To the Company Secretary:

National Grid Gas plc (with respect to its National Transmission System) (Company Number: 02006000)

Directions issued by the Gas and Electricity Markets Authority to National Grid Gas Plc under the Special Conditions of its gas transporter licence in respect of the Annual Iteration Process for the GT1 Price Control Financial Model which will take place by 30 November 2013

WHEREAS

- 1. National Grid Gas Plc ('the licensee') is the holder of a gas transporter licence ('the licence') granted or treated as granted (with respect to its National Transmission System) under section 7 of the Gas Act 1986 that includes Special Conditions.
- 2. For the purposes of this direction:
 - (a) the expression 'Formula Year t' has the same meaning as is given for it in Special Condition 1A (Definitions and Interpretation) and references to Formula Year t-1 are to be construed accordingly; and
 - (b) Formula Year t is the Formula Year that commences on 1 April 2014 and ends on 31 March 2015 ('Formula Year 2014/15').
- 3. Special Condition 4B (Annual Iteration Process for the GT1 Price Control Financial Model) requires the Gas and Electricity Markets Authority to:
 - (a) carry out the Annual Iteration Process for the GT1 Price Control Financial Model;and
 - (b) direct the value of the term MOD for Formula Year t,
 - by 30 November in Formula Year t-1.
- 4. The following Special Conditions provide for the Authority to direct revised PCFM Variable Values for the licensee for the purpose of the Annual Iteration Process for the GT1 Price Control Financial Model that forms part of Special Condition 4A (Governance of GT1 Price Control Financial Instruments) of the licence:
 - (a) Special Condition 5A (Legacy price control adjustments NTS Transportation Owner) in respect of LAR values (and the component term values TAR, CAR, and SAR) and LRAV values (and the component term values CRAV and SRAV);
 - (b) Special Condition 5B (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments NTS Transportation Owner) in respect of ALC, ARC, AOC, ACO, ANC, ALU, ARU, AOU, and ACU values;
 - (c) Special Condition 5C (Specified financial adjustments NTS Transportation Owner) in respect of EDE, APFE, TTE, TGIE, and CDE values;
 - (d) Special Condition 5D (The Innovation Roll-out Mechanism) in respect of IRM values;
 - (e) Special Condition 5E (Arrangements for the recovery of uncertain costs) in respect of IAEEPS, IAEPD, IAEQL, IAENF, IAEIE, and IAEAH values;
 - (f) Special Condition 5F (Determination of Incremental Obligated Entry Capacity volumes and the appropriate revenue drivers to apply) in respect of EnCIt values;
 - (g) Special Condition 5G (Determination of Incremental Obligated Exit Capacity volumes and the appropriate revenue drivers to apply) in respect of ExCIt values;

- (h) Special Condition 6A (Legacy price control adjustments NTS System Operator) in respect of SOLAR values (and the component term value SOCAR) and SOLRAV (and its component term value SOCRAV);
- (i) Special Condition 6B (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments NTS System Operator) in respect of SOANC and SOACO values;
- (j) Special Condition 6C (Specified financial adjustments NTS System Operator) in respect of SOEDE, SOAPFE, SOTTE, and SOTGIE and SOCDE values; and
- (k) Special Condition 6D (Arrangements for the recovery of SO uncertain costs) in respect of SOIAEEPS and SOIAECA values.
- 5. Each of the Special Conditions referred to in paragraph 4:
 - (a) sets out the basis on which any revisions to relevant PCFM Variable Values are to be determined; and, where applicable; and
 - (b) specifies the price control financial methodology in accordance with which revisions to the relevant PCFM Variable Value(s) are to be determined and the chapter of the GT1 Price Control Financial Handbook containing that methodology.
- 6. In accordance with requirements set out in the Special Conditions referred to in paragraph 4, on 14 November 2013 the Authority gave notice of the revised PCFM Variable Values that it proposed to direct by 30 November in Formula Year t-1 and specified that any representations concerning the proposed values should be made within 14 days of receiving the notice.
- 7. The reason for this direction is to revise PCFM Variable Values are used in the Annual Iteration Process for the GT1 Price Control Financial Model (as each of those terms are defined in Special Condition 1A). The Annual Iteration Process is used to calculate values for the terms MOD and SOMOD that are used in the formulae set out in Special Condition 2A (Restriction of NTS Transportation Owner Revenue) and Special Condition 3A (NTS System Operator Revenue Restriction) respectively.
- 8. The Authority received three representations in relation to legacy adjustments (LAR and LRAV terms). The Authority reviewed these representations and deemed the issues would require further investigation. The Authority and the licensee have agreed to hold these over until the next Annual Iteration Process, which is due to take place on or before 30 November 2014.

