

**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 EnCIIt values;
  - (g) Special Condition 5G (Determination of Incremental Obligated Exit Capacity volumes and the appropriate revenue drivers to apply) in respect of ExCIIt 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 SOIAEES 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.



---

**Ian Rowson**

**29 November 2013**

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





SOTTE Part B of Special Condition 6C	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
SOTGIE Part B of Special Condition 6C	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No 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 revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
SOIAECA Part C of Special Condition 6D	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No 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 = -



## Input

## NGST TO

Parameter	Line	Units	Term	Con	Annual values								
PCFM year ending	GT1	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
PCFM 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 Site 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
<b>Legacy price control adjustments to allowed revenue</b>	<b>6A</b>	<b>£m</b>	<b>09/10 prices</b>	<b>SOLAR</b>		<b>(0.1)</b>							
<b>Legacy price control adjustments to RAV</b>	<b>6A</b>	<b>£m</b>	<b>09/10 prices</b>	<b>SOLRAV</b>		<b>(3.0)</b>							