

**To: National Grid Gas plc (with respect to its gas distribution networks)**  
(Company Number 02006000)

**Northern Gas Networks Limited**  
(Company Number 05167070)

**Scotland Gas Networks plc**  
(Company Number SC264065)

**Southern Gas Networks plc**  
(Company Number 5167021)

**Wales and West Utilities Limited**  
(Company Number 05046791)

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

**Modification of the special conditions of the gas transporter licence held by the  
Licence Holders listed above**

1. The companies to whom this document is addressed ('the Licence Holders') are the holders 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')<sup>1</sup> gave notice on 30 October 2015 ('the Notice') that we propose to modify the special conditions of the Licences held by the Licence Holders'. We stated that any representations to the modification proposals must be made on or before 30 November 2015.
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 three responses to the Notice, which we carefully considered. We have placed all non-confidential responses on our website. Our response to these comments is set out in the accompanying letter.
5. It is necessary to make a number of minor alterations to the modifications set out in the Notice. These alterations are shown in yellow in the attached Schedule 1. The reasons for any differences between the modifications set out in the Notice and the modifications reflected in Schedule 1 are to correct minor typographical errors and corrections raised in consultation responses.
6. We are making these licence changes to implement the Non Gas Fuel Poor Network Extension Scheme Incentive Mechanism. This incentive has been introduced following our review of the Non Gas Fuel Poor Network Extension Scheme ("Scheme").<sup>2</sup> As a result of this modification, the Licence Holders will be incentivised to deliver more gas connections than the targets we placed on each of them in RIIO-GD1 Final Proposals. They can also be penalised if they deliver fewer gas connections than their respective targets.

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

<sup>2</sup> A copy of the Fuel Poor Network Extension Scheme final decision document can be found here: <https://www.ofgem.gov.uk/publications-and-updates/fuel-poor-network-extension-scheme-final-decision-document>

7. The effect of the modification will be to:

- a) Add a new Special Condition 4J to each of Licence Holders' licence which will implement the Non Gas Fuel Poor Network Extension Scheme Incentive Mechanism as set out in Schedule 1.
- b) Add a blank special condition 4I to the licenses held by National Grid Gas plc, Southern Gas Networks plc and Northern Gas Networks Limited as set out in Schedule 2. This is because their respective licences do not contain any special conditions numbered as "4I" and we wish to maintain consistency in licence conditions numbering for all Licence Holders to whom this Notice is addressed.

8. 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 Rules<sup>3</sup> requires that the appellant 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 attached Schedule 3 provides a list of the relevant licence holders in relation to this modification. 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 the special conditions of the gas transporter licences held by the companies to whom this notice is addressed in the manner specified in attached Schedule 1. This decision will take effect from 12 February 2016.

This document is notice of the reasons for the decision to modify the gas transporter licence held by the companies to whom this notice is addressed 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**



.....  
**Paul Branston**  
**Duly authorised on behalf of the**  
**Gas and Electricity Markets Authority**

**17 December 2015**

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<sup>3</sup> 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.

## Schedule 1 – Licence changes

### **Special Condition 4J. Non Gas Fuel Poor Network Extension Scheme Incentive Mechanism**

#### **Introduction**

4J.1 The purpose of this condition is to specify the Non Gas Fuel Poor Network Extension Scheme Connection Targets (“Scheme Connection Targets”) the Licensee must deliver during the Price Control Period and the incentive reward or penalty associated with over or under-deliveries against those outputs.

#### **Part A: Obligation to deliver Scheme Connection Targets in respect of the Non Gas Fuel Poor Connection Extension Scheme**

4J.2 Subject to Part B of this condition, the Licensee will be deemed to have delivered the Scheme Connection Targets set out in Annex A of this condition if Non Gas Fuel Poor Network Extension Connections (“Scheme Connections”) are eligible under the Non Gas Fuel Poor Network Extension Scheme.

4J.3 A Scheme Connection for the purposes of this special condition is a Domestic One-off Connection or a Community Connection.

4J.4 The Authority will assess the Licensee’s performance in delivering the Scheme Connection Targets in accordance with the process set out in Part B of this condition for the purposes of determining whether adjustments should be made to the Licensee’s allowed revenue or output commitment for the Distribution Network Transportation Activity in the Second Price Control Period in accordance with the principles set out in Table 1 in Part C of this condition.

#### **Part B: Procedure for assessing Scheme Connections and associated price control allowed expenditure adjustments**

4J.5 By 31 July 2021, the Licensee must provide a report to the Authority (the “Performance Report”) setting out the extent to which it has delivered the Scheme Connection Targets set out in this condition and providing provide details of its performance which will be assessed by the Authority under paragraph 4I.4 4J.4 of this condition.

