

**Northern Gas Networks Limited**

**Gas Transporter Licence**

**Special Conditions**

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# Chapter 1: Interpretation and definitions

## Special Condition 1.1 Interpretation and definitions

### Introduction

- 1.1.1 The purpose of this condition is to provide for the special conditions of this licence:
- (a) some provisions of general interpretation; and
  - (b) the meaning of the defined terms, which are capitalised throughout the special conditions.

### Part A: Interpretation

- 1.1.2 Wherever the subscript 't' is used, without further numerical notation, the value to be used is the one for the Regulatory Year in question.
- 1.1.3 A positive or negative numerical notation indicates that the value to be used is for a year after or before the Regulatory Year in question and the number indicates how many years after or before.
- 1.1.4 In some cases, other subscripts may also be used to denote the value for a specific Regulatory Year and are explained in those special conditions.
- 1.1.5 References in these special conditions to a "Distribution Network" are to each of the licensee's Distribution Networks.
- 1.1.6 Any values derived by reference to the value of revenues accrued, received or paid by or to the licensee will be the actual sum accrued, received or paid by or to the licensee on the date of such accrual, receipt or payment without any adjustment for inflation or interest after deduction of value added tax (if any) and any other taxes charged directly by reference to the amounts so accrued, received or paid.
- 1.1.7 Unless otherwise stated, any reference in these special conditions to the Authority giving a direction, consent, derogation, approval or designation includes:
- (a) giving it to such extent, for such period of time, and subject to such conditions as the Authority thinks reasonable in all the circumstances of the case; and
  - (b) revoking or amending it after consulting with the licensee.
- 1.1.8 Unless otherwise stated, any reference in these special conditions to the Authority making a determination includes making it subject to such conditions as the Authority thinks reasonable in all the circumstances of the case.
- 1.1.9 Any direction, consent, derogation, approval, designation or determination made by the Authority in accordance with these special conditions, will be given or made in writing.

- 1.1.10 Any reference in these special conditions to a numbered appendix is, unless otherwise stated, to the relevant numbered appendix to that special condition.
- 1.1.11 Where these special conditions provide for the Authority to issue or amend a document by direction, the steps required to achieve this may be satisfied by action taken before, as well as by action taken on or after, 1 April 2026.
- 1.1.12 Any monetary values in these special conditions are in sterling in a 2023/24 price base unless otherwise indicated.
- 1.1.13 The price base for each PCFM Variable Value is denoted in the GD3 Price Control Financial Model "LicenseeSelect" sheet. Where a PCFM Variable Value is listed as a "£m nominal" value, the GD3 Price Control Financial Model will convert these values in accordance with Special Condition Part E of Special Condition 2.1 (Revenue restriction), so that the component terms of Calculated Revenue are in a 2023/24 price base.

## **Part B: Definitions**

- 1.1.14 In these special conditions the following defined terms have the meanings given in the table below.
- 1.1.15 Where these special conditions state that the outputs, delivery dates and allowances for a Price Control Deliverable are located in another document, the following defined terms also have the meanings given in the table below in that document.
- 1.1.16 Where the table below states that a defined term has the meaning given to it by:
- (a) another condition of this licence;
  - (b) the GD3 Price Control Financial Instruments;
  - (c) the RIGs;
  - (d) an Associated Document;
  - (e) the Network Code; or
  - (f) the Uniform Network Code
- the defined term is to have the meaning given in that provision or those documents as amended from time to time.

4x4	means a four wheel drive vehicle with a gross vehicle weight of no less than 3,200kg.
Above Risk Action Threshold Tier 2 Mains	means Included Mains where the pipe diameter is greater than 8 inches and less than 18 inches, and which have a Risk Score greater than the Threshold Risk Score.
the Act	means the Gas Act 1986.

