

To: National Grid Gas plc (Company number 2006000) (with respect to its gas transmission business)

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

MODIFICATION OF THE GAS TRANSPORTER LICENCE HELD BY NATIONAL GRID GAS PLC

Whereas –

1. 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”).
2. In accordance with section 23(2) of the Act the Gas and Electricity Markets Authority (“the Authority”) gave notice on 17 March 2014 (“the Notice”) that it proposed to make modifications to special conditions 2D and 3A of the Licence and by requiring any representations to the modification to be made on or before 14 April 2014.
3. 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 in the Ofgem library and on the Ofgem website.
4. The Authority has carefully considered all responses received in relation to the proposed modification.
5. 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 17 March 2014 and has not received a direction not to make the modification.
6. In accordance with section 38A of the Act the Authority gives the following reasons for making the licence modification:
 - a. to enable the licensee to continue to manage incremental capacity requests efficiently while new incremental capacity arrangements are developed;
 - b. to allow existing capacity arrangements to continue, consistent with our RIIO-T1 final proposals;
 - c. to maintain existing lead times; and
 - d. ensure consumers are not potentially exposed to significant incremental buy-back costs under the constraint management incentive.
7. The effect of the modification will be to:
 - a. implement permits arrangements from 1 July 2014 to 31 March 2015;
 - b. allow permits earned or not used between 1 April 2013 and 31 March 2014 to be used between 1 July 2014 and 31 March 2015;
 - c. increase the permits allowance in the RIIO-T1 formula year commencing 1 April 2014 by £13.39m; and
 - d. delay by a year when revenue is earned from the RIIO-T1 permit arrangements.

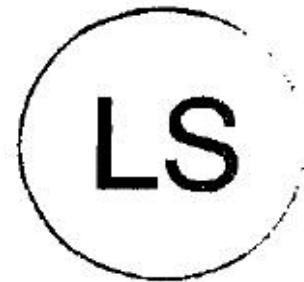
8. Where an application for permission to appeal the Authority's decision is made to the Competition and Markets Authority under section 23B of the Act, Rule 5.7 of the Competition Commission's Energy Licence Modification Appeals Rules¹ requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-confidential notice setting out the matters required in Rule 5.2. The relevant licence holder in this case is National Grid Gas plc. The meaning of 'relevant licence holder' is set out in section 23(10) of the Act.

Now therefore

In accordance with the powers contained in section 23(1)(a) of the Act, the Authority hereby modifies the gas transporter licence of National Grid Gas plc in the manner specified in Schedules 1 and 2 attached. This decision will take effect on and from 1 July 2014.

This document constitutes notice of the reasons for the decision to modify the gas transporter licence held by National Grid Gas plc, as required by section 38A of the Act.

**The Official Seal of the Gas and Electricity Markets Authority
here affixed is authenticated by the signature of**



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Andy Burgess
Associate Partner, Transmission and Distribution Policy
Duly authorised on behalf of the Gas and Electricity Markets Authority
28 April 2014

¹ This guidance was published by the Competition Commission in September 2012. On 1 April 2014, the Competition Commission was abolished and its functions transferred to the Competition and Markets Authority (CMA).

Special Condition 2D. Permit Arrangements for the provision of incremental capacity