NOW the Authority pursuant to the provisions of the Special Conditions referred to in paragraphs 3 and 4, **HEREBY DIRECTS** that:

- the PCFM Variable Values referred to in paragraph 4 are to be revised as shown in Schedule 1 to this direction; and
- the terms MOD and SOMOD for the licensee for Formula Year 2014/15 are to take the values £7.7m and -£0.7m.

Schedule 2 to this direction shows the complete PCFM Variable Values Table (as that item is defined in Special condition 1A) including the values revised under this direction (in bold font) and the values that have not been revised under this direction.

This constitutes notice for the reasons for the Authority's decision pursuant to section 38A of the Gas Act 1986.

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Ian Rowson

29 November 2013

Associate Partner, Regulatory Finance Duly authorised on behalf of the Gas and Electricity Markets Authority

Schedule 1 to Directions issued by the Gas and Electricity Markets Authority to National Grid Gas Plc dated 29 November 2013

National Grid Gas Plc

	Revised values for Formula Years											
PCFM Variable Value Name and determination provision	2013-	2014-	2015-	2016-	2017-	2018-	2019-	2020-				
	14	15	16	17	18	19	20	21				
LAR Parts A and B of Special Condition 5A	17.3											
LRAV Parts A and B of Special Condition 5A	87.5											
ALC	No	No	No	No	No	No	No	No				
Part B of Special Condition 5B	revision	revision	revision	revision	revision	revision	revision	revision				
ARC Part B of Special Condition 5B	No	No	No	No	No	No	No	No				
	revision	revision	revision	revision	revision	revision	revision	revision				
AOC	No	No	No	No	No	No	No	No				
Part B of Special Condition 5B	revision	revision	revision	revision	revision	revision	revision	revision				
ACO Part B of Special Condition 5B	No	No	No	No	No	No	No	No				
	revision	revision	revision	revision	revision	revision	revision	revision				
ANC Part B of Special Condition 5B	No	No	No	No	No	No	No	No				
	revision	revision	revision	revision	revision	revision	revision	revision				
ALU Part B of Special Condition 5B	No	No	No	No	No	No	No	No				
	revision	revision	revision	revision	revision	revision	revision	revision				
ARU Part B of Special Condition 5B	No	No	No	No	No	No	No	No				
	revision	revision	revision	revision	revision	revision	revision	revision				
AOU	No	No	No	No	No	No	No	No				
Part B of Special Condition 5B	revision	revision	revision	revision	revision	revision	revision	revision				
ACU Part B of Special Condition 5B	No	No	No	No	No	No	No	No				
	revision	revision	revision	revision	revision	revision	revision	revision				
EDE Part A of Special Condition 5C	No	No	No	No	No	No	No	No				
	revision	revision	revision	revision	revision	revision	revision	revision				
APFE Part A of Special Condition 5C	No	No	No	No	No	No	No	No				
	revision	revision	revision	revision	revision	revision	revision	revision				
TTE Part B of Special Condition 5C	No	No	No	No	No	No	No	No				
	revision	revision	revision	revision	revision	revision	revision	revision				

