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Company Secretary  
National Grid Gas plc  
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Date: 20 April 2017

Dear Company Secretary

**Direction to use a different price reporting service for the NTS Shrinkage Target, pursuant to Special Condition 3D of the Gas Transporter Licence;**

Under Special Condition 3D (SpC 3D) of the Gas Transporter Licence, National Grid Gas plc (NGG) is required to use ICIS Heren (or any similar reporting service directed by the Authority<sup>1</sup>) for the gas and electricity cost reference prices used to calculate the NTS Shrinkage Incentive Target.

On 8 March 2017, NGG wrote to us seeking a direction to use a different price reporting service for three years from the expiry of their current contract (16 May 2017). NGG proposed that changing from ICIS Heren to Argus would deliver significant cost reductions and that this would have a negligible impact on the prices used to set the NTS Shrinkage Incentive Target.

On the basis of the information provided, in accordance with SpC 3D.8, 3D.10, 3D.11 and 3D.13, we are content with the reasons given for the change from ICIS Heren to Argus and consider it be appropriate. We therefore attach to this letter a formal direction that directs NGG to use Argus for the gas and electricity reference prices from the expiry of the current contract with ICIS Heren.

We expect NGG to keep monitoring the quality and costs of the price reporting services for the NTS Shrinkage Target and to submit another direction request when necessary.

**Direction and Notice**

Attached as an Annex to this letter is a formal Direction for NGG to use Argus for the NTS Shrinkage Target gas and electricity cost reference prices from 16 May 2017.

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

Yours sincerely,

Emma Kelso – Partner  
**For and on behalf of the Gas and Electricity Markets Authority**

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<sup>1</sup> 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.

## Annex

### **DIRECTION ISSUED PURSUANT TO PARAGRAPHS 3D.8, 3D.10, 3D.11 AND 3D.13 OF SPECIAL CONDITION 3D (NTS SYSTEM OPERATOR EXTERNAL INCENTIVES, COSTS AND REVENUES) OF NATIONAL GRID GAS PLC'S GAS TRANSPORTER LICENCE IN RELATION TO THE NTS SHRINKAGE INCENTIVE TARGET**

#### **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 3D (NTS system operator external incentives, costs and revenues) ("SpC 3D") sets out the price reporting service that NGG is required to use for the gas and electricity cost reference prices in the NTS Shrinkage Incentive Target. NGG must use ICIS Heren unless the Gas and Electricity Markets Authority (the "Authority") directs the use of an alternative, similar reporting service.
3. NGG submitted a request on 8 March 2017 that the Authority direct the use of an alternative price reporting service, namely Argus, from 16 May 2017.
4. The Authority has considered NGG's request and on the basis of the information provided has decided the change in price reporting service provider to Argus is appropriate.

#### **Therefore:**

In accordance with SpCs 3D.8, 3D.10, 3D.11 and 3D.13, the Authority hereby directs that NGG use Argus as the price reporting service for the NTS Shrinkage Target gas and electricity cost reference prices from 16 May 2017.

This document constitutes a notice of the reasons for the decision to issue the direction pursuant SpCs 3D.8, 3D.10, 3D.11 and 3D.13 as required by section 38A of the Act.

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**Emma Kelso – Partner**  
**For and on behalf of the Gas and Electricity Markets Authority**  
**Date: 20 April 2017**