

To:

National Grid Gas plc (with respect to the National Transmission System)

Company number 02006000

**The Gas Act 1986
Section 23(1)(a)**

**Modification of the special conditions of the licence held by National Grid Gas plc
and reasons for decisions pursuant to sections 23 and 38A of the Gas Act 1986**

1. Whereas National Grid Gas plc ("the Licence Holder") is the holder of a gas transporter licence ("the Licence") granted or treated as granted under section 7 of the Gas Act 1986 ("the Act") to transport gas for the term and subject to the conditions contained in its Licence.
2. In accordance with section 23(2) of the Act the Gas and Electricity Markets Authority ("the Authority") gave notice on 24 July 2013 ("the Notice") that it proposed to make modifications to the Specials Conditions of the Licence by:
 - (a) amending the GT1 Price Control Financial Handbook ("the handbook") that forms part of Special Condition 4A (Governance of GT1 Price Control Financial Instruments); and
 - (b) amending the GT1 Price Control Financial Model ("the PCFM") that forms part of Special Condition 4A.
3. The Notice specified that any representations concerning the proposed modifications were required to be made on or before 30 August 2013.
4. In accordance with section 23(4)(b) of the Act, the Authority gave notice that it proposed to make the modifications to the Secretary of State on 24 July 2013 and has not received a direction not to make the modifications.
5. Prior to the close of the consultation period in respect of the Notice, the Authority received one response. All non-confidential responses have been placed on the Ofgem website.
6. The Authority has carefully considered all the representations received and, as a result, considers it necessary to make a number of changes to the proposed modifications set out in the Notice for the purpose of correcting minor inaccuracies and improving the clarity of the drafting. The changes referred to in this paragraph have been highlighted in Appendix 2 of this Modification (see paragraph 11 below).
7. The reasons for the modifications to the handbook referred to in paragraph 2(a) and the minor modifications referred to in paragraph 6 are:
 - (a) to confirm that claw back adjustments to tax liability allowances for the Licence Holder include an iterative ('tax allowance on tax allowance') factor; and
 - (b) to make a number of other corrections and clarifications throughout the handbook so that it is fully consistent with the Authority's Final Proposals for the RIIO-T1 price control that applies to the Licence Holder.

8. The reasons for the modifications to the PCFM referred to in paragraph 2(b) are:

- (a) to ensure that claw back adjustments to tax liability allowances for the Licence Holder include an iterative ('tax allowance on tax allowance') factor; and
- (b) to make a number of other amendments and corrections to reflect the proposed modifications to the handbook referred to in paragraph 3,

so that correctly calculated values for the term MOD, as used in the formula for Base NTS Transportation Owner Revenue set out in Special Condition 2A (Restriction of NTS Transportation Owner Revenue), and having the meaning given in that condition, are produced for the Licence Holder under the Annual Iteration Process for the PCFM.

9. The effect of the modifications, including the minor additional modifications referred to in paragraph 6 will be to amend the handbook and PCFM to:

- (a) include an iterative ('tax allowance on tax allowance') factor for claw back adjustments to tax liability allowances for the Licence Holder; and
- (b) apply a range of corrections and clarifications and consequential changes,

so that the Authority's Final Proposals for RIIO-GD1 are properly implemented.

10. Where an application to the Competition Commission under section 23B of the Act for permission to appeal the Authority's decision is made, Rule 5 of the Energy Licence Modification Appeals Rules sets out the requirements relating to notice of appeal, including the matters required in Rule 5.2. For the purposes of Rule 5.7, 'relevant licence holder' has the same meaning as in section 23(10) of the Act. A list of relevant licence holders in relation to this modification decision is set out in Appendix 1 to this Modification.

11. Separate Appendix 2 to this Modification shows the modifications to the handbook as marked-up text on a copy of the handbook with the minor additional changes referred to in paragraph 6 shown in yellow highlight.

12. Separate Appendices 3 and 4 to this Modification consist of, respectively:

- (a) a report setting out the modifications to the PCFM; and
- (b) a copy of the PCFM incorporating the modifications.

13. Copies of this Modification and other documents referred to in it are available on the Ofgem website (www.ofgem.gov.uk).

Now therefore

In accordance with the powers contained in section 23(1)(a) of the Act and for the reasons set out in paragraphs 7 and 8 of this Modification, the Authority hereby modifies:

- (a) the GD1 Price Control Financial Handbook in the manner specified in separate Appendix 2, with additions and deletions shown as marked-up text; and
- (b) the GD1 Price Control Financial Model in the manner specified in separate Appendices 3 and 4.

The modifications will take effect on and from 27 November 2013.

This document constitutes notice of the reasons for the decision to modify the Licence as required by section 38A of the Act.



A handwritten signature in blue ink, appearing to read 'A. Burgess', written over a horizontal line.

Andrew Burgess
Associate Partner, Transmission and Distribution Policy
Duly authorised on behalf of the
Gas and Electricity Markets Authority

27 September 2013

**Appendix 1 to the Authority's Direction dated 27 September 2013 –
Relevant licence holders**

Special Conditions subject to modification	Relevant licence holder
Special Condition 4A (Governance of GT1 Price Control Financial Instruments): <ul style="list-style-type: none">- GT1 Price Control Financial Handbook- GT1 Price Control Financial Model	National Grid Gas plc (with respect to the National Transmission System)