Introduction

- 2D.1 The purpose of this condition is to provide arrangements for the use of permits by the Licensee in relation to the provision of Incremental Obligated Entry Capacity and Incremental Obligated Exit Capacity (together 'incremental obligated capacity'), including the maximum value of permits available for the Formula Year commencing on 1 April 2013 of £19m (2009/10 prices) and the maximum value of permits available for the Formula Year commencing on 1 April 2014 of £32.39m (2009/10 prices), which would be an addition of £13.39m.
- 2D.2 The effect of the application of the Permit Arrangements under this condition is to allow the Licensee:
- (a) to vary the date on which the Licensee is contractually obliged to provide incremental obligated capacity; and
 - (b) to obtain additional revenue for permits remaining at 31 May 2013 from the Legacy Permit Arrangements.
- 2D.3 The Licensee can use a permit to defer the delivery of one GWh per Day of incremental obligated capacity for a month or earn a permit for every one GWh per Day of incremental obligated capacity it delivers early by a month.
- 2D.4 The Licensee can use or earn multiple permits to defer or for delivery of any amount of incremental obligated capacity for a number of months subject to the provisions of this condition.
- 2D.5 Permits held by the Licensee at the end of the Formula Year commencing on 1 April 2013 will be usable by the Licensee in the Formula Year commencing on 1 April 2014.
- 2D.6 Permits held by the Licensee in the Formula Year commencing on 1 April 2014 will be implemented in accordance with Part C and will only be usable from the 1 July 2014.
- ~~2D.5~~2D.7 Part A sets out the provisions under which permits may be used and earned.
- ~~2D.6~~2D.8 Part B sets out the level of permits applicable for use in the Formula Year commencing on 1 April 2013.
- 2D.9 Part C sets out the level of permits applicable for use in the Formula Year commencing on 1 April 2014.
- ~~2D.7~~ Part C sets out the revenue earned by the Licensee for the Permit Arrangements commencing on 1 April 2013.
- 2D.10 Part D sets out the revenue earned by the Licensee for the Permit Arrangements commencing on 1 April 2013 and 1 April 2014.
- ~~2D.8~~2D.11 Part ~~E~~ sets out arrangements to allow the Licensee to obtain additional revenue for any permits under the Legacy Permit Arrangements remaining on 31 May 2013.

Part A: Provisions for using and earning permits

~~2D.92~~2D.12 The Permit Arrangements will apply, unless otherwise directed by the Authority in writing, for the Formula Years commencing on 1 April 2013 and 1 April 2014.

~~2D.102~~2D.13 Subject to paragraph ~~2D.144~~, the Licensee may, with the consent of the Authority, vary the Entry Lead Time for any individual NTS Entry Point or vary the Exit Lead Time for any individual NTS Exit Point.

~~2D.112~~2D.14 Consent will be deemed to have been granted by the Authority under paragraph ~~2D.130~~ if:

- (a) the Licensee is proposing to reduce the Entry Lead Time in relation to NTS Entry Points or the Exit Lead Time in relation to NTS Exit Points; or
- (b) the volume of capacity being deferred (in units of GWh per Day for each one month period) is, at Day n, less than the Licensee's permit entitlement PE_n defined in paragraph ~~2D.196~~ (within the Formula Year commencing 1 April 2013) and defined in paragraph ~~2D. 21~~ (within the Formula Year commencing 1 April 2014) of this condition.

~~2D.122~~2D.15 The Licensee must not vary the Entry Lead Time or Exit Lead Time by more than 24 months at any NTS Entry Point or NTS Exit Point in relation to a single variation event without seeking written consent to do so from the Authority (such consent must be sought in a timely manner).

~~2D.132~~2D.16 In relation to NTS Entry Points, the Licensee must seek written consent not later than 105 days before the start of the Annual Invitation Period.

~~2D.142~~2D.17 In relation to NTS Exit Points either:

- (a) for applications for Incremental Obligated Exit Capacity under the Annual Application Window, the Licensee must seek written consent not later than 90 days before the start of the Annual Application Window; or
- (b) for applications for Incremental Obligated Exit Capacity made outside the Annual Application Window consistent with the obligations under Special Conditions 9A (Entry Capacity and Exit Capacity Obligations and Methodology Statements) and 9B (Methodology to determine the release of Entry Capacity and Exit Capacity volumes), the Licensee must use reasonable endeavours to seek written consent not later than 90 days in advance of the application.

~~2D.152~~2D.18 The Licensee shall notify the Authority in writing and in a timely manner of each instance where it varies the Entry Lead Time or Exit Lead Time for incremental obligated capacity specifying:

- (a) the NTS Entry Point or NTS Exit Point affected;
- (b) the volume of capacity (in units of GWh per Day) for which the Entry Lead Time or Exit Lead Time is being shortened; or
- (c) the volume of capacity (in units of GWh per Day) for which the Entry Lead Time or Exit Lead Time is being lengthened.

