

**To:**

**Cadent Gas Limited  
Northern Gas Networks Limited  
Scotland Gas Networks plc  
Southern Gas Networks plc  
Wales and West Utilities Limited  
National Grid Gas Plc**

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

**Modification of the special conditions of the Gas Transporter licence held by the licensees listed above**

1. Each of the licensees to whom this document is addressed 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. Under section 23(2) of the Act, the Gas and Electricity Markets Authority (the 'Authority') gave notice<sup>1</sup> on 20 April 2022 (the 'Notice') that it proposed to modify the special conditions of the Gas Transporter licence.
3. The Notice stated that any representations on the modification proposals must be made on, or before 18 May 2022.
4. A copy of the Notice was sent to the Secretary of State in accordance with section 23(4)(b) of the Act, and we have not received a direction that the changes should not be made.
5. We received five responses to the Notice, which we have carefully considered. Non-confidential responses and our response to these comments are published on our website at "Issues log – PCFI Modifications".
6. The majority of respondents were happy with our modifications. However, several respondents demonstrated a desire to retain the Bad Debt term and associated definitions within the licence despite it no longer being treated as a pass-through term. As such we have retained the Bad Debt term within the licence as can be seen within Appendix 3 and 4.
7. Two respondents were concerned that re-classifying Bad Debt from being a pass-through cost to an item to be netted off from Recovered Revenue would result in the PCFM applying a time value of money adjustment at the K correction factor rate of interest, whereas the weighted average cost of capital (WACC) is applied to under or over-recoveries for pass-through costs. Our primary intention in making this modification is to make the licence clearer for its users. Our view is that the current drafting is misleading and unclear as Recovered Revenue does not actually represent revenue that has been recovered, once bad debts are factored in.

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<sup>1</sup> <https://www.ofgem.gov.uk/publications/statutory-consultation-modify-price-control-financial-instruments-and-licence-conditions-gas-transmission-and-gas-distribution>

8. We apply the K correction rate of interest to any revenue that licensees do not manage to collect, ie due to charging error, through the K correction term. Bad debts are fundamentally amounts of unrecovered revenue. We think that Bad debt is therefore better classified as an unrecovered amount of revenue, ie to be shown as a deduction from the Recovered Revenue term, rather than a cost of the business to be passed-through.
9. The reason for these modifications is to ensure that we record Recovered Revenue on a cash basis, as opposed to the current practice, which records the licensee's Recovered Revenue as billed. This means that the current value of Recovered Revenue reflects the total amount a licensee bills its customers but not necessarily the true amount that it collects, for instance due to unrecoverable Bad Debt. Instead of excluding Bad Debt from Recovered Revenue, we currently reflect it as a pass-through term.
10. The effect of these modifications is to remove the Bad Debt term from the pass-through condition and instead, to require licensees to record Recovered Revenue on a cash basis ie. net of any Bad Debt. The non-recovered Bad Debt amount will then be reflected as an under-recovery, which will be adjusted through the K correction factor. We will also include inputs for Recovered Revenue on a billed basis, Bad Debt and Recovered Revenue in our Regulatory reporting templates to ensure that we continue to have sight of the Bad Debt values and to set out more clearly, the interplay between Recovered Revenue and Bad Debt.
11. We are also making modifications to the gas distribution licensees' special licence conditions to remove the definition 'Non-Traded Central Carbon Price' and replace it with a new definition 'Central Price of Carbon'. The reason for this modification is because the current definition refers to publication of a value for non-traded carbon emissions by the Department for Business, Energy and Industrial Strategy (BEIS). However, last autumn BEIS stopped publishing separate traded and non-traded carbon prices and now publishes a single carbon price. The effect of the modification is to use the single carbon price published by BEIS in the calculation of the Shrinkage Management output delivery incentive term in Special Condition 4.4 (Shrinkage Management output delivery incentive).
12. In addition, we are also making modifications to the GD2 and GT2 Price Control Financial Instruments (PCFIs).
13. The reasons for the modifications, and an overview of the modifications being made to both the GD2 and GT2 Price Control Financial Models (PCFM) are set out below:
  - a. the introduction of the super-deduction legislation results in companies investing in qualifying new plant and machinery assets being able to claim accelerated capital allowances on qualifying plant and machinery investments and special rate assets in FY22 and FY23. The general and special rate tax pool opening balances in the PCFM require adjusting to reflect the impact of the super deduction regime. We have added rows in the input sheets to enable opening balance adjustments for these general and special rate tax pools;
  - b. to allow for the impact of the super deduction tax regime to be reflected we have updated the tax paid calculation within the 'Finance&Tax' sheet;