Actual Corporation Tax Liability	means the value as shown in the licensee's company tax return (CT600) as submitted to His Majesty's Revenue and Customs, relating to the licensee , after removing the impact of any group or consortium relief.
Actual Leakage Volume	means the actual Leakage volume derived from the application of the Shrinkage And Leakage Model, expressed in gigawatt hours.
Actual Shrinkage Volume	means the actual Shrinkage volume derived from the application of the Shrinkage And Leakage Model, expressed in gigawatt hours.
Actual Totex	is derived in accordance with the RIGs.
Allowed Revenue	is the amount the licensee should aim to recover through its Network Charges, derived in accordance with the formula in Part C of Special Condition 2.1 (Revenue restriction).
Allowed Unit Cost Of Tier 1 Mains Decommissioned	means the allowed unit cost to decommission Tier 1 Mains in each of the Tier 1 Mains Decommissioned Workload Activities.
Annual Iteration Process	Has the meaning given to that term in the annex "PCFM Guidance" to the RIGs.
Annual Environmental Report	means a document prepared and published by the licensee in accordance with Part A of Special Condition 9.1 (Annual Environmental Report).
Appropriate Auditor	has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).
Appropriately Qualified Independent Examiner	means a chartered accountant, chartered tax adviser, or equivalent, from a firm regulated by a relevant professional body, who may be an employee of the licensee's Appropriate Auditors.
Approved Market Price Report	means the 'European Spot Gas Markets report' published by Heren Energy Limited or another market price report published by a comparable price reporting service in the United Kingdom that the Authority has notified the licensee it considers to be equivalent to the 'European Spot Gas Markets report'.
Approved Programme	means the programme agreed between the licensee and the HSE which details the measures and processes through which risk related to iron mains is to be managed.

Asset Data	means the data on the condition, location, operating environment, function, duty, and other relevant characteristics of NARM Assets, which is necessary for the calculation of Monetised Risk.
Asset Intervention	means a deliberate action, on the part of the licensee, that improves or maintains the Monetised Risk of an asset or group of assets.
Asset Management Systems	means the set of interrelated and interacting elements, including those IT systems used for the collecting, storing and interrogating of Asset Data, that the licensee has in place to establish its asset management policy and asset management objectives and the processes needed to achieve those objectives.
Asset Risk	means the estimated average expected impact of a Network Asset with given characteristics (such as those referred to in Asset Data definition) failing over a given time period, so that when scaled up to a sufficiently large population of identical Network Assets, the sum of the individual Asset Risks will equate to the total expected impact of asset failure for the population over the same time period.
Associated Document	means a document issued and amended by the Authority by direction in accordance with the special conditions of this licence and any reference to an Associated Document is to that document as amended from time to time unless otherwise specified.
the Authority	has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).
Authority's Website	means <a href="http://www.ofgem.gov.uk">www.ofgem.gov.uk</a> .
Bad Debt	means the cost incurred by the licensee when Network Charges owed to the licensee are not considered recoverable and which crystallises when normal payment terms have been exceeded and the licensee has made all reasonable efforts to collect the debt but is unable to recover the amounts owed.
Baseline Activity Volume Of Tier 1 Mains Decommissioned	means the forecast volume for each Tier 1 Mains Decommissioned Workload Activity over the Price Control Period, as set out in Appendix 2 to Special Condition 3.10 (Tier 1 Mains decommissioned Price Control Deliverable).



Baseline Activity Volume Of Tier 1 Services	means the forecast volume for each Tier 1 Services Repex Workload Activity over the Price Control Period, as set out in Appendix 2 to Special Condition 3.11 (Tier 1 Services Repex Price Control Deliverable).
Baseline Allowed NARM Expenditure	means the allowed expenditure associated with the Baseline Network Risk Outputs as set out in Appendix 1 to Special Condition 3.1 (Baseline Network Risk Outputs).
Baseline Network Risk Output	means the cumulative total for all items allocated to 'NARM Funding Category A1' for a given risk sub-category in the licensee's Network Asset Risk Workbook.
Baseline Target Workload Of Tier 1 Mains Decommissioned	means the total volume of Tier 1 Mains Decommissioning to be delivered over the Price Control Period, as set out in Appendix 1 to Special Condition 3.10 (Tier 1 Mains decommissioned Price Control Deliverable).
Baseline Target Workload Of Tier 1 Services Repex	means the forecast volume for each Tier 1 Services Repex Workload Activities over the Price Control Period, as set out in Appendix 1 to Special Condition 3.11 (Tier 1 Services Repex Price Control Deliverable).
Basic PCD Report	has the meaning given to that term in the PCD Reporting Requirements and Methodology Document.
Between	in the context of something being done, or occurring, between two dates, means on or after the first date and on or before the second date.
Biomethane	means a gas defined in the technical standard IGEM/TD/16.
Biomethane Connection	means the connection of a Biomethane plant onto either the NTS or GDN to inject Biomethane.
Biomethane Distributed Entry Reinforcement	means the physical works undertaken by a GDN to modify or extend its existing network assets in order to provide a sustained increase in network capacity necessary to enable or accommodate Biomethane injection, beyond the assets required solely for the direct connection of the Biomethane facility.
Biomethane UIOLI Governance Document	means the document of that name issued by the Authority in accordance with Special Condition 3.21 (Biomethane Distributed Entry Reinforcement (BDER <sub>i</sub> ) use it or lose it allowance).