Part B: Level of Permits Arrangements (1 April 2013 – 31 March 2014)

~~2D.16~~2D.19 The Licensee's permit entitlement on Day n (PE_n) (in units of GWh per Day for each one month period) for the Formula Year commencing on 1 April 2013 will be calculated in accordance with the following formula:

$$PE_n = 3800 + \sum_{v,n-1} DLTDVE_v$$

where:

$DLTDVE_v$ means the change in the Entry Lead Time or Exit Lead Time (in units of GWh per Day for each one month period) that arises from the variation event v as notified to the Authority pursuant to paragraph 2D.130 of this condition.

v means the relevant variation event, where $v=1$ shall mean the first variation event notified to the Authority pursuant to paragraph 2D.130 of this condition.

2D.20 For the avoidance of doubt:

(a) where there have been no variations to the Entry Lead Time or Exit Lead Time ($v=0$), $DLTDVE_v$ will have the value zero (0); and

~~(d)~~(b) the Licensee's Permit Entitlement (PE_n) in the Formula Year commencing on 1 April 2013 shall be adjusted by variation events notified to the Authority pursuant to paragraph 2D.13 within the Formula Year commencing on 1 April 2013.

Part C: Level of Permits Arrangements (1 July 2014 – 31 March 2015)

2D.21 The Licensee's permit entitlement on Day n (PE_n) (in units of GWh per Day for each one month period) for the Formula Year commencing on 1 April 2014 will be calculated in accordance with the following formula from the 1 July 2014:

$$PE_n = 6478 + \sum_{v,n-1} DLTDVE_v$$

where:

$DLTDVE_v$ means the change in the Entry Lead Time or Exit Lead Time (in units of GWh per Day for each one month period) that arises from the variation event v as notified to the Authority pursuant to paragraph 2D.13 of this condition.

v means the relevant variation event, where $v=1$ shall mean the first variation event notified to the Authority pursuant to paragraph 2D.13 of this condition.

2D.22 For the avoidance of doubt:

(a) where there have been no variations to the Entry Lead Time or Exit Lead Time ($v=0$), $DLTDVE_v$ will have the value zero (0) and;

(b) the Licensee's permit entitlement (PE_n) in the Formula Year commencing on 1 April 2014 shall be adjusted by variation events notified to the Authority pursuant to paragraph 2D.13 within the Formula Years commencing on 1 April 2013 and 1 April 2014.

Part C: Revenue earned from Permit Arrangements (1 April 2013 – 31 March 2014)

~~2D.17~~ For the purposes of Part E of Special Condition 2A (Restriction of NTS Transportation Owner Revenue) the term PA_t shall be calculated in the Formula Year commencing 1 April 2015 as follows:

$$PA_t = \min[(PE_{end} \times \pounds 5,000), \pounds 19,000,000] \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

where:

PE_{end} means the value of PE_n (in GWh per Day for each one month period) where Day n is 31 May 2014.

PVF_t has the value given to it by Part D of Special Condition 2A.

RPI has the value given to it by Part D of Special Condition 2A.

~~2D.18~~ PA_t will have the value zero other than in the Formula Year commencing on 1 April 2015.

Part D: Revenue earned from Permit Arrangements (1 April 2013 – 31 March 2015)

~~2D.23~~ For the purposes of Part E of Special Condition 2A (Restriction of NTS Transportation Owner Revenue) the term PA_t shall be calculated in the Formula Year commencing 1 April 2016 as follows:

$$PA_t = \min[(PE_{end} \times \pounds 5,000), \pounds 32,390,000] \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

where:

PE_{end} means the value of PE_n (in GWh per Day for each one month period) where Day n is 31 May 2015.

PVF_t has the value given to it by Part D of Special Condition 2A.

$RPIF_t$ has the value given to it by Part D of Special Condition 2A.

~~2D.24~~ PA_t will have the value zero other than in the Formula Year commencing on 1 April 2016.

