

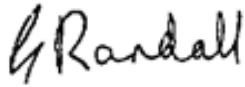
**To:**  
**Cadent Gas Limited**  
**Northern Gas Networks Limited**  
**Scotland Gas Networks plc**  
**Southern Gas Networks plc**  
**Wales and West Utilities Limited**

**Direction 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 Direction 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. In accordance with Part B of Special Condition ("SC") 2A (Governance of GD1 Price Control Financial Instruments) of the Gas Transporter Licence, the Gas and Electricity Markets Authority ("the Authority")<sup>1</sup> gave notice on 27 July 2018 ("the Notice") of proposed modifications to the GD1 Price Control Financial Model ("the Model") and set out the date by which those proposed modifications were intended to take effect. The deadline for representations, in respect of this Notice, to be made was on or before 24 August 2018.
3. We received no representations in response to the Notice prior to the close of the above mentioned period.
4. In accordance with SC 2A.12, the Authority hereby modifies the Model in the manner indicated in Table 1 (below) in this Direction, 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 (below). 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 Direction.
6. In accordance with Part B of SC 2A, we hereby incorporate these modifications into the Model. These modifications are to have effect on and from 31 August 2018.
7. This document constitutes a direction issued by the Authority under Part B of SC 2A.

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<sup>1</sup>The "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.



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**Geoffrey Randall**  
**Deputy Director, Gas Network Price Controls**  
**Duly Authorised on behalf of the Gas and Electricity Markets Authority**  
**31 August 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
<b>Scotland</b>										
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
<b>Southern</b>										
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