

**To: Cadent Gas Ltd
National Grid Gas Plc
Northern Gas Networks Ltd
Scotland Gas Networks Plc
Southern Gas Networks Plc
Wales and West Utilities Ltd**

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

**Modification of the standard special conditions of the gas transporters licence:
part A**

1. Each of the licensees to which this document is addressed has a gas transporters licence which has been 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 11 May 2017 ('the Notice') that it proposes to modify the standard special conditions of the gas transporters licence by inserting standard condition A28 (Gas Network Innovation Strategy). We stated that any representations or objections to the modification proposal must be made on or before 8 June 2017.
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 1 response to the consultation set out in the Notice, which we carefully considered. We also received 3 responses in relation to the proposed insertion of an equivalent condition to the standard conditions of the electricity distribution licence (Electricity Network Innovation Strategy)². These 3 responses contained comments which were of equal application to proposed standard special condition A28 (Gas Network Innovation Strategy) and we have therefore considered them alongside the response received in relation to standard special condition A28. The responses were not marked as confidential and we have placed them on our website.
5. We have decided to make a number of minor alterations to the drafting set out in the Notice in response to the comments received during the consultation. These alterations are shown in the attached Schedule 1. These alterations address minor issues raised in consultation responses (referred to in paragraph 4 above), which are described further in Schedule 2. In Schedule 3, we describe other issues raised in consultation responses.
6. We are making this licence change to implement our policy decision made on 31 March 2017 to require network operators regulated through the Revenue = Incentives + Innovation + Outputs (RIIO) price control framework to collaborate on the development of a Gas Network Innovation Strategy³.
7. The effect of this modification is to require the affected licensees to work together to develop and consult with stakeholders on a Gas Network Innovation Strategy. Licensees will be required to develop a plan by 31 August 2017 and they will be

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

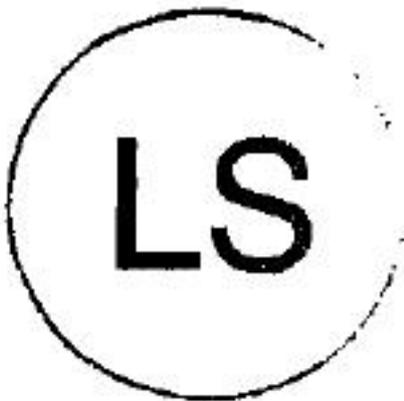
² We gave notice of this proposal simultaneously in our notice of 11 May 2017.

³ The policy decision document is available on our website: <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-review-our-policy-decision>

required to complete the initial strategy by 31 March 2018. The deadline for the plan is one month later than the date stated in our Network Innovation Review policy decision. We made this change because of stakeholder feedback that there will be competing demands on the network companies to meet other obligations by 31 July 2017.

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 Rules⁴ 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 4 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'.
9. Under the powers contained in section 23(1)(a) of the Act, we hereby modify the standard special licence conditions of the gas transporters licence for the licensees to whom this Notice is addressed by inserting standard special condition A28, as set out in attached Schedule 1. This decision will take effect from 25 August 2017.
10. This document is notice of the reasons for the decision to modify the standard special conditions of the gas transporters licence 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**



.....
**Geoffrey Randall, Associate Partner, RIIO Networks
Duly authorised on behalf of the
Gas and Electricity Markets Authority**

30 June 2017

⁴ 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

Condition A28. Gas Network Innovation Strategy

Introduction

A28.1. The purpose of this condition is to set an obligation on the licensee to work with other parties to develop a Gas Network Innovation Strategy. This requirement is intended to ensure that Relevant Network Licensees ~~take a joined up approach~~ work together in relation to innovation, ~~which results in~~ to take coordinated action on priority areas that offer significant potential benefit, shared learning and the minimising of unnecessary duplication.

A28.2. This condition does not prevent the licensee from undertaking Innovation Projects that are not specifically outlined within the Gas Network Innovation Strategy.

Part A: Requirement to create and maintain a Gas Network Innovation Strategy

A28.3. The licensee must develop and maintain a Gas Network Innovation Strategy and must use reasonable endeavours to cooperate with all other Relevant Network Licensees in the development of the Gas Network Innovation Strategy.

