

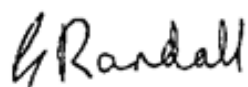
To:
Cadent Gas Limited
Northern Gas Networks Limited
Scotland Gas Networks plc
Southern Gas Networks plc
Wales and West Utilities Limited

Notice under Part B of Special Condition 2A (Governance of GD1 Price Control Financial Instruments) of the Gas Transporter Licence to make modifications to the GD1 Price Control Financial Model with respect to SGN's voluntary return of Repex allowances.

1. Each of the companies to whom this Notice is addressed (each "the licensee") is the holder of a Gas Transporter Licence granted or treated as granted under section 7 of the Gas Act 1986.
2. Special Condition ("SC") 2A (Governance of GD1 Price Control Financial Instruments) of the Gas Transporter Licence provides that the Gas and Electricity Markets Authority ("the Authority")¹ will give notice of an intended modification of the GD1 Price Control Financial Model ("the Model"), if having carried out the assessment set out in Part A of SC 2A, the Authority considers that the intended modification would not be likely to have a significant impact on the licensee or any other persons referred to in paragraph 2A.4 of SC 2A.
3. In accordance with SC 2A.9, the Authority hereby gives notice to the licensees to whom this notice is addressed that it proposes to modify the Model in the manner indicated in Table 1 at the end of this Notice.
4. The Authority considers that it is necessary to modify the Model in the manner indicated in order to facilitate SGN's voluntary return of the amount of £50m (2016/17 prices) in Repex allowances.
5. We have agreed with SGN that the voluntary return will be spread across the years 2019/20 and 2020/21 of the RII0-GD1 price control and will be split between Scotland Gas Networks plc and Southern Gas Networks plc (known within the Model as "Scotland" and "Southern" respectively), in accordance with the profile shown in Table 2. The voluntary return will be an effective reduction in the Repex allowances of the aforementioned licensees and will be implemented in the Model as a reduction in non-variant allowed Repex for years 2019/20 and 2020/21 (cells AN86:AO86 on the "Scotland" and "Southern" sheets), as shown in Table 2 at the end of this Notice.
6. In the Authority's opinion and having regard to the views of the GD1 Price Control Financial Model Working Group, the proposed modifications, as set out above, of the Model would not be likely to have a significant impact on any of the persons mentioned in SC 2A.4. These modifications were proposed by SGN and agreed to by the Authority. Furthermore, these proposed modifications will have no impact on the other licensees and were approved at the latest GD1 Price Control Financial Model Working Group meeting, held on 25th July 2018, the minutes of which are in the attached appendix, published alongside this notice.
7. The Authority proposes that these modifications will come into effect on 31 August 2018.

¹The "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work.

8. Any representations to the proposed modifications should be made on or before 24 August 2018 either in writing to the Regulatory Finance team at Ofgem, 10 South Colonnade, Canary Wharf, London E14 4PU, or by email to RegFinance@ofgem.gov.uk.
9. Unless you mark your response confidential, we will publish it on our website, www.ofgem.gov.uk, and put it in our library. You can ask us to keep your response confidential, and we will respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. If you want us to keep your response confidential, you should clearly mark your response to that effect and include reasons.
10. If the information you give in your response contains personal data under the General Data Protection Regulations 2016/379 (GDPR) and domestic legislation on data protection, the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. If you are including any confidential material in your response, please put it in the appendices.
11. We prefer to receive responses in electronic form so we can more easily place them on our website.



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Geoffrey Randall
Deputy Director, Gas Network Price Controls
Duly Authorised on behalf of the Gas and Electricity Markets Authority
27 July 2018

Table 1 – Location of modifications within the Model

Nature of Modification	Sheet Reference	Cell Reference
A reduction in the amount of £50m (2016/17 prices) in SGN's 'non-variant allowed Repex' profiled across the licensees specified in the next column for years 2019/20 & 2020/21	Scotland & Southern	AN86:A086

Table 2 – Profile of allowances across each licensee

SGN Voluntary Return Profile		31 Mar 2014	31 Mar 2015	31 Mar 2016	31 Mar 2017	31 Mar 2018	31 Mar 2019	31 Mar 2020	31 Mar 2021	Total
Scotland										
Non-variant allowed repex	£m 2009/10 Prices	57.0	57.2	57.3	57.6	57.8	58.0	58.2	58.4	461.4
Repex Adjustment (-ve)	£m 2009/10 Prices	-	-	-	-	-	-	(6.8)	(6.8)	(13.6)
New Non-Variant Repex Allowance	£m 2009/10 Prices	57.0	57.2	57.3	57.6	57.8	58.0	51.4	51.6	447.8
Southern										
Non-variant allowed repex	£m 2009/10 Prices	156.4	154.8	155.1	155.9	156.1	156.6	157.1	157.5	1,249.5
Repex Adjustment (-ve)	£m 2009/10 Prices	-	-	-	-	-	-	(13.6)	(13.6)	(27.1)
New Non-Variant Repex Allowance	£m 2009/10 Prices	156.4	154.8	155.1	155.9	156.1	156.6	143.6	144.0	1,222.4

Note: the sum of the figures in red total to £40.71m in 2009/10 prices, or £50m in 2016/17 prices