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TGIE Part B of Special Condition 5C	No	No	No	No	No	No	No	No
	revision	revision	revision	revision	revision	revision	revision	revision
CDE Part C of Special Condition 5C	No revision	2.72%	No revision	No revision	No revision	No revision	No revision	No revision
IRM Part F of Special Condition 5D	No	No	No	No	No	No	No	No
	revision	revision	revision	revision	revision	revision	revision	revision
IAEEPS Part B of Special Condition 5E	No	No	No	No	No	No	No	No
	revision	revision	revision	revision	revision	revision	revision	revision
IAEPD Part B of Special Condition 5E	No	No	No	No	No	No	No	No
	revision	revision	revision	revision	revision	revision	revision	revision
IAEQL	No	No	No	No	No	No	No	No
Part B of Special Condition 5E	revision	revision	revision	revision	revision	revision	revision	revision
IAENF	No	No	No	No	No	No	No	No
Part B of Special Condition 5E	revision	revision	revision	revision	revision	revision	revision	revision
IAEIE Part B of Special Condition 5E	No	No	No	No	No	No	No	No
	revision	revision	revision	revision	revision	revision	revision	revision
IAEAH	No	No	No	No	No	No	No	No
Part B of Special Condition 5E	revision	revision	revision	revision	revision	revision	revision	revision
EnCIt	No	No	No	No	No	No	No	No
Part F of Special Condition 5F	revision	revision	revision	revision	revision	revision	revision	revision
ExCIt Part F of Special Condition 5G	No	No	No	No	No	No	No	No
	revision	revision	revision	revision	revision	revision	revision	revision
SOLAR Parts A and B of Special Condition 6A	(0.1)							
SOLRAV Parts A and B of Special Condition 6A	(3.0)							
SOANC Part B of Special Condition 6B	No	No	No	No	No	No	No	No
	revision	revision	revision	revision	revision	revision	revision	revision
SOACO Part B of Special Condition 6B	No	No	No	No	No	No	No	No
	revision	revision	revision	revision	revision	revision	revision	revision
SOEDE Part A of Special Condition 6C	No	No	No	No	No	No	No	No
	revision	revision	revision	revision	revision	revision	revision	revision
SOAPFE Part A of Special Condition 6C	No	No	No	No	No	No	No	No
	revision	revision	revision	revision	revision	revision	revision	revision

SOTTE Part B of Special Condition 6C	No	No	No	No	No	No	No	No
	revision	revision	revision	revision	revision	revision	revision	revision
SOTGIE Part B of Special Condition 6C	No	No	No	No	No	No	No	No
	revision	revision	revision	revision	revision	revision	revision	revision
SOCDE Part C of Special Condition 6C	No revision	2.72%	No revision	No revision	No revision	No revision	No revision	No revision
SOIAEEPS Part C of Special Condition 6D	No	No	No	No	No	No	No	No
	revision	revision	revision	revision	revision	revision	revision	revision
SOIAECA Part C of Special Condition 6D	No	No	No	No	No	No	No	No
	revision	revision	revision	revision	revision	revision	revision	revision

Component term values used to determine the values for LAR and LRAV in the table above:

TAR = -

CAR = (6.0)

SAR = 23.3

CRAV = 25.6

SRAV = 61.9

Component term values used to determine the values for SOLAR and SOLRAV in the table above:

SOCAR = (0.1)

SOOIR = -

SOLAR = -

SOCRAV = (3.0)

SOLRAV = -

Schedule 2 to Directions issued by the Gas and Electricity Markets Authority to National Grid Gas Plc dated 29 November 2013

