

To the Company Secretary:

National Grid Gas plc
Company Number: 02006000

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

WHEREAS

1. National Grid Gas plc ('the licensee') is the holder of a gas transporter 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 in Special Condition 1A (Definitions) for the purposes of the Special Conditions referred to in these directions, and references to Formula Year t-1 are to be construed accordingly; and
 - (b) Formula Year t is the Formula Year that commences on 1 April 2020 and ends on 31 March 2021 ('Formula Year 2020/21').
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 (as each of those terms are defined in Special Condition 1A); 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 (as that term is defined in Special Condition 1A) for the licensee for the purpose of the Annual Iteration Process for the GT1 Price Control Financial Model that forms part of Special Condition 4A 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, PTV, IAIEI, 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 which are used in the Annual Iteration Process for the GT1 Price Control Financial Model. 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 (Restriction of NTS System Operation Revenue) respectively.
7. In accordance with requirements set out in the Special conditions referred to in paragraph 4, on 11 November 2019 the Authority gave notice of the revised PCFM Variable Values that it proposed to direct by 30 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 these directions; and
- the terms MOD and SOMOD for the licensee for Formula Year 2020/21 are to take the values -£64.6m and £5.3m.

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.

Steve McMahon



Deputy Director, Network Price Controls

Duly authorised on behalf of the Gas and Electricity Markets Authority
29 November 2019

SCHEDULE 1 TO THE AUTHORITY'S DIRECTIONS - REVISIONS TO VARIABLE VALUES (shown to 1 d.p., except CDE shown to 2 d.p.)

| NGGT TO | | | | Regulatory Year Ending | | | | | | | |
|---------------------|--|-------------------|--------------------|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | | | | RIIO-GT1 | | | | | | | |
| PCFM Variable Value | | Special Condition | Price Base / Units | 31 March 2014 | 31 March 2015 | 31 March 2016 | 31 March 2017 | 31 March 2018 | 31 March 2019 | 31 March 2020 | 31 March 2021 |
| CDE | Allowed percentage cost of debt | 5C | Annual Real % | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | 1.09% |
| ALC | Actual load related capex expenditure | 5B | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | 1.9 | No Revision | No Revision |
| ARC | Actual asset replacement capex expenditure | 5B | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | 86.2 | No Revision | No Revision |
| AOC | Actual other capex expenditure | 5B | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | 38.9 | No Revision | No Revision |
| ACO | Actual controllable opex | 5B | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | 89.4 | No Revision | No Revision |
| ANC | Actual non-operational capex | 5B | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | 16.7 | No Revision | No Revision |
| ALU | Actual load related capex (uncertain) | 5B | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision |
| ARU | Actual asset replacement capex expenditure (uncertain) | 5B | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | 31.8 | No Revision | No Revision |
| AOU | Actual other capex expenditure (uncertain) | 5B | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | 20.8 | No Revision | No Revision |
| ACU | Actual controllable opex (uncertain) | 5B | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | 6.7 | No Revision | No Revision |
| IAEPPS | Uncertain costs - Enhanced Physical Site Security | 5E | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision |
| IAEPD | Uncertain costs – Pipeline Diversion Costs | 5E | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision |
| IAEQL | Uncertain costs (Quarry & Loss Costs), uncertainty rate | 5E | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision |
| IRM | Innovation Roll out mechanism | 5D | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision |
| ENCI | Incremental Obligated entry capacity, uncertainty rate | 5F | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision |
| EXCI | Incremental Obligated exit capacity, uncertainty rate | 5G | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision |
| IAENF | Uncertain costs – Network Flexibility Costs | 5E | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision |
| PTV | Uncertain costs - PARCA Termination Value | 5E | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision |
| IAEIE | Uncertain costs – Industrial Emissions | 5E | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision |
| IAEAH | Uncertain costs – One Off Asset Health Costs | 5E | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision |
| TGIE | Tax liability – gearing/interest costs | 5C | £m Nominal | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision |
| TTE | Tax liability – tax trigger events | 5C | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | -0.2 | 0.9 | No Revision |
| APFE | Pension Scheme Administration and Pension Protection Fund levy | 5C | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision |
| EDE | Pension Scheme Established Deficit | 5C | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision |
| LAR | Legacy price control adjustments to allowed revenue | 5A | £m 09/10 prices | No Revision | | | | | | | |
| LRAV | Legacy price control adjustments to RAV | 5A | £m 09/10 prices | No Revision | | | | | | | |

