

To: National Grid Gas plc (NTS) (the “licensee”)

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

Notice of statutory consultation on a proposal to modify Special Condition 2C of the gas transporter licence held by National Grid Gas plc (NTS)

1. The Gas and Electricity Markets Authority (‘the Authority’)¹ proposes to modify the special conditions of the gas transporter licence held by National Grid Gas plc (National Transmission System) (NGG (NTS)) granted or treated as granted under section 7 of the Gas Act 1986 by amending Part D of Special Condition 2C: Stakeholder Satisfaction Output.
2. The reason why we propose to make these licence modifications is explained in our decision letter dated 4 August 2016 which is published alongside this Notice.² In summary, the purpose of these licence modifications is to:
 - a. implement our decision on the values that are to be used for the stakeholder satisfaction output arrangements in the RIIO-T1 price control. We must determine the values that are to be used to calculate the rewards or penalties that are due to the licensee under the incentive.
 - b. modify the formula used to derive the incentive calculation in order to introduce a time-varying weight for the proportion of the Customer and Stakeholder Satisfaction Incentive which will be based on the stakeholder satisfaction survey in respect of each Formula Year t-2 of the price control.
3. The effect of these modifications is to replace the terms X, Y and Z and the terms AA, BB, CC, DD, EE, FF, GG and HH in Part D with the values we have determined. The placeholder terms represent the stakeholder satisfaction survey target, the stakeholder satisfaction survey cap and collar, and proportion of the Customer and Stakeholder Satisfaction Incentive which will be based on the customer satisfaction survey in respect of each Formula Year t-2 of the price control. As part of the modifications, we are also amending the formula which is used to derive the value of the SS_{t-2} term. This will reference a new time-varying term which is the proportion of the Customer and Stakeholder Satisfaction Incentive which will be based on the stakeholder satisfaction survey in respect of Formula Year t-2 of the price control. The weighting term on the stakeholder satisfaction survey will be set to zero in the Relevant Years 1-3.
4. The proposed modifications are set out in the Appendix to this Notice and are shown in tracked changes. 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).
5. Any representations with respect to the proposed licence modifications must be made on or before 1 September 2016 to: Anna Kulhavy, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to anna.kulhavy@ofgem.gov.uk.
6. 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

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

² <https://www.ofgem.gov.uk/publications-and-updates/decision-on-values-stakeholder-satisfaction-output-arrangements>

prefer to receive responses in an electronic form so they can be placed easily on our website.

7. If we decide to make the proposed modifications, they will take effect not less than 56 days after the decision is published.

Kersti Berge
Duly authorised on behalf of the
Gas and Electricity Markets Authority

4 August 2016

Appendix – Draft Special Condition 2C Part D of National Grid Gas plc’s gas transporter licence

Special Condition 2C. Stakeholder Satisfaction Output

Part D: Adjustments arising from the Stakeholder Satisfaction Survey

2C.11 The SSS_{t-2} term (relating to the customer and stakeholder satisfaction surveys) is derived from the following formula:

$$SSS_{t-2} = BR_{t-2} \times [(CSSAF_{t-2} \times CSSPRO_{t-2}) + (SSSAF_{t-2} \times (1 - CSSPRO_{t-2}) \underline{SSSPRO_{t-2}})]$$

where:

BR_{t-2} means the amount of Base NTS Transportation Owner Revenue in Formula Year t-2 and will be calculated in accordance with Part D of Special Condition 2A.

$CSSAF_{t-2}$ is the revenue adjustment factor based on the Licensee’s performance against the customer satisfaction survey in the Formula Year t-2, and is derived from the following formula:

If $CSSP_{t-2} > CSST$:

$$CSSAF_{t-2} = \min \left(CSSUPA, CSSUPA \times \left[\frac{CSSP_{t-2} - CSST}{CSSCAP - CSST} \right] \right)$$

If $CSSP_{t-2} < CSST$:

$$CSSAF_{t-2} = \max \left(CSSDPA, CSSDPA \times \left[\frac{CSST - CSSP_{t-2}}{CSST - CSSCOL} \right] \right)$$

Otherwise:

$$CSSAF_{t-2} = 0$$

where:

$CSST$ is the customer satisfaction survey target, and will have the value of 6.9.

CSSCAP	is the customer satisfaction survey cap, and will have the value of 8.5.
CSSUPA	is the customer satisfaction maximum upside percentage adjustment, and will have the value of 1%.
CSSCOL	is the customer satisfaction survey collar, and will have the value of 5.3.
CSSDPA	is the customer satisfaction maximum downside percentage adjustment, and will have the value of -1%.
CSSP _{t-2}	is the overall customer satisfaction survey result in Formula Year t-2.
Min(A,B)	means the value equal to the lesser of A and B.
Max(A,B)	means the value equal to the greater of A and B.

SSSAF_{t-2} is the revenue adjustment factor based on the Licensee's performance against the stakeholder satisfaction survey in the Formula Year t-2, and is derived from the following formula:

If $SSSP_{t-2} > SSST$:

$$SSSAF_{t-2} = \min \left(SSSUPA, SSSUPA \times \left[\frac{SSSP_{t-2} - SSST}{SSSCAP - SSST} \right] \right)$$

If $SSSP_{t-2} < SSST$:

$$SSSAF_{t-2} = \max \left(SSSDPA, SSSDPA \times \left[\frac{SSST - SSSP_{t-2}}{SSST - SSSCOL} \right] \right)$$

Otherwise:

$$SSSAF_{t-2} = 0$$

where:

SSST	is the stakeholder satisfaction survey target, and will have the value of X 7.4.
SSSCAP	is the stakeholder satisfaction survey cap, and will have the value of Y 9.
SSSUPA	is the stakeholder satisfaction maximum upside percentage adjustment, and will have the value of 1%.
SSSCOL	is the stakeholder satisfaction survey collar, and will have the value of Z 5.8.

- SSSDPA is the stakeholder satisfaction maximum downside percentage adjustment, and will have the value of -1%.
- SSSP_{t-2} is the overall stakeholder satisfaction survey result in Formula Year t-2.
- Min(A,B) means the value equal to the lesser of A and B.
- Max(A,B) means the value equal to the greater of A and B.

CSSPRO_{t-2} is the proportion of the customer and stakeholder satisfaction incentive which will be based on the customer satisfaction survey in respect of Formula Year t-2, which has the value as specified in the following table:

Formula year t	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
CSSPRO _t	<u>AA0.7</u>	<u>BB0.7</u>	<u>CC0.7</u>	<u>DD0.7</u>	<u>EE0.7</u>	<u>FF0.7</u>	<u>GG0.7</u>	<u>HH0.7</u>

SSSPRO_{t-2} is the proportion of the customer and stakeholder satisfaction incentive which will be based on the stakeholder satisfaction survey in respect of Formula Year t-2, and is derived from the following formula:

In Formula Years 2013/14, 2014/15 and 2015/16:
SSSPRO_t = 0

In Formula Year 2016/17 and all following Formula Years:
SSSPRO_t = 1 - CSSPRO_t