- c. we have updated names of variable values throughout the PCFM as per the latest published licence conditions; and
  - d. further to the Bad Debt licence modification set out above, we have moved the Bad Debt variable value out of the pass-through section of the input sheet and now include this row further down in the sheet to net this off against Billed Recovered Revenue to derive Recovered Revenue on a cash basis.
14. There are some modifications that relate to the GD2 PCFM only. The reasons for and overviews of the modifications are set out below:
- a. we have included some further calculations on the AR sheet to split Allowed Revenue into the three sub-components that gas distribution licensees need to input into their charging model. This was previously done offline and so licensees requested that we include the calculation in the PCFM to automate this process. This split is for presentational purposes only and has no impact on the calculation of Allowed Revenue.
  - b. We have amended subscripts to 't' in the 'Term' column in the 'ReturnAdj' sheet. This was incorrectly subscripted as 'j'.
15. There are some modifications that relate to the GT2 PCFM only. The reasons for and overviews of the modifications are set out below:
- a. we have removed the Opex Escalator term from the calculation of SO Allowed Revenue to align this with the latest published licence.
  - b. we have consolidated the Directly Remunerated Services rows to 'Directly remunerated services revenue' and 'Directly remunerated services cost' as the previous split was not relevant to Gas Transmission.
16. We are also making some consequential modifications to the GD2 and GT2 Price Control Financial Handbooks ("Handbook") for completeness and consistency with the PCFM. Please see Appendix 2 to this direction for a list of the Handbook modifications.
17. The reason for and effect of these modifications to the PCFIs will be to align the PCFIs with the modified special licence condition.
18. Having carefully considered the responses received to the Notice, we have decided to proceed with the modifications to the Special Licence Conditions and the GD2 and GT2 PCFIs set out in the Notice, with a number of alterations to reflect the feedback in the responses received. These alterations are highlighted in cyan in the modified Special Licence Conditions, and the GD2 and GT2 Price Control Financial Instruments as shown in Appendix 1, Appendix 2, Appendix 3 and Appendix 4.
19. Where an application for permission to appeal our decision is made to the Competition and Markets Authority (CMA) under section 23B of the Act, Rule 5.7 of the Energy Licence Modification Appeals: Competition and Markets Authority Rules<sup>2</sup> requires that the appellant must send to any relevant licence holders who

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<sup>2</sup> CMA70 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/655601/energy-licence-modification-appeals-rules.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655601/energy-licence-modification-appeals-rules.pdf)

are not parties to the appeal a non-sensitive notice setting out the matters required in Rule 5.2.

20. Under the powers set out in section 23(1)(a) of the Act, we hereby modify the GD2 and GT2 Price Control Financial Instruments and the Special Licence Conditions of the Gas Transporter Licence of the licensees in the manner specified in Appendix 1, Appendix 2, Appendix 3 and Appendix 4. This decision will take effect not less than 56 days after this decision is published.

21. A copy of the modifications and other documents referred to in this document have been published on our website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)). Alternatively they are available from [foi@ofgem.gov.uk](mailto:foi@ofgem.gov.uk).

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**Jonathan Gorrie**  
**Chief Financial Advisor, Analysis and Assurance**  
**Duly authorised on behalf of the Gas and Electricity Markets Authority**  
**01 June 2022**

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## Appendix 1 – Location of modifications within the Price Control Financial Model

Sector	Nature of Modification	Sheet reference	Cell reference
GT2	<p>The general and special rate tax pool opening balances require adjusting to reflect the impact of the super deduction regime.</p> <p>On the licensee-specific input sheets, we have added blue box rows in the input sheets to enable opening balance adjustments for these general and special rate tax pools. These rows are 'General Pool Opening Balance Adjustment' and 'Special Rate Pool Opening Balance Adjustment'.</p> <p>The cell colour signifies that these cells will become PCFM Variable Values that can therefore be updated as part of the Annual Iteration Process. The equivalent cells have been highlighted light green on the Input sheet, which signifies the same thing but uses a different colour scheme.</p> <p>These new rows have been linked to the 'Revisions' rows within the 'TaxPools' sheet under General and Special pools.</p>	NGGT TO	E131, G131, H131, AP131:AT131, E132, G132, H132, AP132:AT132
		NGGT SO	E83, G83, H83, AP83:AT83, E84, G84, H84, AP84:AT84
		System Operator	E156, G156, H156, AP156:AT156, E157, G157, H157, AP157:AT157, AP336:AT336, AP347:AT347
		Input	E204, G204, H204, AP204:AT204, E205, G205, H205, AP205:AT205
		TaxPools	AP52:AT52, AP64:AT64
GT2	<p>To allow for the impact of the super deduction tax regime to be reflected we have updated the tax paid calculation within the 'Finance&amp;Tax' sheet.</p> <p>We have added 'Contributions to losses from clawback' and 'Adjustments to losses from tax trigger' in the tax paid calculation.</p> <p>We have updated the formula in the 'profits reduced by tax losses' row to account for these new rows</p>	Finance&Tax	E270, G270, AP270:AT270, E271, G271, AP271:AT271, AP272:AT272
		System Operator	E527, G527, AP527:AT527, E528, G528, AP528:AT528, AP529:AT529

