

Industry update from Ofgem – Up to date as of 03 October 2016

National Grid's sale of its gas distribution networks

National Grid's intended sale of its gas distribution networks: Decisions on statutory consultations under section 8AA and section 23 of the Gas Act. On 23 June 2016 NGG submitted a formal notice to us for consent to transfer its gas distribution licence under section 8AA of the Gas Act 1986 (the Act) (“hive across”). We launched two statutory consultations to seek stakeholder views before deciding whether to:

- grant consent to the transfer of the NGG(DN) gas transporter licence to NGGDL, and;
- make modifications under s23 of the Act to the gas transporter licence held by NGG.

On 30 September 2016 we decided to consent on both accounts. More information may be found at the following URL: <https://www.ofgem.gov.uk/publications-and-updates/national-grid-s-intended-sale-its-gas-distribution-networks-decisions-statutory-consultations-under-section-8aa-and-section-23-gas-act>

National Grid's intended sale of its gas distribution networks: Decision on conditions precedent prior to hive down. On 30 September 2016 we published our decision that the “conditions precedent” to the transfer of gas distribution assets to a new subsidiary company, prior to “hive across”, have been met. More information, including evidence provided by NGG, in respect of meeting the conditions precedent can be found at the following URL: <https://www.ofgem.gov.uk/publications-and-updates/national-grid-s-intended-sale-its-gas-distribution-networks-decision-conditions-precedent-prior-hive-down>

Modification of National Grid Gas plc's National Transmission System gas transporter licence to activate back stop meter provider of last resort obligations. Following our consent of the transfer of NGG's distribution licence under s. 8AA of the Gas Act 1986, we issued, on 30 September 2016, a direction to activate the back stop meter provider of last resort (BMPOLR) obligations in NGG (NTS)'s gas transporter licence. More information can be found at the following URL: <https://www.ofgem.gov.uk/publications-and-updates/modification-national-grid-gas-plc-s-national-transmission-system-gas-transporter-licence-activate-back-stop-meter-provider-last-resort-obligations>

Letter to potential buyers of gas distribution network assets. On 28 September 2016, we published a letter to potential buyers of the majority stake in National Grid's four gas distribution networks and part of SSE's equity stake in SGN, which distributes gas across Scotland and the south of England. More information can be found at the following URL: <https://www.ofgem.gov.uk/publications-and-updates/letter-potential-buyers-gas-distribution-network-assets>

Open letter: Sale of gas distribution networks. On 28 September 2016 we published an open letter to potential buyers of the majority stake in National Grid's four gas distribution networks and part of SSE's equity stake in SGN. We reminded bidders that firm decisions have not yet been made about RIIO-GD2, and if they purchase these businesses at a

premium over the Regulatory Asset Values, they will not be compensated for that premium. More information can be found at the following URL:

<https://www.ofgem.gov.uk/publications-and-updates/open-letter-sale-gas-distribution-networks>

Other matters

Decision on our review of gas transporter agency (Xoserve) costs in RIIO GD1 and T1. We undertook a review of Xoserve's funding, governance and ownership (FGO) arrangements and have decided to change Xoserve's (FGO) arrangements. The arrangements set out in our decision of 23 September 2016 will take effect from 1 April 2017, which is when all the changes to Xoserve's funding and governance are expected to go live. More information can be found at the following URL: <https://www.ofgem.gov.uk/publications-and-updates/decision-our-review-gas-transporter-agency-xoserve-costs-riio-gd1-and-t1>

Proposed modification to the Funding Return Mechanism in the Network Innovation Competition and Low Carbon Networks Fund licence conditions. On 21 September 2016 we issued Notices under section 11A(2) of the Electricity Act 1989 and under section 23(2) of the Gas Act 1986 to make changes to the Funding Return Mechanism (FRM). The changes would broaden the use of the FRM, allowing the return of money in cases where the project has delivered more efficiently than expected, or has generated revenue other than through intellectual property. More information can be found at the following URL: <https://www.ofgem.gov.uk/publications-and-updates/proposed-modification-funding-return-mechanism-network-innovation-competition-and-low-carbon-networks-fund-licence-conditions>

Capacity Methodology Statements: Independent Examiner Report Decision. On 15 September 2016, we consented to National Grid Gas Transmission's requested to provide modifications to the Entry Capacity Substitution Methodology and Exit Capacity Substitution and Revision Methodology Statements without an accompanying statement from an Independent Examiner. More information can be found at the following URL: <https://www.ofgem.gov.uk/publications-and-updates/capacity-methodology-statements-independent-examiner-report-decision>

Call for stakeholders to engage in implementing funding and governance changes to Xoserve to create a central data service provider from 1 April 2017. On 14 September 2016 we published an open letter setting out our expectations of stakeholders regarding forthcoming funding and governance changes to Xoserve. More information can be found at the following URL: <https://www.ofgem.gov.uk/publications-and-updates/call-stakeholders-engage-implementing-funding-and-governance-changes-xoserve-create-central-data-service-provider-1-april-2017>