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To all interested parties and
stakeholders

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Decision to modify the System Operator incentive scheme for the period 2018/19 - 2020/21 and to change National Grid Gas plc's gas transporter licence by inserting new dates to reflect this.

This letter sets out our¹ decision to extend the three System Operator (SO) incentives described below by modifying Special Conditions (SCs) 3D and 8K of National Grid Gas plc's (NGG)'s gas transporter licence. The incentives will be extended until the end of the RIIO-T1 price control period.²

Background to the licence modifications

NGG is the SO for Great Britain and is responsible for balancing the gas transmission system on a continuous basis. We regulate the actions of the SO to ensure its operational costs are optimised, delivering value for money to the consumer. Building on statutory obligations that require the SO to act in an economic, efficient and co-ordinated manner, we have historically driven the performance of the SO and shaped aspects of its behaviour through incentives.

Three of the SO incentives³ expire on 31 March 2018; these are the two-to-five days ahead (D-2 to D-5) demand forecast, maintenance and outage planning, and Greenhouse Gas Emissions (GHG) incentives. Collectively, they are known as the "shallow incentives".

In October 2017, NGG submitted a business case document to us that set out a number of proposed changes to the shallow incentives.⁴ After considering this document, we consulted on licence changes between 8 February 2018 and 8 March 2018 to extend the shallow

¹ The terms "the Authority", "Ofgem", "we" and "us" are used interchangeably in this letter. The Authority is the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

² RIIO-T1 applies between 1 April 2013 and 31 March 2021

³ There are ten SO incentives in total.

⁴ A copy of the document can be found on NGG's website: <https://www.nationalgrid.com/uk/gas/system-operator-incentives>

incentives to the end of the RIIO-T1 price control period. The covering letter that accompanied the statutory consultation describes the reasons for these changes.⁵

Our views

One response, from NGG, was submitted to our statutory consultation. It stated NGG supported our proposed changes to their gas transporter licence and agreed with the decision to extend the incentives. It also noted that some aspects of the incentives could merit future discussions.

We have considered the response submitted by NGG and decided no further changes are required to the proposed licence text included on the statutory consultation.

Our decision

We have decided to modify SC 3D and SC 8K to extend the shallow incentives to the 31 March 2021. These modifications to the licence will take effect on 22 May 2018 and will apply to the period from 1 April 2018.

We have issued a statutory decision notice to NGG modifying their licence. We have also published the statutory decision notice on our website.

If you have any questions about this decision, please contact James Thomson on james.thomson@ofgem.gov.uk or 0141 331 6012.

Yours faithfully

Cathryn Scott
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⁵ The statutory consultation can be found on the Ofgem website: <https://www.ofgem.gov.uk/publications-and-updates/gas-system-operator-incentives-2018-2021-notice-modify-national-grid-gas-s-gas-transporter-licence>