GT2	On the licensee-specific input we have updated names of variable values throughout per the latest published special licence conditions.	NGGT TO  NGGT SO	E28, E29, H35, E45, E46  E17, E18, H22, E24, E25
GT2	<p>Further to the Bad Debt licence modification discussed in this notice we have moved the Bad Debt variable value out of the pass-through section of the licensee input sheet and now include this row further down in the sheet.</p> <p>We have updated the term that was previously 'recovered revenue' to 'recovered revenue billed basis'. We have then included an additional row which is called 'Recovered Revenue' which is the 'Recovered revenue billed basis' net of the bad debt.</p> <p>The equivalent cells have added as light green on the Input sheet.</p>	NGGT TO  NGGT SO  Input  System Operator	E159:H159, E160:H160, AO160:AT160, E161:H161, AO161:AT161  E111:H111, E112:H112, AO112:AT112, E113:H113, AO113:AT113  E236:H236, E237:H237, AO237:AT237, E238:H238, AO238:AT238  E188:H188, E189:H189, AO189:AT189, E190:H190, AO190:AT190
GT2	We have removed the Opex Escalator term as per the latest published licence.	NGGT SO	
GT2	<p>We have consolidated the Directly Remunerated Services rows to 'DRS revenue and costs' as the previous split was not relevant to Gas Transmission.</p> <p>We have replaced the Directly Remunerated Services rows, to 'DRS revenue' and 'DRS cost' on the licensee input sheet and have made the equivalent addition to the Input sheet.</p>	NGGT TO  Input	E115, G115, H115, AP115:AT115, E116, G116, H116, AP116:AT116  E128, G128, H128, AP128:AT128, E129, G129, H129, AP129:AT129

GD2	<p>The general and special rate tax pool opening balances require adjusting to reflect the impact of the super deduction regime.</p> <p>On the licensee-specific input sheets, we have added blue box rows in the input sheets to enable opening balance adjustments for these general and special rate tax pools. These rows are 'General Pool Opening Balance Adjustment' and 'Special Rate Pool Opening Balance Adjustment'.</p> <p>The cell colour signifies that these cells will become PCFM Variable Values that can therefore be updated as part of the Annual Iteration Process. The equivalent cells have been highlighted light green on the Input sheet, which signifies the same thing but uses a different colour scheme.</p> <p>These new rows have been linked to the 'Revisions' rows within the 'TaxPools' sheet under General and Special pools..</p>	<p>GDN input sheets</p> <p>Input</p> <p>TaxPools</p>	<p>E149, G149, H149, AP149:AT149, E150, G150, H150, AP150:AT150</p> <p>E225, G225, H225, AP225:AT225, E226, G226, H226, AP226:AT226</p> <p>AP50:AT50, AP61:AT61</p>
GD2	<p>To allow for the impact of the super deduction tax regime to be reflected we have updated the tax paid calculation within the 'Finance&amp;Tax' sheet.</p> <p>We have added 'Contributions to losses from clawback' and 'Adjustments to losses from tax trigger' in the tax paid calculation.</p> <p>We have updated the formula in the 'profits reduced by tax losses' row to account for these new rows</p>	Finance&Tax	E237, G237, AP237:AT237, E238, G238, AP238:AT238, AP239:AT239
GD2	<p>On the licensee-specific input we have updated names of variable values throughout as per the latest published special licence conditions.</p>	GDN input sheets	E29, E30, H51, E53, E54
GD2	<p>Further to the Bad Debt licence modification discussed in this notice we have moved the</p>	GDN input sheets	E179:H179, E180:H180,