Bulk Price Differential	<p>means the volume of Liquefied Petroleum Gas conveyed to consumers who are connected to each relevant Independent System in the relevant Regulatory Year, multiplied by the difference between:</p> <p>(a) the reasonable estimate (made by the NTS Operator) of the actual delivered price of Liquefied Petroleum Gas supplied to consumers connected to the relevant Independent System; and</p> <p>(b) the average price of gas consisting principally of methane supplied to large industrial customers in Great Britain.</p>
Bulk Supply Point	<p>means any of the bulk supply points at the places specified in the approval given on 1 March 1996 by the Director General of Gas Supply, or such other point at such place as may be notified to the Authority from time to time by the licensee.</p>
Business Plan	<p>means a plan of the sort that the licensee was invited to submit by paragraph 3.6 of the document titled 'RIIO-3 Sector Specific Methodology Decision Overview document', published by the Authority on 18 July 2024.</p>
CAF Outcomes	<p>means the outcomes set out under the cyber security and resilience principles set out in the document titled "NIS Supplementary Guidance and CAF Overlay for DGE Sector", published by the Authority on 1 August 2023 as amended from time to time.</p>
Calculated Revenue	<p>has the value derived in accordance with Part D of Special Condition 2.1 (Revenue Restriction).</p>
Calculated Tax Allowance	<p>means the value of the <math>TAX_t</math> term as set out in the "Revenue" sheet of the GD3 Price Control Financial Model.</p>
CAM Activity	<p>means an output, activity or deliverable that the licensee is applying to reallocate under Special Condition 3.8 (Coordinated adjustment mechanism Re-opener).</p>
Car	<p>means a vehicle constructed for passenger carrying with up to eight seats (excluding the driver).</p>
Carry-over Network Innovation Allowance	<p>means the allowance provided by Special Condition 5.3 (Carry-over Network Innovation Allowance) to extend the RIIO-2 NIA for an additional Regulatory Year, and the first half of the following Regulatory Year.</p>
CDSP Costs	<p>means costs incurred, or expected to be incurred, by the licensee for the purposes of meeting its obligations under</p>

	Standard Special Condition A15 (Central Data Services Provider).
Charging Methodology	means the methodology in relation to charging in respect of a transportation arrangement established pursuant to paragraph 5 of Standard Condition 4A (Obligations as Regards Charging Methodology).
Collaborative Streetworks Governance Document	means the document of that name issued by the Authority in accordance with Special Condition 4.5 (Collaborative streetworks output delivery incentive).
Collaborative Streetworks Minimum Projects	<p>means streetworks undertaken which meet the following minimum criteria:</p> <ul style="list-style-type: none"> <li>(a) 0.2km minimum length, except in cases where the project is deemed of strategic importance by the central coordinator;</li> <li>(b) level two collaboration at a minimum, as defined in the document titled "Collaboration Manual: A guide to the coordinated delivery of utility infrastructure" published by the London Borough of Croydon with Atkins and flux;</li> <li>(c) a minimum of two Statutory Undertakers, or a minimum of one Statutory Undertaker and a local authority, undertaking physical works in the road or pathway; and</li> <li>(d) project must represent a permanent solution, not a temporary repair.</li> </ul>
Collaborative Streetworks Projects	means streetworks which are either Collaborative Streetworks Minimum Projects or Collaborative Streetworks Strategic Projects.
Collaborative Streetworks Strategic Projects	<p>means streetworks undertaken that are deemed strategically important by the local authority. These works are identified based on local knowledge, operational priorities, or broader infrastructure goals. Strategic importance may be attributed to works that meet one or more of the following criteria:</p> <ul style="list-style-type: none"> <li>(a) locations with historic leakage and/or bursts;</li> <li>(b) works undertaken in advance of planned public spaces and infrastructure schemes;</li> <li>(c) activities affecting cross borough boundaries where coordination is required (e.g. traffic management);</li> <li>(d) collaborations with utilities, local authorities and/or transport bodies that offer opportunities to develop best practices e.g data sharing and digital tools for better</li> </ul>

