

To: National Grid Gas plc (NTS)

**Gas Act 1986
Section 23(1)(a)**

Modification of special condition 2C of the gas transporter licence held by National Gas Grid plc

1. National Grid Gas plc (National Transmission System) (NGG (NTS)) is the holder of a gas transporter licence ('the Licence') granted or treated as granted under section 7 of the Gas Act 1986 ('the Act').
2. Under section 23(2) of the Act the Gas and Electricity Markets Authority ('the Authority')¹ gave notice on 4 August 2016² ('the Notice') that we propose to modify Part D of special condition 2C (Stakeholder Satisfaction Output) of the Licence. We stated that any representations to the modification proposal must be made on or before 1 September 2016.
3. A copy of the Notice was sent to the Secretary of State in accordance with section 23(4)(b) of the Act, and we have not received a direction that the change should not be made.
4. We received a non-confidential response and also a confidential response to the Notice, which we've carefully considered. We have placed the non-confidential response on our website. Our response to these comments is set out in the accompanying letter.
5. We are making these licence changes 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; and
 - 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 is based on the stakeholder satisfaction survey in respect of each Formula Year t-2 of the price control.
6. The effect of these modifications will be to replace the terms X, Y and Z and the terms AA, BB, CC, DD, EE, FF, GG and HH in Part D of special condition 2C with the values we have determined. The placeholder terms represent the stakeholder satisfaction survey target, the stakeholder satisfaction survey cap and collar, and the 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 SSS_{t-2} term. This will reference a new time-varying term which is 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 Formula Years 1 to 3.
7. Where an application for permission to appeal our decision is made to the Competition and Markets Authority (CMA) under section 23B of the Act, Rule 5.7 of the CMA's Energy Licence Modification Appeals Rules³ requires that the appellant

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

² <https://www.ofgem.gov.uk/publications-and-updates/notice-under-section-232-proposed-modification-national-grid-gas-transporter-licence>

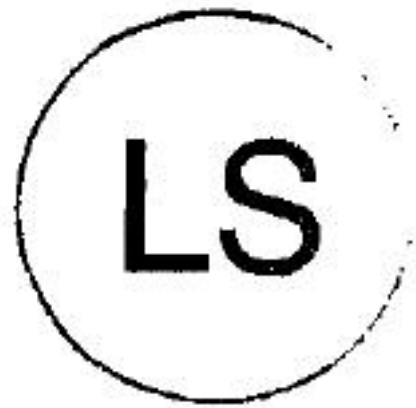
³ The rules were published by the Competition Commission in September 2012. On 1 April 2014, the Competition Commission was abolished and its functions transferred to the CMA.

must send to any relevant licence holders who are not parties to the appeal a non-confidential notice setting out the matters required in Rule 5.2. The relevant licence holder in relation to this modification is NGG (NTS). Section 23(10) of the Act sets out the meaning of 'relevant licence holder'.

Under the powers set out in section section 23(1)(a) of the Act, we hereby modify special condition 2C of the gas transporter licence of NGG(NTS) in the manner specified in attached Schedule 1. This decision will take effect from 18 January 2017.

This document is notice of the reasons for the decision to modify the gas transporter licence held by NGG(NTS) as required by section 38A of the Act.

**The Official Seal of the Gas and Electricity Markets Authority
here affixed is authenticated by the signature of**



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

23 November 2016

Schedule 1 – 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:

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

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 ~~¥7.4~~.

SSSCAP is the stakeholder satisfaction survey cap, and will have the value of ~~¥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 ~~¥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:

$$\underline{\underline{SSSPRO_t = 0}}$$

In Formula Year 2016/17 and all following Formula Years:

$$\underline{\underline{SSSPRO_t = 1 - CSSPRO_t}}$$