| NGGT TO | | Financial Handbook | Price Base | |
|---|---|--------------------|-----------------|------|
| Incremental Legacy Adjustments used to calculate LAR | | | | |
| SAR | Logged up and security costs adjustments | Chapter 11 | £m 09/10 Prices | 12.6 |
| TAR | Gearing levels and corporate debt interest cost adjustments | Chapter 11 | £m 09/10 Prices | 0.0 |
| CAR | Capex Rolling Incentive adjustments | Chapter 11 | £m 09/10 Prices | -6.0 |
| Incremental Legacy Adjustments used to calculate LRAV | | | | |
| SRAV | Logged up and security costs adjustments | Chapter 11 | £m 09/10 Prices | 0.9 |
| CRAV | Capex Rolling Incentive adjustments | Chapter 11 | £m 09/10 Prices | 25.6 |

SCHEDULE 1 TO THE AUTHORITY'S DIRECTIONS - REVISIONS TO VARIABLE VALUES (shown to 1 d.p., except CDE shown to 2 d.p.)

| NGGT SO | | | | Regulatory Year Ending | | | | | | | |
|---------------------|--|-------------------|--------------------|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | | | | RIIO-GT1 | | | | | | | |
| PCFM Variable Value | | Special Condition | Price Base / Units | 31 March 2014 | 31 March 2015 | 31 March 2016 | 31 March 2017 | 31 March 2018 | 31 March 2019 | 31 March 2020 | 31 March 2021 |
| SOCDE | Allowed percentage cost of debt | 6C | Annual Real % | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | 1.09% |
| SOANC | Actual non-operational capex | 6B | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | 24.9 | No Revision | No Revision |
| SOACO | Actual controllable opex | 6B | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | 46.9 | No Revision | No Revision |
| SOIAEEPS | Uncertain costs - Enhanced Security Cost | 6D | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision |
| SOIAECA | Uncertain costs – Central Agency Costs | 6D | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision |
| SOTGIE | Tax liability - gearing/interest costs | 6C | £m Nominal | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision |
| SOTTE | Tax liability - tax trigger events | 6C | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | -0.1 |
| SOAPFE | Pension scheme administration and Pension Protection Fund Levy | 6C | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision |
| SOEDE | Pension Scheme Established Deficit | 6C | £m 09/10 Prices | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision | No Revision |
| SOLAR | Legacy price control adjustments to allowed revenue | 6A | £m 09/10 Prices | No Revision | | | | | | | |
| SOLRAV | Legacy price control adjustments to RAV | 6A | £m 09/10 Prices | No Revision | | | | | | | |

