

**To: Cadent Gas Limited
Northern Gas Networks Ltd
Scotland Gas Networks plc
Southern Gas Networks plc
Wales & West Utilities Limited**

**Gas Act 1986
Section 23**

Modification of the financial instruments as defined in the special conditions of the gas transporter licence held by the above licensees

1. The above licensees are the holders of gas transporter licences ('the Licences') 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 4th July 2017 ('the Notice') that we proposed to modify the RIIO-GD1 Price Control Financial Model as defined under Special Condition 2A of the Licences. We stated that any representations to the modification proposal must be made on or before 1 August 2017.
3. A copy of the Notice was sent to the Secretary of State in accordance with section 23(4)(b)(ii) of the Act, and we have not received a direction that the change should not be made.
4. We received one response to the Notice relevant to this modification, which we carefully considered. We have placed the response on our website.
5. We are making this licence change to implement our recent decision on the Mid Period Review Parallel work.²
6. The effect of the modification will be to accept Cadent Gas Limited's offer to refund consumers for work to replace medium pressure iron mains in central London. We are reducing the Non-Variant Repex Allowances by a total of £53.9m over the years 2016/17 to 2020/21.
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. However, in this case since the modification relates to a special licence condition, the relevant licence holder is the holder of that particular licence. Section 11A(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 RIIO-GD1 Price Control Financial Model as specified in Special Condition 2A of the

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

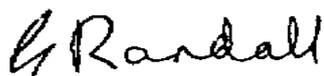
² <https://www.ofgem.gov.uk/publications-and-updates/mpr-parallel-work-decision>

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.

Licenses in the manner specified in Schedule 1. This decision will take effect from 29 September 2017.

9. This document is notice of the reasons for the decision to modify the gas transporter licences held by the above licensees as required by section 38A(2) of the Act.

The Official Seal of the Gas and Electricity Markets Authority here affixed is authenticated by the signature of



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

04 August 2017

Schedule 1 – Updated Price Control Financial Model

The updated PCFM incorporating the MPR parallel work modification is available on our website at the following address:

<https://www.ofgem.gov.uk/network-regulation-riio-model/price-controls-financial-model-pcfm/riio-gd1-financial-model>