	<p>Bad Debt variable value out of the pass-through section of the licensee input sheet and now include this row further down in the sheet.</p> <p>We have updated the term that was previously 'recovered revenue' to 'recovered revenue billed basis'. We have then included an additional row which is called 'Recovered Revenue' which is the 'Recovered revenue billed basis' net of the bad debt.</p> <p>The equivalent cells have added as light green on the Input sheet.</p>	<p>Input</p> <p>AR</p>	<p>AO180:AT180, E181:H181, AO181:AT181</p> <p>E259:H259, E260:H260, AO260:AT260, E261:H261, AO261:AT261</p> <p>AO18:AT18</p>
GD2	<p>We have introduced a split of the Allowed Revenue into three separate components at the request of GDNs to ensure their methodology for this process is consistent and automated. This is for presentational purposes only and has no impact on Allowed Revenue.</p> <p>To achieve this, we have added 'RIIO- 1 Exit allowed revenue', 'RIIO-1 SOLR allowed revenue', 'Exit Recovered revenue', 'SOLR Recovered revenue' and ' Legacy SOLR' to the licensee input sheet. We have made the equivalent updates to the Input sheet.</p> <p>We have emulated the main Allowed Revenue calculation within the 'AR sheet' for the individual components of Exit Allowed Revenue, SOLR Allowed Revenue and LDZ Allowed Revenue.</p> <p>To facilitate the calculations we have added rows in LiveResults to capture Exit and SOLR calculated revenue and their adjustment terms. We have made the equivalent changes to the SavedResults sheet.</p> <p>Per the responses received in our notice we have since amended several rows in the 'AR' sheet to ensure correct functionality of this modification.</p>	<p>GDN input sheets</p> <p>Input</p> <p>AR</p> <p>LiveResults</p> <p>SavedResults</p>	<p>E127:H127, AP127, E177:H177, AO177, E178:H178, AO178, E182:H182, AO182:AT182, E183:H183, AO183:AT183</p> <p>E137:H137, AP137:AT137, E257:H257, AO257, E258:H258, AO258, E262:H262, AO262:AT262, E263:H263, AO263:AT183</p> <p>Rows 50:125 Row 75, 76, 106</p> <p>Rows 165:195</p> <p>Rows 165:195, 344:375, 524:555, 704:735,</p>



			884:915, 1064:1095, 1244:1275, 1424:1455
GD2	We have amended subscripts to 't' in the 'Term' column in the 'ReturnAdj' sheet. This was incorrectly subscripted as 'j'.	ReturnAdj	H21, H23, H81, H82

## **Appendix 2 – Location of modifications within the Price Control Financial Handbook**

<b>Sector</b>	<b>Nature of Modification</b>	<b>Page number</b>
GT2	General updates and tidying up	1, 18
GT2	Variable Value table 3.1 and 3.2 updated per PCFM Modifications described above.	25, 26 and 32
GT2	Added additional wording to paragraph 6.3 relating the addition of the opening pool balance adjustments variable values.	50
GT2	Following responses to the Notice, Bad Debt definitions previously in licence have now been removed from the Glossary	86
GD2	General updates and tidying up	1, 18, 80
GD2	Variable Value table 3.1 updated per PCFM Modifications described above.	27, 30, 31, 32, 33
GT2	Added additional wording to paragraph 6.3 relating the addition of the opening pool balance adjustments variable values.	47
GD2	Following responses to the Notice, Bad Debt definitions previously in licence have now been removed from the Glossary	82

**Appendix 3: National Grid Gas licence modifications to Special Condition 6.1 (Pass-through items), Special Condition 6.3 (System operator pass-through items, Part B of Special Condition 1.1 (Interpretation and definitions), Part B of Special Condition 2.1 (Revenue restriction) and Part B of Special Condition 2.3 (System operator revenue restriction).** (Deletions are shown in strike through and new text is double underlined)

## **Special Condition 1.1 Interpretation and definitions**

<b>COVID-19 Defaulting Gas Shipper</b>	means a Gas Shipper which participated in the COVID-19 Scheme and whose insolvency has resulted in the licensee incurring Bad Debt or SO Bad Debt. The timing and meaning of insolvency is as per the Insolvency Act 1986.
<b>COVID-19 Scheme</b>	means the COVID-19 Liquidity Relief Scheme for Shippers as established by the Uniform Network Code (UNC) modification 726: "COVID-19 Liquidity relief scheme for Shippers".
<b>COVID-19 System Operator Bad Debt</b>	means SO Bad Debt owed to the licensee by one or more COVID-19 Defaulting Gas Shippers.
<b>COVID-19 Transportation Owner Bad Debt</b>	means Bad Debt owed to the licensee by one or more COVID-19 Defaulting Gas Shippers.
<b>Defaulting Gas Shippers</b>	means a Gas Shipper, which has failed to make payments to the licensee in accordance with the Uniform Network Code.
<b>RIIO-GT1 Bad Debt</b>	means the Bad Debt incurred during RIIO-GT1.
<b>RIIO-GT1 SO Bad Debt</b>	means the SO Bad Debt incurred during RIIO-GT1.
<b><u>SO Recovered Revenue Billed Basis</u></b>	<u>has the meaning given to that term in Part B of Special Condition 2.3 (System operator revenue restriction) inclusive of SO Bad Debt as defined Part H of Special Condition 2.3 (System operator revenue restriction).</u>
<b><u>TO Recovered Revenue Billed Basis</u></b>	<u>has the meaning given to that term in Part B of Special Condition 2.1 (Transporter owner revenue restriction) inclusive of Bad Debt as defined Part I of Special Condition 2.1 (Transporter owner revenue restriction).</u>