	<p>decision-making, joint traffic management strategies and use of innovative materials or methods; and</p> <p>(e) works in or near sensitive or high-impact locations such as schools, hospitals, emergency services (fire, ambulance), transport hubs, or major stations.</p>
Company Specific VCMA Project	means a VCMA Project which is funded by one of the following: Cadent Gas Ltd, Northern Gas Networks Ltd, the SGN Group and Wales & West Utilities Ltd.
Company Tax Return	means the financial information that the licensee is required to file with His Majesty's Revenue and Customs each year for the purposes of calculating its Actual Corporation Tax liability.
Competition and Markets Authority	means the Competition authority established under section 25 of the Enterprise and Regulatory Reform Act 2013.
Complaint	has the meaning given to that term in The Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008, as amended from time to time.
Complex Disconnection	means those disconnections that are fully disconnected as near as reasonably practicable to the main which includes excavation in the public highway.
Complex Distribution System	<p>means MOB's which consist entirely of industrial and/or commercial units that do not meet the classification of either High-rise or Medium rise buildings. They are a multi-occupancy commercial premise such as a school, hospital or shopping centre where:</p> <p>(a) There are extended lengths of pipework and other gas network owned infrastructure e.g. pipework or valves, installed on, in, along, or over the building, and/or;</p> <p>(b) The system supplies three or more meter points.</p>
Connection Charge	means a charge calculated in accordance with the connection charging methodology established under Standard Licence Condition 4B (Connection Charging Methodology).
Connections Element	means the element of the Customer Satisfaction Survey that measures customer satisfaction in relation to connections work carried out by the licensee as defined in the RIGs.
Consumer Prices Index Including Owner Occupiers' Housing Costs	means the monthly values of the "CPIH All Items", series ID "L522", published by the Office for National Statistics (or any other public body acquiring its functions).

Consumer Outcome	<p>means:</p> <p>(a) the expected benefits to existing and future consumers in terms of maintenance of existing levels of, or improvements in the Distribution Networks' capability or resilience; or</p> <p>(b) the expected benefits to consumers in terms of service quality over what would have been the whole life of the output specified in the relevant special condition had it been delivered as specified. In the context of works delivered by the licensee, this means the benefits to customers or consumers in terms of maintenance of existing levels of, or improvements in the network's capability or resilience, or benefits to consumers in terms of service quality, that can be attributed to, and reasonably expected from, the works delivered by the licensee over the whole life of the works delivered.</p>
Cost-Benefit Analysis	means any analysis that considers, as appropriate, both the tangible costs (for example, the cost of replacement) and intangible costs (for example, costs associated with injury or loss of life) associated with, and benefits delivered by, an investment option or range of options.
COVID-19 Bad Debt	means Bad Debt owed to the licensee by one or more COVID-19 Defaulting Gas Shippers.
COVID-19 Defaulting Gas Shipper	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.
COVID-19 Scheme	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'.
Critical National Infrastructure	<p>means those critical elements of infrastructure (namely assets, facilities, systems, networks or processes and the essential workers that operate and facilitate them), the loss or compromise of which could result in:</p> <p>(a) major detrimental impact on the availability, integrity or delivery of essential services – including those services whose integrity, if compromised, could result in significant loss of life or casualties – taking into account significant economic or social impacts; or</p> <p>(b) significant impact on national security, national defence, or the functioning of the state.</p>