A28.4. The Relevant Network Licensees must prepare a plan for the development of the first Gas Network Innovation Strategy by 31 August 2017. The first Gas Network Innovation Strategy must be published by 31 March 2018.

A28.5. The licensee must use all reasonable endeavours to work with all other Relevant Network Licensees to ensure the Gas Network Innovation Strategy is reviewed every two years and where necessary, in the majority view of Relevant Network Licensees, is also updated.

Part B: Gas Network Innovation Strategy

A28.6. The Gas Network Innovation Strategy must:

- (a) set out the procedures for updating it (which must include the requirement to consult with Interested Parties in accordance with Part C below and the biennial review referred to in paragraph A28.5);
- (b) be kept up to date in accordance with the procedures referred to in paragraph A28.6(a); and
- (c) be readily accessible to the public from the licensee's Website.

A28.7. The Gas Network Innovation Strategy must include:

- (a) a description of the challenges and uncertainties which the Relevant Network Licensees consider are pertinent to the gas network over different time periods-that could be addressed through innovative projects;
- ~~(b) a description of the challenges which are not currently being addressed through industry projects or plans, including but not limited to projects or plans made by the Relevant Network Licensees and Interested Parties;~~
- (b) a description of the innovative projects and plans the Relevant Network Licensees intend to make in order to address the challenges referred to in paragraph A28.7(a)

of this condition, with particular regard to how future Innovation Projects which Relevant Network Licensees will seek to initiate over the period of the strategy will help to address those challenges;

~~(e) a description of the innovative projects and plans the Relevant Network Licensees intend to make in order to address the challenges referred to in paragraph A28.(7)(a) of this condition, with particular regard to how future Innovation Projects which Relevant Network Licensees will seek to initiate over the period of the strategy will help to address those challenges;~~

- (c) a description of the challenges which the Relevant Network Licensees consider are pertinent to the gas network over different time periods which are not currently being addressed through projects or plans, including but not limited to projects or plans made by the Relevant Network Licensees and Interested Parties;
- (d) a description of the innovative projects and plans the Relevant Network Licensees intend to make in relation to the gaps challenges identified in paragraph A28. ~~7(b)(c)~~ of this condition, with particular regard to how future Innovation Projects which Relevant Network Licensees will seek to initiate over the period of the strategy will help to address those gaps challenges. Consideration should be given to the suitability of the Relevant Network Licensees to carry out the innovative projects and plans. If the Relevant Network Licensees do not intend to carry out innovative projects and plans relating to any gap challenge identified in paragraph A28. ~~7(b)(c)~~, a reason should be provided as part of this description;
- (e) a description of how Relevant Network Licensees will coordinate their activities on Innovation Projects to minimise unnecessary duplication of effort; and
- (f) a description of how Relevant Network Licensees will share the learning that they have gained through Innovation Projects; and
~~(g) any directions related to the Electricity Network Innovation Strategy issued by the Authority.~~

Part C: Consultation

A28.8. The licensee must consult Interested Parties prior to publication, or revision, of the Gas Network Innovation Strategy in cooperation with Relevant Network Licensees and must include a consideration of any representations received in response to the consultation within the Gas Network Innovation Strategy.

Part D: Interpretation

A28.9. For the purposes of this condition:

Gas Network Innovation Strategy

means a document published by Relevant Network Licensees that complies with the requirements of this condition.

Innovation Project

means a project funded by the Network Innovation Competition or the Network

Innovation Allowance as established by Special Conditions 1H and 1I of the Gas Transporter Licence; Special Conditions 2E and 2F of the Gas Transporter (NTS) Licence.

Interested Parties

interested parties include, but are not limited to, the Engineering and Physical Sciences Research Council, the Department of Business, Energy and Industrial Strategy, Innovate UK and their successor bodies and holders of a Gas Transporter Licence not regulated through the RIIO model.

Relevant Network Licensee

means the holder of a Gas Transporter Licence with condition A28 in effect in its licence.