## **Special Condition 2.1 Transportation owner revenue restriction (AR<sub>t</sub>)**

## Part B: Formula for calculating the TO Recovered Revenue term ( $RR_t$ )

2.1.4 The value of  $RR_t$  is derived in accordance with the following formula, net of Bad Debt as derived in accordance with Part I:

$$RR_t = TOREntC_t + TORExC_t + TORCOM_t$$

where:

$TOREntC_t$  means the amount of revenue in respect of NTS Transportation Owner Activity that results from the sale of the following types of Entry Capacity:

- (a) Interruptible Entry Capacity;
- (b) Non-Incremental Obligated Entry Capacity; and
- (c) Funded Incremental Obligated Entry Capacity;

$TORExC_t$  means the amount of revenue in respect of NTS Transportation Owner Activity that results from the sale of the following types of Exit Capacity:

- (a) Off-Peak Exit Capacity;
- (b) Non-Incremental Obligated Exit Capacity; and
- (c) Funded Incremental Obligated Exit Capacity; and

$TORCOM_t$  means the amount of revenue in respect of NTS Transportation Owner Activity that results from:

- (a) charges levied by the licensee on Gas Shippers and DN Operators pursuant to Standard Special Condition A4 (Charging – General); and
- (a) payments made by the licensee to Gas Shippers and DN Operators other than revenue earned by the licensee through  $TOREntC_t$  and  $TORExC_t$ .

## Part I: Formula for calculating the Bad Debt term ( $BD_t$ )

The value of  $BD_t$  is derived in accordance with the following formula:

$$BD_t = BDA_t - RBD_t$$

where:

$BDA_t$  means the aggregate value of Bad Debt the licensee has incurred or expects to incur, inclusive of RIIO-GT1 Bad Debt and COVID-19 Transportation Owner Bad Debt, with respect to NTS Transportation Owner Charges owed to the licensee by one or more Defaulting Gas Shippers, less the interest income accrued at the default rate set out in the Uniform Network Code net of WACC with respect to the COVID-19 Scheme; and

$RBD_t$  means the aggregate value of Bad Debt previously recovered, inclusive of RIIO-GT1 Bad Debt and COVID-19 Transportation Owner Bad Debt, by the

licensee via the  $BDA_t$  term, where the licensee has received cash through either the Defaulting Gas Shipper or been credited by the administrator or liquidator of a Defaulting Gas Shipper.

## Special Condition 2.3 System operator revenue restriction ( $SOAR_t$ )

### Part B: Formula for calculating the SO Recovered Revenue term ( $SORR_t$ )

2.3.4 The value of  $SORR_t$  is derived in accordance with the following formula, net of SO Bad Debt as derived in accordance with Part H:

$$SORR_t = SOREntC_t + SORExC_t + RCOM_t + SOROC_t$$

where:

$SOREntC_t$  means the amount of revenue in respect of NTS System Operation Activity that results from the sale of Non-Obligated Entry Capacity;

$SORExC_t$  means the amount of revenue in respect of NTS System Operation Activity that results from the sale of Non-Obligated Exit Capacity;

$RCOM_t$  means the amount of revenue in respect of NTS System Operation Activity that results from charges levied by the licensee on Gas Shippers and DN Operators pursuant to Standard Special Condition A4 (Charging – General) in respect of NTS System Operation Activity. This will include revenue from charges to recover costs incurred by the licensee and net payments made to or by the licensee in respect of reducing the costs arising from NTS System Operation Activity other than revenue earned by the licensee through:

(a)  $SOREntC_t$ ;

(b)  $SORExC_t$ ;

(c)  $SOROC_t$ ; and

(d) revenues received by the licensee from the sale of gas purchased by the licensee in respect of its use of Constrained Storage Facilities in order to avoid Transportation Constraints; and