SCHEDULE 2 TO THE AUTHORITY'S DIRECTIONS - VARIABLE VALUE TABLE

| Variable Name | Special Condition | Price Base / Units | Term | Regulatory Year Ending | | | | | | | | |
|--|-------------------|--------------------|--------|------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|--|
| | | | | 31 March 2014 | 31 March 2015 | 31 March 2016 | 31 March 2017 | 31 March 2018 | 31 March 2019 | 31 March 2020 | 31 March 2021 | |
| Allowed percentage cost of debt | 5C | Annual Real % | CDE | 2.92% | 2.72% | 2.55% | 2.38% | 2.22% | 1.91% | 1.58% | 1.09% | |
| Actual load related capex expenditure | 5B | £m 09/10 Prices | ALC | 3.0 | 1.2 | 1.1 | 1.4 | 2.1 | 1.9 | - | - | |
| Actual asset replacement capex expenditure | 5B | £m 09/10 Prices | ARC | 48.2 | 46.0 | 62.0 | 78.6 | 99.3 | 86.2 | - | - | |
| Actual other capex expenditure | 5B | £m 09/10 Prices | AOC | 25.7 | 28.4 | 23.5 | 12.2 | 35.2 | 38.9 | - | - | |
| Actual controllable opex | 5B | £m 09/10 Prices | ACO | 65.8 | 69.6 | 69.8 | 78.8 | 84.6 | 89.4 | - | - | |
| Actual non-operational capex | 5B | £m 09/10 Prices | ANC | 10.5 | 10.0 | 11.1 | 18.0 | 14.3 | 16.7 | - | - | |
| Actual load related capex (uncertain) | 5B | £m 09/10 Prices | ALU | - | - | - | - | - | - | - | - | |
| Actual asset replacement capex expenditure (uncertain) | 5B | £m 09/10 Prices | ARU | - | 3.8 | 2.4 | 25.0 | 42.8 | 31.8 | - | - | |
| Actual other capex expenditure (uncertain) | 5B | £m 09/10 Prices | AOU | 30.6 | 19.9 | 12.1 | 3.2 | 17.8 | 20.8 | - | - | |
| Actual controllable opex (uncertain) | 5B | £m 09/10 Prices | ACU | 5.1 | 3.6 | 5.1 | 6.4 | 8.3 | 6.7 | - | - | |
| Uncertain costs - Enhanced Physical Site Security | 5E | £m 09/10 Prices | IAEEPS | 26.9 | 18.2 | 10.8 | 12.7 | 32.0 | 32.7 | 20.5 | 6.4 | |
| Uncertain costs – Pipeline Diversion Costs | 5E | £m 09/10 Prices | IAEPD | - | - | - | - | - | - | - | - | |
| Uncertain costs (Quarry & Loss Costs), uncertainty rate | 5E | £m 09/10 Prices | IAEQL | 3.5 | 2.0 | 2.1 | 2.9 | 3.7 | 2.6 | 1.5 | 0.9 | |
| 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 - PARCA Termination Value | 5E | £m 09/10 Prices | PTV | - | - | - | (0.0) | (0.1) | - | - | - | |
| Uncertain costs – Industrial Emissions | 5E | £m 09/10 Prices | IAEIE | - | (2.3) | (16.6) | (50.5) | (67.9) | (67.9) | (47.5) | (34.7) | |
| Uncertain costs – One Off Asset Health Costs | 5E | £m 09/10 Prices | IAEAH | 0.1 | 3.7 | 2.0 | 22.0 | 40.0 | 38.6 | 4.4 | 0.6 | |
| Tax liability – gearing/interest costs | 5C | £m Nominal | TGIE | - | - | - | - | - | - | - | - | |
| Tax liability – tax trigger events | 5C | £m 09/10 Prices | TTE | - | - | - | - | (0.4) | (0.2) | 0.9 | - | |
| Pension Scheme Administration and Pension Protection Fund levy | 5C | £m 09/10 Prices | APFE | 2.7 | 2.6 | 2.6 | 2.7 | 2.6 | 1.5 | 1.5 | 1.5 | |
| Pension Scheme Established Deficit | 5C | £m 09/10 Prices | EDE | 26.4 | 26.4 | 49.4 | 49.4 | 49.4 | 25.7 | 25.7 | 25.7 | |
| Legacy price control adjustments to allowed revenue | 5A | £m 09/10 prices | LAR | 6.6 | | | | | | | | |
| Legacy price control adjustments to RAV | 5A | £m 09/10 prices | LRAV | 26.5 | | | | | | | | |

SCHEDULE 2 TO THE AUTHORITY'S DIRECTIONS - VARIABLE VALUE TABLE

| Variable Name | Special Condition | Price Base / Units | Term | Regulatory Year Ending | | | | | | | |
|--|-------------------|--------------------|----------|------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | | | | 31 March 2014 | 31 March 2015 | 31 March 2016 | 31 March 2017 | 31 March 2018 | 31 March 2019 | 31 March 2020 | 31 March 2021 |
| Allowed percentage cost of debt | 6C | Annual Real % | SOCDE | 2.92% | 2.72% | 2.55% | 2.38% | 2.22% | 1.91% | 1.58% | 1.09% |
| Actual non-operational capex | 6B | £m 09/10 Prices | SOANC | 17.7 | 27.3 | 35.8 | 26.8 | 20.8 | 24.9 | - | - |
| Actual controllable opex | 6B | £m 09/10 Prices | SOACO | 41.7 | 46.5 | 47.6 | 48.0 | 47.1 | 46.9 | - | - |
| Uncertain costs - Enhanced Security Cost | 6D | £m 09/10 Prices | SOIAEEPS | 12.6 | - | 2.3 | 3.1 | 7.5 | 13.7 | 11.8 | 9.9 |
| Uncertain costs – Central Agency Costs | 6D | £m 09/10 Prices | SOIAECA | 13.5 | 12.5 | 18.3 | 23.9 | 16.0 | 17.7 | 17.6 | 15.3 |
| Tax liability - gearing/interest costs | 6C | £m Nominal | SOTGIE | - | - | - | - | - | - | - | - |
| Tax liability - tax trigger events | 6C | £m 09/10 Prices | SOTTE | - | - | - | - | - | - | (0.0) | (0.1) |
| Pension scheme administration and Pension Protection Fund Levy | 6C | £m 09/10 Prices | SOAPFE | - | - | - | - | - | 0.1 | 0.1 | 0.1 |
| Pension Scheme Established Deficit | 6C | £m 09/10 Prices | SOEDE | 0.2 | 0.2 | 0.8 | 0.8 | 0.8 | 1.4 | 1.4 | 1.4 |
| 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) | | | | | | | |