National Grid Gas Plc

ST TO Parameter	Licence	c I Inits	Term	Constant	Annual values							
PCFM year ending		ix 2 GTfinmdl PCF				31 Mar 2015	31 Mar 2016	31 Mar 2017	31 Mar 2018	31 Mar 2019	31 Mar 2020	31 Mar 20
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M Variable Values Table												
Allowed percentage cost of debt	5C	annual real %	CDE / SO	CDE	2.92%	2.72%	2.72%	2.72%	2.72%	2.72%	2.72%	2.72
Actual load related capex expenditure	5B	£m 09/10 prices	ALC		-	-	-	-	-	-	-	
Actual asset replacement capex expenditure	5B	£m 09/10 prices	ARC		-	-	-	-	-	-	-	
Actual other capex expenditure	5B	£m 09/10 prices	AOC		-	-	-	-	-	-	-	
Actual controllable opex	5B	£m 09/10 prices	ACO		-	-	-	-	-	-	-	
Actual non-operational capex	5B	£m 09/10 prices	ANC		-	-	-	-	-	-	-	
Actual load related capex (uncertain)	5B	£m 09/10 prices	ALU		-	-	-	-	-	-	-	
Actual asset replacement capex expenditure (uncertain)	5B	£m 09/10 prices	ARU		-	-	-	-	-	-	-	
Actual other capex expenditure (uncertain)	5B	£m 09/10 prices	AOU		-	-	-	-	-	-	-	
Actual controllable opex (uncertain)	5B	£m 09/10 prices	ACU		-	-	-	-	-	-	-	
Uncertain costs - Enhanced Physical Ste Security	5E	£m 09/10 prices	IAEEPS		-	-	-	-	-	-	-	
Uncertain costs – Pipeline Diversion Costs	5E	£m 09/10 prices	IAEPD		-	-	-	-	-	-	-	
Uncertain costs (Quarry & Loss Costs), uncertainty rate	5E	£m 09/10 prices	IAEQL		-	-	-	-	-	-	-	
Innovation Roll out mechanism	5D	£m 09/10 prices	IRM		-	-	-	-	-	-	-	
Incremental Obligated entry capacity, uncertainty rate	5F	£m 09/10 prices	ENCI		-	-	-	-	-	-	-	
Incremental Obligated exit capacity, uncertainty rate	5G	£m 09/10 prices	EXCI		-	-	-	-	-	-	-	
Uncertain costs – Network Flexibility Costs	5E	£m 09/10 prices	IAENF		-	-	-	-	-	-	-	
Uncertain costs – Industrial Emissions	5E	£m 09/10 prices	IAEIE		-	-	-	-	-	-	-	
Uncertain costs - One Off Asset Health Costs	5E	£m 09/10 prices	IAEAH		-	-	-	-	-	-	-	
Tax liability – gearing/interest costs	5C	£m nominal	TGIE		-	-	-	-	-	-	-	
Tax liability – tax trigger events	5C	£m 09/10 prices	TTE		-	-	-	-	-	-	-	
Pension Scheme Administration and Pension Protection F	5C	£m 09/10 prices	APFE		2.7	2.6	2.6	2.7	2.6	2.6	2.7	2.
Pension Scheme Established Deficit	5C	£m 09/10 prices	EDE		26.4	26.4	26.4	26.4	26.4	26.4	26.4	26.
Legacy price control adjustments to allowed revenue	5A	£m 09/10 prices	LAR		17.3							
Legacy price control adjustments to RAV	5A	£m 09/10 prices	LRAV		87.5							

Input													
NGG	тто												
	<u>Parameter</u>	Lice	<u>Units</u>	<u>Term</u>	Cor	<u>Annual values</u>							
	PCFM year ending	GT	1 PCFM November	2013.xlsm	#	31 Mar 2014	31 Mar 2015	31 Mar 2016	31 Mar 2017	31 Mar 2018	31 Mar 2019	31 Mar 2020	31 Mar 2021
PCFI\	M Variable Values Table												
	Actual non-operational capex	6B	£m 09/10 prices	SOANC		-	-	-	-	-	-	-	-
	Actual controllable opex	6B	£m 09/10 prices	SOACO		-	-	-	-	-	-	-	-
	Uncertain costs - Enhanced Physical Ste Security	6D	£m 09/10 prices	SOIAEEPS		-	-	-	-	-	-	-	-
	Uncertain costs - Central Agency Costs	6D	£m 09/10 prices	SOIAECA		13.5	12.5	18.2	23.8	21.5	16.5	14.0	14.1
	Tax liability - gearing/interest costs	6C	£m nominal	SOTGIE		-	-	-	-	-	-	-	-
	Tax liability - tax trigger events	6C	£m 09/10 prices	SOTTE		-	-	-	-	-	-	-	-
	Pension scheme administration and Pension Protection Fund Levy	6C	£m 09/10 prices	SOAPFE		-	-	-	-	-	-	-	-
	Pension Scheme Established Deficit	6C	£m 09/10 prices	SOEDE		0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
	Legacy price control adjustments to allowed revenue	6A	£m 09/10 prices	SOLAR		(0.1)							
	Legacy price control adjustments to RAV	6A	£m 09/10 prices	SOLRAV		(3.0)							