

**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(3)**

Notice of statutory consultation on a proposal to modify the special conditions of the gas transporters licences held by the licensees above

1. The Gas and Electricity Markets Authority ('the Authority')¹ proposes to modify Special Condition 2E (The Network Innovation Allowance) of the Gas Transporter (NTS) Licence held by National Grid Gas Plc and Special Condition 1H (The Network Innovation Allowance) of the Gas Transporters Licences held by the other licensees listed above, granted or treated as granted under section 7 of the Gas Act 1986.
2. We are proposing these modifications to implement our policy decision of 31 March 2017 that licensees should not be able to recover the cost of preparing submissions in respect of projects which pass the Network Innovation Competition initial screening process in 2018/19 and thereafter.²
3. The effect of these proposed modifications is to reduce to zero the amount licensees can recover as Bid Preparation Costs in 2018/19 and thereafter.
4. The proposed modifications are set out in Appendices to this notice. A copy of the proposed modifications and other documents referred to in this Notice have been published on our website (www.ofgem.gov.uk). Alternatively they are available from our Research and Information Centre, 9 Millbank, London, SW1P 3GE (020 7901 7003).
5. Any representations with respect to the proposed licence modifications must be made on or before 28 June 2017 to: Anna Kulhavy, Office of Gas and Electricity Markets, 3rd Floor, Cornerstone, 107 West Regent Street, Glasgow, G2 2BA or by email to networks.innovation@ofgem.gov.uk.
6. We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as not for publication. We prefer to receive responses in an electronic form so they can be placed easily on our website.
7. If we decide to make the proposed modifications they will take effect not less than 56 days after the decision is published.

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Geoffrey Randall
Duly authorised on behalf of the
Gas and Electricity Markets Authority

1 June 2017

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

² The policy decision document is available on our website: <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-review-our-policy-decision>

Appendix 1– Special Condition 2E: The Network Innovation Allowance of the Gas Transporter (NTS) Licence

Part B: Calculation of Allowable NIA Expenditure (ANIA)

2E.6 For the purposes of the Principal Formula, the amount of ANIA is derived from the following formula:

$$\text{ANIA}_t = \text{PTRA} \times \min[(\text{ENIA}_t + \text{BPC}_t), (\text{NIAV} \times \text{BR}_t)]$$

2E.7 In the formula for the ANIA term above:

PTRA is the pass-through factor and has the value of 0.9.

ENIA_t means the Eligible NIA Expenditure for Formula Year t incurred by the Licensee in respect of Eligible NIA Projects as calculated by the Licensee in accordance with the NIA Governance Document and reported to the Authority in accordance with Standard Special Condition A40 (Regulatory Instructions and Guidance).

BPC_t means the Eligible NIC Bid Preparation Costs for the Formula Year t as calculated by the Licensee in accordance with this condition and reported to the Authority in accordance with Standard Special Condition A40. ~~(provided that, w~~Where the Licensee is part of a Gas Transmission Group, the amount of such costs recoverable by all of the Licensees in that group cannot be more than exceed the amount calculated in accordance with this condition.

The value of BPC_t for Formula Years t = 2013/14 to 2017/18 is the lower of:

(a) £175,000 in total; or

(b) 5% of the amount applied for by the Licensee or the group where relevant under the Network Innovation Competition, as defined in Special Condition 2F (The Network Innovation Competition);

whichever is less in the For Formula Year t2018/19 and in subsequent years BPC_t will have the value zero. except insofar as the Authority consents otherwise).

NIAV means the Licensee's NIA Percentage, and has the value that is attributed to the Licensee in Appendix 1.

BR_t means Base NTS Transportation Owner Revenue in Formula Year t, and is derived in accordance with Part D of Special Condition 2A.

Appendix 2 – Special Condition 1H: The Network Innovation Allowance of the Gas Transporter Licence

Part B: Calculation of Allowable NIA Expenditure (ANIA_t)

1H.7 For the purposes of the Principal Formula, ANIA_t for the relevant Distribution Network is derived in accordance with the following formula:

$$\text{ANIA}_t = \text{PTRA} \times \min[(\text{ENIA}_t + \text{BPC}_t), (\text{NIAV} \times \text{BR}_t)]$$

1H.8 In the above formula for ANIA_t:

PTRA is the pass-through factor and has the value of 0.9;

ENIA_t means the Eligible NIA Expenditure for the relevant Distribution Network for Formula Year t incurred by the Licensee in respect of Eligible NIA Projects as calculated by the Licensee in accordance with the NIA Governance Document and reported to the Authority in accordance with Standard Special Condition A40 (Regulatory Instructions and Guidance);

BPC_t means the Eligible NIC Bid Preparation Costs for the relevant Distribution Network for the Formula Year t as calculated by the Licensee in accordance with this condition and reported to the Authority in accordance with Standard Special Condition A40, ~~(provided that, w~~Where the Licensee is part of a Gas Distribution Group, the amount of such costs recoverable by all of the Licensees in that group cannot be more than exceed the amount calculated in accordance with this condition.

The value of BPC_t for Formula Years t = 2013/14 to 2017/18 is the lower of:

(a) £175,000 in total; or

(b) 5% of the amount applied for by the Licensee or the group where relevant under the Network Innovation Competition, as defined in Special Condition 1I (the Network Innovation Competition);

whichever is less in the For Formula Year t ~~2018/19 and in subsequent Formula Years BPC_t will have the value zero, unless the Authority consents otherwise).~~

NIAV means the relevant Distribution Network's NIA Percentage, and has the value that is attributed to the Licensee in Appendix 1 of this condition; and

BR_t means Base Distribution Network Transportation Activity Revenue for the relevant Distribution Network in Formula Year t, and is derived in accordance with Part C of Special Condition 1B.