$SOROC_t$  means the amount of revenue derived by the licensee through associated NTS System Operation Charges and is derived in accordance with the following formula:

$$SOROC_t = RNC_t + RCOR_t + FTI_t + RLOC_t + RADD_t$$

where:

$RNC_t$	means net revenue derived by the licensee from Balancing Neutrality Charges;
$RCOR_t$	means the revenue derived by the licensee from System Entry Overrun Charges;
$FTI_t$	means the revenue derived by the licensee from charges levied on Gas Shippers and DN Operators in respect of any Failure To Interrupt;
$RLOC_t$	means the revenue derived by the licensee from Locational Sell Actions and Physical Renomination Incentive Charges; and
$RADD_t$	has the meaning given in paragraph 5.5.5 of Special Condition 5.5 (Entry Capacity and Exit Capacity Constraint Management).

#### **Part H: Formula for calculating the System Operator Bad Debt term (SOBD<sub>t</sub>)**

The value of SOBD<sub>t</sub> is derived in accordance with the following formula:

$$\underline{SOBD_t = SOBDA_t - SORBD_t}$$

where:

$SOBDA_t$  means the aggregate value of SO Bad Debt the licensee has incurred or expects to incur, inclusive of RIIO-GT1 SO Bad Debt and COVID-19 System Operator Bad Debt, with respect to NTS System Operation Charges owed to the licensee by one or more Defaulting Gas Shippers, less the interest income accrued at the default rate set out in the Uniform Network Code net of WACC with respect to the COVID-19 Scheme; and

$SORBD_t$  means the aggregate value of SO Bad Debt previously recovered, inclusive of RIIO-GT1 SO Bad Debt and COVID-19 System Operator Bad Debt, by the licensee via the  $SOBDA_t$  term, where the licensee has been credited by the administrator or liquidator of a Defaulting Gas Shipper.

### **Special Condition 6.1 Transportation owner pass-through items (PT<sub>t</sub>)**

#### **Part A: Formula for calculating the transportation owner allowed pass-through term (PT<sub>t</sub>)**

6.1.3 The value of PT<sub>t</sub> is derived in accordance with the following formula:

$$PT_t = RB_t + LF_t + EDE_t + \cancel{BD_t} + OPTC_t + IS_t + PTV_t + Hy_t + NZPS_t$$

where:

- $RB_t$  means the amount levied on the licensee in respect of the Prescribed Rates or an amount directed under Part B;
- $LF_t$  means the net payments made by the licensee in respect of the NTS Transportation Owner Activity under Standard Condition 3 (Payments by the Licensee to the Authority);
- $EDE_t$  means the payments in relation to the Pension Scheme Established Deficit repair expenditure for each Regulatory Year that relate to NTS Transportation Owner Activity, as further explained and elaborated upon in the GT2 Price Control Financial Handbook;
- ~~$BD_t$  is derived in accordance with Part C;~~
- $OPTC_t$  means the payments made by the licensee to the Secretary of State in respect of Policing Costs;
- $IS_t$  is derived in accordance with paragraph 6.2.3 of Special Condition 6.2 (Gas conveyed to Independent Systems);
- $PTV_t$  means the PARCA Termination Value and has the value zero unless directed in accordance with Part D;
- $Hy_t$  is derived in accordance with Part E; and
- $NZPS_t$  is derived in accordance with Part F.

### **~~Part C: Formula for calculating the Bad Debt term ( $BD_t$ ) Not Used~~**

~~6.1.7—The value of  $BD_t$  is derived in accordance with the following formula:~~

$$~~BD_t = BDA_t - RBD_t~~$$

~~—where:~~

- ~~$BDA_t$  means the aggregate value of Bad Debt the licensee has incurred or expects to incur, inclusive of RHO-GT1 Bad Debt and COVID-19 Transportation Owner Bad Debt, with respect to NTS Transportation Owner Charges owed to the licensee by one or more Defaulting Gas Shippers, less the interest income accrued at the default rate set out in the Uniform Network Code net of WACC with respect to the COVID-19 Scheme; and~~
- ~~$RBD_t$  means the aggregate value of Bad Debt previously recovered, inclusive of RHO-GT1 Bad Debt and COVID-19 Transportation Owner Bad Debt, by the licensee via the  $BDA_t$  term, where the licensee has received cash through either the Defaulting Gas Shipper or been credited by the administrator or liquidator of a Defaulting Gas Shipper.~~

### **Special Condition 6.3 System operator pass-through items ( $SOPT_t$ )**

### Part A: Formula for calculating the system operator allowed pass-through term (SOPT<sub>t</sub>)

6.3.3 The SOPT<sub>t</sub> term is derived in accordance with the following formula:

$$SOPT_t = CDSP_t + SOEDE_t + SOBD_t$$

where:

*CDSP<sub>t</sub>* means CDSP Costs, excluding costs incurred in relation to UK Link Gemini; and

*SOEDE<sub>t</sub>* means the payments in relation to the Pension Scheme Established Deficit repair expenditure that relate to NTS System Operation Activity; and

*SOBD<sub>t</sub>* is derived in accordance with Part B.

