Incentive Mechanism

The GHGIM_t was introduced in the Gas System Operator Incentive Review 2015-18. It is designed to incentivise NGG as the system operator (SO) to undertake investigation activities relating to venting² on the National Transmission System (NTS). Under this incentive scheme, NGG can be awarded up to £500,000 for undertaking value adding GHG investigation activities.

Business plan submission

SpC 8J sets out the obligations of NGG in respect of GHG investigation activities under the GHGIM_t. NGG is required to submit a business plan to us for approval setting out details of activities to be undertaken, or where the NGG has already undertaken such activities, in relation to the understanding, measurement and mitigation of venting. The business plan has to be submitted to us by 31 January 2016, unless we direct otherwise.

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document to refer to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² Where venting is the release of natural gas from a Relevant Compressor (as defined in Section F, paragraph 3D.39 of National Grid Gas Plc (NTS) Gas Transporter Licence Special Conditions) as a result of starting a compressor, purging a compressor, depressurising a compressor, or the leakage of gas through a seal around the shaft of a compressor.

We published Guidance on Submissions³ for the GHGIM_t in September 2015. This includes guidance on what we expect to see in a completed business plan.

NGG request for submission date extension

NGG wrote to us in December 2016 seeking an extension to the submission date for the business plan. NGG stated that they did not at that time have any project ideas which satisfied the requirements of SpC 8J or the recommendations of our guidance document.

NGG asked for a 12 month extension in order to: generate appropriate project ideas; conduct some key risk mitigation activities prior to business plan submission, including engagement with customers and stakeholders; and ensure sufficient work is completed to align with our guidance on the level of information that should be contained in the business plan. NGG also provided a breakdown of key activities to be undertaken in the 12 month extension period.

Our decision

We have considered NGG's request for an extension to the business plan submission date in the context of the requirements of the Licence, our Guidance on Submissions, and the objectives of the GHGIM_t.

Key objectives of the GHGIM_t are to both improve understanding and allow for cost-effective mitigation of GHG venting on the NTS. We consider that an extension to the business plan submission date will better facilitate meeting these objectives. In particular, an extension will allow for the generation of appropriate project ideas that deliver benefits to consumers.

However, we consider that a six month extension is sufficient for NGG to develop a suitable business plan. A six month extension should allow NGG to develop appropriate project ideas, conduct initial stakeholder engagement, and refine the scope of the investigation activities to be undertaken.

We consider that a six month extension strikes an appropriate balance between allowing time for a suitable business plan to be developed and minimising reduction in the time between our decision on the business plan (up to two months after submission) and the deadline for investigation activities to be completed (1 December 2017). We also note that NGG may amend an approved business plan from time to time subject to our approval, which should mitigate some of the risks associated with the potential need for changes to the approved investigation activities after business plan submission.

Direction and Notice

Attached as an Annex to this letter is a formal Direction extending the deadline for NGG to submit the GHGIM_t business plan to us from 31 January 2016 to 31 July 2016.

This letter constitutes notice of the reasons for our decision pursuant to section 38A of the Gas Act 1986.

Yours sincerely,

Mark Copley – Associate Partner
For and on behalf of the Gas and Electricity Markets Authority

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https://www.ofgem.gov.uk/sites/default/files/docs/2015/09/the_greenhouse_gas_investigation_mechanism_guidance_document_2015_0.pdf

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Annex

DIRECTION ISSUED PURSUANT TO PARAGRAPH 8J.2 OF SPECIAL CONDITION 8J (REQUIREMENT TO UNDERTAKE GREENHOUSE GAS INVESTIGATION ACTIVITIES) OF NATIONAL GRID GAS PLC'S GAS TRANSPORTER LICENCE IN RELATION TO THE GREENHOUSE GAS INCENTIVE MECHANISM

Whereas:

1. National Grid Gas plc ("NGG") is the holder of a gas transporter licence (the "Licence") granted or treated as granted under section 7(2) of the Gas Act 1986 (the "Act").
2. Special condition 8J (Requirement to undertake greenhouse gas investigation activities) ("SpC 8J") places certain obligations on NGG to submit a business plan on Greenhouse Gas Investigation Activities (including the understanding, mitigation and measurement of venting)⁴, by 31 January 2016, unless otherwise directed by the Gas and Electricity Markets Authority (the "Authority").
3. NGG submitted a request on 16 December 2016 that the Authority extend the period by which it should submit the business plan to 31 January 2017, together with a breakdown of activities to be undertaken by NGG in the proposed 12 month extension period.
4. The Authority has considered NGG's request and has decided that the extension be for a period of six months, with the new submission date being 31 July. The Authority considers this to be an appropriate amount of time to develop the business plan and minimises the reduction of time between the approval of the business plan and the deadline for the Greenhouse Gas Investigation Activities to be completed.

Therefore:

In accordance with SpC 8J.2, the Authority hereby directs that NGG submit its business plan on Greenhouse Gas Investigation Activities to the Authority on or before 31 July 2016.

This document constitutes notice of the reasons for the decision to issue the direction pursuant SpC 8J.2 as required by section 38A of the Act.

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Mark Copley – Associate Partner
For and on behalf of the Gas and Electricity Markets Authority
Date: 29 January 2016

⁴ As defined in paragraph 8J.8 of SpC 8J.