Cross-Utilities Collaborative VCMA Project	means a VCMA Project in which one or more of the Gas Distribution Networks (Cadent Gas Ltd, Northern Gas Networks Ltd, the SGN Group and Wales & West Utilities Ltd) collaborate with one or more other utilities across energy, water and telecoms.
Current Monetised Risk	means the Monetised Risk of an existing asset or group of assets, based on the most recently gathered or derived Asset Data.
Customer Satisfaction Survey	means the survey used to measure the extent to which customers are satisfied with the service provided by the licensee in relation to planned, unplanned and connections gas supply work.
Cyber Resilience Plan	means a plan of the sort that the licensee was invited to submit a Cyber Resilience Business Plan at Chapter 3 of the document titled “RIIO-3 - NIS-R Cyber Resilience Business Plan Assessment Methodology and Requirement”, published by the Authority on 30 September 2024.
Cyber Resilience Allowances Table	means the table of that name in the document identified in Appendix 1, to Special Condition 3.2 (Cyber Resilience Allowances Table) by its title and publication date.
Cyber Resilience PCD Table	means the table of that name in the document identified in Appendix 2 to Special Condition 3.2 (Cyber Resilience PCD table) by its title and publication date.
Cyber Resilience Re-opener Allowances Table	means the table of that name in the document identified in Appendix 3 to Special Condition 3.2 (Cyber Resilience Re-opener Allowances Table) by its title and publication date.
Cyber Resilience UIOLI Allowances Table	means the table of that name in the document identified in Appendix 4 to Special Condition 3.2 (Cyber Resilience Use It Or Lose It Allowances Table) by its title and publication date.
Data Best Practice Guidance	means the guidance document issued by the Authority in accordance with Part D of Special Condition 9.5 (Digitalisation).
Data Sharing Infrastructure (DSI)	means a digital infrastructure that comprises of the technologies and common data standards to facilitate seamless and secure data sharing between multiple entities.
Decarbonisation Project Development Use It Or Lose It	means the use it or lose it allowance provided by Special Condition 3.5 (Decarbonisation Project Development use it or lose it allowance).

Decarbonisation Project Development UIOLI Governance Document	means the document of that name issued by the Authority in accordance with Part B of Special Condition 3.5 (Decarbonisation Project Development use it or lose it allowance).
Decommissioning	means, in relation to any main: <ul style="list-style-type: none"> <li>(a) removing the main from physical operation;</li> <li>(b) inserting a new polyethylene main for which the existing service acts merely as a guide;</li> <li>(c) applying an internal lining of sufficient strength and durability to comply with Regulation 5 of the Pipelines Safety Regulations 1996; or</li> <li>(d) any other means of rendering the existing non-polyethylene main safe as agreed with HSE.</li> </ul>
Defaulting Gas Shippers	means a Gas Shipper, which has failed to make payments to the licensee in accordance with the Uniform Network Code.
Delayed	means where the licensee has not delivered the output set out in the relevant special condition in full by the relevant delivery date, but intends to deliver the output in full or in part at a later date.
De Minimis Business	has the meaning given to that term in Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing).
Digital Platform for Leakage Analytics	means the digital system developed by Cadent Gas Limited under Ofgem's Strategic Innovation Fund (SIF) programme in RIIO-2. The platform provides a single point for combining network asset emissions data, supports intervention decisions and enables standardised, measurement-based reporting of gas leakage and shrinkage.
Digitalisation	means using Energy System Data and digital technology to generate benefits for consumers and stakeholders.
Digitalisation Action Plan	means a document prepared and published by the licensee in accordance with Part B of Special Condition 9.5 (Digitalisation).
Digitalisation Strategy	means a document prepared and published by the licensee in accordance with Part A of Special Condition 9.5 (Digitalisation).
Directly Remunerated Services	has the meaning given to that term in Part A of Special Condition 9.7 (Directly Remunerated Services).