### Part B: Formula for calculating the System Operator Bad Debt term (SOBD<sub>t</sub>)

6.3.4 The value of SOBD<sub>t</sub> is derived in accordance with the following formula:

$$SOBD_t = SOBDA_t - SORBD_t$$

where:

*SOBDA<sub>t</sub>* means the aggregate value of SO Bad Debt the licensee has incurred or expects to incur, inclusive of RHIO-GT1 SO Bad Debt and COVID-19 System Operator Bad Debt, with respect to NTS System Operation Charges owed to the licensee by one or more Defaulting Gas Shippers, less the interest income accrued at the default rate set out in the Uniform Network Code net of WACC with respect to the COVID-19 Scheme; and

*SORBD<sub>t</sub>* means the aggregate value of SO Bad Debt previously recovered, inclusive of RHIO-GT1 SO Bad Debt and COVID-19 System Operator Bad Debt, by the licensee via the SOBDA<sub>t</sub> term, where the licensee has been credited by the administrator or liquidator of a Defaulting Gas Shipper.

**Appendix 4 –Gas Distribution Network licence modifications to Special Condition 6.1 (Pass-through items), Part B of Special Condition 1.1 (Interpretation and definitions), Part A of Special Condition 4.4(Shrinkage Management output delivery incentive ( $SM_t$ )) and Part B of Special Condition 2.1 (Revenue restriction).** (Deletions are shown in strike through and new text is double underlined)

## Special Condition 1.1 Interpretation and definitions

<u>COVID-19 Bad Debt</u>	<u>means Bad Debt owed to the licensee by one or more COVID-19 Defaulting Gas Shippers.</u>
<u>COVID-19 Defaulting Gas Shipper</u>	<u>means a Gas Shipper which participated in the COVID-19 Scheme and whose insolvency has resulted in the licensee incurring Bad Debt. The timing and meaning of insolvency is as per the Insolvency Act 1986.</u>
<u>COVID-19 Scheme</u>	<u>means the COVID-19 Liquidity Relief Scheme for Shippers as established by the Uniform Network Code (UNC) modification 726: 'COVID-19 Liquidity relief scheme for Shippers'.</u>
<u>Defaulting Gas Shippers</u>	<u>means a Gas Shipper, which has failed to make payments to the licensee in accordance with the Uniform Network Code.</u>
Non-traded Central Price of Carbon	means the <del>non-traded price of carbon, which reflects the value of non-traded carbon emissions (emissions not traded through the EU ETS scheme)</del> <u>current carbon value (Central Series)</u> that is published by the Department for Business, Energy and Industrial Strategy (or any other government department from time to time).
<u>Recovered Revenue Billed Basis</u>	<u>has the meaning given to that term in Part B of Special Condition 2.1 (Revenue restriction) inclusive of Bad Debt as defined Part I of Special Condition 2.1 (Revenue restriction).</u>

## Special Condition 2.1 Revenue restriction ( $AR_t$ )

### Part B: Recovered Revenue term ( $RR_t$ )

2.1.4 Recovered revenue ( $RR_t$ ) means the revenue derived by the licensee, net of Bad Debt, as derived in accordance with Part I from the Supply Of Distribution Network Services to Gas Shippers, in respect of its Licensed Activity and means the undertaking and performance for gain or reward of engagements:

- (a) in connection with the conveyance of gas through the Transportation System;
- (b) for the prevention of the escape of gas which has been taken off the Transportation System; and
- (c) relating to the acquisition of capacity rights, gas or gas derivatives for the purpose of:
  - i. the balancing of the Transportation System through the acquisition or disposal of gas to replace gas lost from the Transportation System; and
  - ii. facilitating constraint management.



### **Part I: Formula for calculating the Bad Debt term (BD<sub>t</sub>)**

The value of the BD<sub>t</sub> term is derived in accordance with the following formula:

$$BD_t = BDA_t - RBD_t$$

where:

BDA<sub>t</sub> means the aggregate value of Bad Debt the licensee has incurred or expects to incur, inclusive of COVID-19 Bad Debt, with respect to Network Charges owed to the licensee by one or more Defaulting Gas Shippers, less the interest income accrued at the default rate set out in the Uniform Network Code net of WACC with respect to the COVID-19 Scheme; and

RBD<sub>t</sub> means the aggregate value of Bad Debt previously recovered, inclusive of COVID-19 Bad Debt, by the licensee via the BDA<sub>t</sub> term, where the licensee has received cash through either the Defaulting Gas Shipper or been credited by the administrator or liquidator of a Defaulting Gas Shipper.

