

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)(a)**

Modification of the special conditions of the gas transporters licence held by the above licensees

1. The above licensees are each the holder of a gas transporters 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')¹ gave notice on 1 June 2017 ('the Notice') that it 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 Transporter Licences held by the other licensees listed above. We stated that any representations in relation to or any objections to the modification proposal must be made on or before 28 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 no objections or representations in relation to the proposed modifications.
5. We are making this licence change 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 thereafter². The modifications are set out in Schedules 1 and 2 of this Notice.
6. The effect of the modifications is to reduce to zero the amount licensees in whose licences these modifications are made can recover as Bid Preparation Costs in 2018/19 and thereafter.
7. 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 Rules³ 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'.
8. Under the powers set out in section 23(1)(a) of the Act, we hereby modify the

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

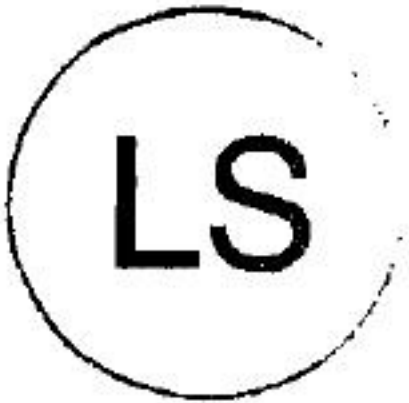
² The policy decision is available on our website: <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-review-our-policy-decision>

³ 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.

special conditions of the gas transporter licences of the licensees set out in the attached Schedule 3 in the manner specified in the attached Schedules 1 and 2. This decision will take effect from 1 September 2017.

9. This document is notice of the reasons for the decision to modify the gas transporter licences held by the licensees set out in the attached Schedule 3 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**

18 July 2017

Schedule 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 **2018/19 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.

Schedule 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:

$$ANIA_t = PTRA \times \min[(ENIA_t + BPC_t), (NIAV \times BR_t)]$$

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, 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 ~~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.

Schedule 3 – 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