Disaggregated Network Risk Output	means a disaggregated component of the Baseline Network Risk Outputs or Outturn Network Risk Outputs into units appropriate for investment planning or delivery assessment purposes. Disaggregation may, for example, be at project, asset category, or intervention level, or combinations of these.
Disapplication Date	means the date proposed by the licensee under a Disapplication Request on and after which the specified Relevant Special Conditions (or any part if it) would cease to have effect.
Disapplication Notice	means the notice under Special Condition 9.6 (Disapplication of Relevant Special Conditions) that terminates the application of the Relevant Special Conditions (or any part or parts of them) specified in that request.
Disapplication Request	means a request under Special Condition 9.6 (Disapplication of Relevant Special Conditions) to consent to the disapplication of the Relevant Special Conditions (in whole or in part).
Distributed Entry Connections	means a facility which is connected to the network whose purpose is to inject gas onto the network.
Distribution Network	has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).
Diversion	has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).
Diversion Costs	means costs directly incurred, or expected to be so incurred by the licensee as a result of the relocation of existing gas assets: <ul style="list-style-type: none"> <li>(a) to accommodate third-party works for mains and associated services, other than costs which are recoverable directly from the customer or supplier; or</li> <li>(b) where the licensee is obligated to divert existing gas assets, to avoid Loss of Development Claim costs, where the licensee can demonstrate that it has used reasonable endeavours to challenge both the basis of the claim and the quantum of the costs involved.</li> </ul>
DN Operator	has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).
Domestic Premises	has the meaning given to that term in the RIGs.



Domestic Sized Meter	means designated for a maximum rate of gas flow which does not exceed 6m <sup>3</sup> /hr.
DSAP Guidance	means the guidance document issued by the Authority in accordance with Part C of Special Condition 9.5 (Digitalisation).
Efficiency	<p>means expenditure decision making by the licensee that resulted in lower costs than could have been reasonably expected at the time of submitting the Business Plan. This does not include:</p> <p>(a) where costs lower costs have been achieved by delivering a lower Consumer Outcome than would have been achieved if the licensee had delivered the output as specified in the relevant special condition; or</p> <p>(b) where expenditure decisions were the result of factors beyond the reasonable control of the licensee including, but not limited to growth in demand for the licensee's services or government policy.</p>
Economic Test	means a financial assessment tool operated by the DN Operators that is designed to identify new connections in respect of which the level of investment would be considered 'uneconomic', and so avoids existing customers subsidising the new firm connection.
EJP	means engineering justification paper.
Electricity System Operator Licence	means a licence granted or treated as granted under section 6(1)(da) of the Electricity Act 1989.
Eligible CNIA	means the amount of expenditure spent or accrued by the licensee in respect of Eligible CNIA Projects.
Eligible CNIA Internal Expenditure	means the amount of Eligible CNIA spent or accrued on the internal resources of the licensee.
Eligible CNIA Projects	means RIIO-2 NIA projects on which work commenced prior to 31 March 2026, pursuant to the requirements of the RIIO-2 NIA Governance Document.
Eligible SIF Project	means a project undertaken by the licensee or any other Gas Transporter Licensee or the ISOP that the Authority assess as satisfying such requirements of the SIF Governance Document as are necessary to enable the project to be funded under the SIF Funding Mechanism.
Energy System Data	has the meaning given to that term in the Data Best Practice Guidance.