Schedule 2

CHANGES TO THE DRAFTING OF NEW STANDARD SPECIAL LICENCE CONDITION A28 OF THE GAS TRANSPORTERS LICENCE FOLLOWING STATUTORY CONSULTATION

Paragraph of Condition B16	Change following statutory consultation	Reason for change
A28.1	Words "take a joined up approach to innovation, which results in" changed to "work together in relation to innovation, to take".	One stakeholder (Electricity North West Limited) commented that the term 'joined up approach' was colloquial and imprecise. We have considered this carefully and decided to use the term 'work together' instead.
A28.7	Position of sub-paragraphs (b) and (c) has been changed. Original sub-paragraph (b) is now sub-paragraph (c) and original sub-paragraph (c) is now paragraph (b).	One stakeholder (Electricity North West Limited) requested this change. We agree that the sequencing is improved by this change because the challenges described in sub-paragraphs (a) and (c) are now immediately followed by a description of the innovative projects and plans which licensees intend to make in order to address those challenges (in sub-paragraphs (b) and (d) respectively).
A28.7(c) (originally 48A.7(b))	Following words inserted after the word "which" in the first line: "the Relevant Network Licensees consider are pertinent to the gas network over different time periods which".	One stakeholder (Electricity North West Limited) requested this change. We agree that the addition of these words does the following: (i) makes sub-paragraph (c) consistent with sub-paragraph (a); and (ii) narrows the scope of the provision to those challenges which the licensees consider are pertinent to the gas network.
A28.7(d)	Word "gap"/"gaps" changed to "challenge"/"challenges".	One stakeholder (Northern Powergrid) highlighted the use of the word "gaps". On further consideration, we consider that the word "gap"/"gaps" should be changed to "challenge"/"challenges" because this is consistent with the preceding paragraphs and clarifies that the reference is to the specific "challenges" identified in sub-paragraph (c).
A28.7(g)	Removal of sub-paragraph (g).	One stakeholder (Northern Powergrid) commented that the provision concerning directions in sub-paragraph (g) was unusual. On further consideration, we have decided to remove this provision. The Authority will have an opportunity to feed-in to the Strategy during the consultation period (required by paragraph A28.8), and we do not therefore consider it necessary to provide for a power of direction.

A28.7(d), (e) and (f)	Consequential changes	Minor, consequential changes were required in light of the above. Specifically: (i) the change of paragraph rereferences in sub-paragraph (d); (ii) the addition of the word "and" at the end of sub-paragraph (e); and (ii) the deletion of the word "and" at the end of sub-paragraph (f) and addition of a full-stop.
--------------------------	-----------------------	--

Schedule 3

OTHER CONSULTATION RESPONSES

Paragraph of Condition A28	Stakeholder Comment	Ofgem response
All	<p>One stakeholder (Northern Gas Networks) commented that it had not experienced some of the problems in the gas sector that the Low Carbon Networks Fund appeared to have experienced regarding duplication and information dissemination. Consequently, it did not share the belief that an industry wide Innovation Strategy will deliver great practical benefits.</p>	<p>We provided our reasons for establishing an industry wide Innovation Strategy in our policy decision of 31 March 2017.</p>
B16.4	<p>One stakeholder (Electricity North West Limited) expressed concern about the time available before publication of the first Electricity Network Innovation Strategy and whether this was sufficient to undertake the robust analysis and stakeholder engagement needed to identify and outline future projects.</p>	<p>We note that only one licensee has expressed this concern. We do not consider that the timescale set out in paragraph B16.4 is unreasonable, particularly as licensees have been aware of Ofgem's policy decision since 31 March 2017. Therefore, we have decided not to extend the timetable.</p>
Various	<p>One stakeholder (Northern Powergrid) commented that the proposed drafting was unusual and deviated from established norms. In particular, it highlighted the power to give directions and the use of certain language including 'joined-up approach', 'addressing challenges' and 'gaps'.</p>	<p>As described in Schedule 2, we have removed the power to give directions in B16.7(g). We have also made minor drafting changes to B16.1 and B16.7(d). However, we consider that the drafting of the licence condition is fit for purpose.</p>

Schedule 4: Relevant Licence Holders

Cadent Gas Ltd
National Grid Gas Plc
Northern Gas Networks Ltd
Scotland Gas Networks Plc
Southern Gas Networks Plc
Wales and West Utilities Ltd