Part ED: Legacy Permit Arrangements

~~2D.19~~~~2D.25~~ For the purposes of Part C of Special Condition 3A (Restriction of NTS System Operation Revenue) the $DELINC_t$ term is derived in accordance with the following formula:

$$DELINC_t = RLTDVEn_{t-1} + RLTDVEx_{t-1}$$

where:

$RLTDVEn_{t-1}$ means the value of the entry permits held by the licensee on 31 May 2013 from the arrangements set out in Special Condition C8C (NTS System Operation Activity Revenue Restriction) paragraph 3(a) as it was in force in this licence as at 31 March

2013.

$RTLVDEx_{t-1}$ means the value of the exit permits held by the licensee on 31 May 2013 from the arrangements set out in Special Condition C8C paragraph 3(a) as it was in force in this licence as at 31 March 2013.

~~2D.20~~2D.26 $DELINC_t$ will have the value zero except in the Formula Year commencing 1 April 2013 when it will be calculated in accordance with the formula in ~~2D.25~~2D.26.

~~2D.21~~2D.27 $RLTDVEn_{t-1}$ shall be calculated in accordance with the following formula:

$$RLTDVEn_{t-1} = \min[(LTDVEn_{end} \times \text{£}5,000), \text{£}8,256,960] \times RPIF_t$$

where:

$LTDVEn_{end}$ means the value of $LTDVEn_n$ (in GWh per Day for each one month period) where Day n is 31 May 2013 and is derived with the following formula:

$$LTDVEn_n = 1440 + \sum_{v,n-1} DLTDVEn_v$$

$DLTDVEn_v$ means the change in the Entry Lead Time (in units of GWh per Day for each one month period) that arises from the variation event v as notified to the Authority by 1 May 2013.

~~2D.22~~2D.28 $RLTDVEx_{t-1}$ shall be calculated in accordance with the following formula:

$$RLTDVEx_{t-1} = \min[(LTDVEx_{end} \times \text{£}274), \text{£}688,149] \times RPIF_t$$

where:

$LTDVEx_{end}$ means the value of $LTDVEx_n$ (in GWh per Day) where Day n is 31 May 2013 and is derived with the following formula:

$$LTDVEx_n = 2190 + \sum_{v,n-1} DLTDVEx_v$$

$DLTDVEx_v$ means the change in the Exit Lead Time (in units of GWh per Day) that arises from the variation event v as notified to the Authority by 1 April 2013.

Special Condition 3A. Restriction of NTS System Operation Revenue

Part C: Calculation of Maximum NTS System Operation Revenue (SOMR_t)

3A.1 Maximum NTS System Operation Revenue, in Formula Year t, is derived in accordance with the following formula (in this condition, the “Principal Formula”):

$$\text{SOMR}_t = \text{SOBR}_t + \text{CM}_t + \text{TSS}_t + \text{DELINC}_t + \text{SOOIRC}_t - \text{SOK}_t$$

3A.2 In the Principal Formula:

SOMR_t means the amount of Maximum NTS System Operation Revenue in Formula Year t.

SOBR_t means the amount of Base NTS System Operation Revenue in Formula Year t as derived in accordance with the formula set out in Part D of this condition.

CM_t means the revenue adjustment in Formula Year t in respect of Constraint Management as derived in accordance with Special Condition 3B (Entry Capacity and Exit Capacity Constraint Management).

TSS_t means the revenue adjustment in Formula Year t in respect of NTS Transportation Support Services as derived in accordance with Special Condition 3C (NTS Transportation Support Services).

DELINC_t means the permits revenue adjustment made in Formula Year t in respect of Legacy Permit Arrangements as derived in accordance with Part ~~E~~ of Special Condition 2D (Permit Arrangements for the provision of incremental capacity).

SOOIRC_t means the NTS System Operation Revenue External Incentive adjustment in respect of Formula Year t as derived in accordance with Special Condition 3D (NTS System Operator external incentives, costs and revenues).

SOK_t means the correction term revenue adjustment in Formula Year t as derived in accordance with the formula set out in Part E of this condition.