## **Special Condition 4.4 Shrinkage Management output delivery incentive (SM<sub>t</sub>)**

### **Part A: Formula for calculating the Shrinkage Management incentive (SM<sub>t</sub>)**

4.4.1 The value of SM<sub>t</sub> is derived in accordance with the following formula:

$$SM_t = \max [ \min ((CBV_t - AL_t + PIV_t)(GPRC_t + CC_t), 0.0025 \cdot EABR), -0.0025 \cdot EABR ] \cdot TIS$$

where:

CBV<sub>t</sub> means the Gas Conditioning Baseline Volume;

AL<sub>t</sub> means the Actual Leakage Volume;

EABR means Ex-Ante Base Revenue;

PIV<sub>t</sub> means the Pressure Impact Volume, derived in accordance with paragraph 4.4.5;

GPRC<sub>t</sub> is derived in accordance with Part B;

CC<sub>t</sub> means the ~~Non-Traded~~ Central Carbon Price of Carbon, multiplied by a GWh conversion factor of 1,226.42; and

TIS means the Totex Incentive Strength.

## Special Condition 6.1 Pass-through items (PT<sub>t</sub>)

### Part A: Formula for calculating the allowed pass-through term (PT<sub>t</sub>)

6.1.3 The PT<sub>t</sub> term is derived in accordance with the following formula:

$$PT_t = RB_t + LF_t + PD_t + EDE_t + TPWI_t + TG_t + MP_t + CDSP_t + SL_t + EC_t + \cancel{BD_t}$$

where:

- RB<sub>t</sub>* means the amount levied on the licensee in respect of the Prescribed Rates or an amount directed under Part B;
- LF<sub>t</sub>* means the net payments made by the licensee in respect of Licensed Activity under Standard Condition 3 (Payments by the Licensee to the Authority);
- PD<sub>t</sub>* means the payments made by the licensee to meet the Distribution Network Pension Deficit Charge, which is levied on the Distribution Network by the NTS Operator;
- EDE<sub>t</sub>* means the payments in relation to the Pension Scheme Established Deficit repair expenditure for each Regulatory Year, as further explained and elaborated upon in the GD2 Price Control Financial Handbook;
- TPWI<sub>t</sub>* means the Third Party Damage And Water Ingress Costs pass-through term and is derived in accordance with Part C;
- TG<sub>t</sub>* means the adjustment equal to any allowance made, in total, for reasonable costs incurred by a gas supplier pursuant to paragraphs 5, 6 and 13 of Standard Condition 7 (Provision of Information Relating to Gas Illegally Taken);
- MP<sub>t</sub>* means the adjustment equal to miscellaneous pass-through costs incurred by the licensee and not reflected in any other part of this condition, which the Authority has (following consultation with the licensee) directed the licensee to treat as part of MP<sub>t</sub>;
- CDSP<sub>t</sub>* means CDSP Costs;
- SL<sub>t</sub>* means the Shrinkage costs pass-through term and is derived in accordance with Part D; and
- EC<sub>t</sub>* means the sum of NTS Exit Flat Capacity Costs and NTS Exit Flex Capacity Costs; and
- BD<sub>t</sub>* ~~means the Bad Debt term and is derived in accordance with Part E.~~

### ~~Part D: Formula for calculating the Bad Debt term (BD<sub>t</sub>)~~

~~6.1.12 The value of the BD<sub>t</sub> term is derived in accordance with the following formula:~~

$$\cancel{BD_t = BDA_t - RBD_t}$$

—where:

~~$BDA_t$~~  means the aggregate value of Bad Debt the licensee has incurred or expects to incur, inclusive of COVID-19 Bad Debt, with respect to Network Charges owed to the licensee by one or more Defaulting Gas Shippers, less the interest income accrued at the default rate set out in the Uniform Network Code net of WACC with respect to the COVID-19 Scheme; and

~~$RBD_t$~~  means the aggregate value of Bad Debt previously recovered, inclusive of COVID-19 Bad Debt, by the licensee via the  ~~$BDA_t$~~  term, where the licensee has received cash through either the Defaulting Gas Shipper or been credited by the administrator or liquidator of a Defaulting Gas Shipper.