4J.6 In relation to the The Licensee’s the Performance Report shall include detailed explanations together with supporting evidence as to why the Licensee reasonably considers that it has delivered from 1 April 2013 to 31 March 2021:

- (a) the Scheme Connection Targets in accordance with the relevant specifications set out in Annex A; and
- (b) any justified over delivery in accordance with the RIIO Principles; or
- (c) any justified under delivery in accordance with the RIIO Principles.

4J.7 The Licensee shall provide such further analysis or information, and in accordance with such timescales, as the Authority considers are reasonably necessary to enable it to undertake its assessment for the purposes of its determinations under paragraph 4I.4 4J.4 of this condition.

4J.8 A determination by the Authority under paragraph 4J.4 will be of no effect unless the Authority has first:

(a) given notice to the Licensee and to any other interested parties that it proposes to make the determination:

(i) stating the reasons for and the effects of its proposed determination; and

(iii) specifying the time (which must not be less than a period of 56 days) within which representations concerning the proposed determination may be made; and

(b) considered any representations in response to the notice that are duly made and not withdrawn.

**Part C: Principles for determining adjustments to allowed revenue**

4J.9 The Authority shall determine whether adjustments should be made to allowed revenue in the Second Price Control Period in accordance with the principles set out in Table 1 below:

**Table 1: Treatment of under- and over-delivery of the Scheme Connection Targets**

<u>Incentives</u>	<u>Justified</u>	<u>Unjustified</u>
<u>Over-delivery</u>	<p><u>Financial reward equal to 2.5 per cent of the additional efficient costs associated with the over-delivery</u></p> <p><u>Where the Non Gas Fuel Poor Network Extension Scheme continues beyond 31 March 2021, we will make a legacy adjustment for the efficient over-delivery in the Second Price Control Period</u></p> <p><u>If the Non Gas Fuel Poor Network Extension Scheme does not continue beyond 31 March 2021, we shall make a legacy adjustment of any over delivered efficient costs during the Second Price Control Period</u></p>	<p><u>No reward</u></p> <p><u>The over- delivery shall not be offset against the relevant output commitment in the Second Price Control Period allowances</u></p>
<u>Under-delivery</u>	<p><u>No penalty</u></p> <p><u>Where the Non Gas Fuel Poor Network Extension Scheme continues beyond 31 March 2021, the under- delivery shall be added to the relevant output commitment in the Second Price Control Period</u></p> <p><u>If the justified under-delivery is as result of the cessation of the Non Gas Fuel Poor Network Extension Scheme, we shall make a legacy adjustment to the Second Price</u></p>	<p><u>Financial penalty equal to 2.5 per cent of the avoided efficient costs associated with the under-delivery</u></p> <p><u>Where the Non Gas Fuel Poor Network Extension Scheme continues beyond 31 March 2021, the under- delivery shall be added to the relevant output commitment in the Second Price Control Period</u></p> <p><u>If the unjustified under-delivery</u></p>

	<u>Control Period</u>	<u>is as result of the cessation of the Non Gas Fuel Poor Network Extension Scheme, we shall make a legacy adjustment to the Second Price Control Period</u>
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**Part D: Interpretation**

4J.10 For the purposes of this condition:

**Domestic One-off connection** means a connection to a single household, as further clarified in the RIGs issued under Standard Special Condition A40 (Regulatory Instructions and Guidance).

**Community Connection** means a connection to a number of households, as further clarified in the RIGs issued under Standard Special Condition A40 (Regulatory Instructions and Guidance).

**ANNEX A: Scheme Connection Targets**

<b><u>Licensee</u></b>	<b><u>Scheme Connection Targets from 1 April 2013 to 31 March 2021</u></b>
<u>NGGD EOF</u>	<u>12,046</u>
<u>NGGD Lon</u>	<u>2,880</u>
<u>NGGD NW</u>	<u>13,330</u>
<u>NGGD WM</u>	<u>8,360</u>
<u>Northern Gas Networks Ltd</u>	<u>14,500</u>
<u>Scotland Gas Networks plc</u>	<u>17,130</u>
<u>Southern Gas Networks plc</u>	<u>10,367</u>
<u>Wales &amp; West Utilities Ltd</u>	<u>12,590</u>

**Schedule 2 – Licence changes applicable only to National Grid Gas plc, Southern Gas Networks plc and Northern Gas Networks Limited**

Special Condition 4I                      Not Used

### **Schedule 3 – Relevant Licence Holders<sup>4</sup>**

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(Company Number 02006000)

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(Company Number 05167070)

**Scotland Gas Networks plc**

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<sup>4</sup> Gas licence holders are listed at: <https://www.ofgem.gov.uk/publications-and-updates/all-gas-licensees-registered-addresses>