Engineering Guidance Document	means a guidance document developed pursuant to Part F of Special Condition 9.2 (Network Asset Risk Metric methodology).
Environmental Action Plan	means the document of that name that the licensee submitted as part of its Business Plan.
Environmental Action Plan Commitments	means the actions and initiatives that the licensee proposed in their Environmental Action Plan to undertake over the course of the Price Control Period.
Environmental Development	means a change in circumstances related to new or amended legislative requirements that relate to the licensee's impact on the environment that are contained within or could have been contained within the licensee's Environmental Action Plan.
Environmental Reporting Guidance	means the document of that name issued by the Authority in accordance with Part B of Special Condition 9.1 (Annual Environmental Report).
Equally Challenging	means presenting equal or higher challenge to the licensee compared to the Baseline Network Risk Outputs, where challenge relates to the scope for a licensee to over-deliver by carrying out the same volume of interventions but selecting different assets for intervention from those assumed in the setting of the Baseline Network Risk Outputs, and the proportionate levels of over-delivery and under-delivery of Baseline Network Risk Outputs resulting from higher or lower level of intervention volumes.
Equivalent Customers	means customers connected to the licensee's network other than customers whose premises are connected to an Independent System.
Evaluative PCD	means a Price Control Deliverable where the relevant licence condition states that the Authority will consider making an adjustment to allowances where an output has not been Fully Delivered.
Ex-Ante Base Revenue	for the relevant distribution network, has the value:  EoE: £875.4m  Lon: £630.7m  NW: £603.6m  WM: £453.0m  Northern Gas Networks Ltd: £592.5m

Scotland Gas Networks plc: £464.1m

Southern Gas Networks plc: £988.4m

Wales & West Utilities Ltd: £632.6m

for each Regulatory Year.

Excessive Deterioration	means the performance level at which substantial deterioration is clearly evident and the maximum penalty level is incurred.
Forecast Monetised Risk	means the Monetised Risk of an asset or group of assets expected to be in operation on a network in a given future scenario, based on the forecast view of Asset Data for the given scenario.
Full PCD Report	has the meaning given to that term in the PCD Reporting Requirements and Methodology Document.
Full DPLA Rollout	<p>means a full implementation of the Digital Platform for Leakage Analytics across all applicable network pressure tiers, comprising:</p> <ul style="list-style-type: none"><li>(a) the observed measurement component, which involves the deployment and use of in-field sensor data for low pressure and medium pressure networks, and fixed and/or hand-held technologies at above ground installations; and</li><li>(b) the probabilistic modelling component, which involves the application of probabilistic hydraulic modelling techniques for intermediate pressure and high pressure networks.</li></ul>
Fully Delivered	means where the output specified in the relevant licence condition has been delivered to the full specification on or before the delivery date specified in that licence condition.
Fully Delivered With An Alternative Specification	means where the licensee has delivered a different specification to that set out in the relevant special condition, while achieving a Consumer Outcome that is materially equivalent or better than what would have been achieved if the licensee had delivered the output as set out in the relevant special condition.
Fully Structural Lining Solution	means remediating a pipeline which does not rely on the structural integrity of the existing pipeline. The liner is capable of coping with both the internal and external pressures and environments.

Funding Return	is the total amount, in respect of the licensee, of any amounts arising under the Funding Return Mechanism.
Funding Return Mechanism	means the mechanism that provides for the recovery from the licensee and from other Gas Transporter Licensees, in each case to such extent (if any) as may be relevant, of: <ul style="list-style-type: none"> <li>(a) Halted Project Revenues;</li> <li>(b) Disallowed Expenditure;</li> <li>(c) Returned Royalty Income; and</li> <li>(d) Returned Project Revenues.</li> </ul>
Gas Shipper	has the meaning given to that term in section 7A(11) of the Act.
Gas System Planner Licence	means a licence granted or treated as granted under section 7AA of the Act.
Gas Transporter Licensee	means the holder of a licence granted under section 7 of the Act.
GD2/GD3 Crossover Item	means an output, Price Control Deliverable or activity: <ul style="list-style-type: none"> <li>(a) that is funded in part or in full by a mechanism specified in the licence as in force on 31 March 2026; and</li> <li>(b) in the delivery of which the licensee, acting reasonably and efficiently, has incurred or is expected to incur expenditure during the Price Control Period.</li> </ul>
GD2/GD3 Crossover Submission Requirements and Guidance Document	means the document issued by the Authority in accordance with Part D of Special Condition 3.32 GD2/GD3 crossover adjustment (GD2ACAt)
GD2 Legacy Price Control Financial Model	means a modified version of the GD2 Price Control Financial Model as that term is defined in Special Condition 1.1 (Interpretation and definitions) of this licence as in force on 31 March 2026.
GD3 Price Control Financial Handbook	means the document of that name published by the Authority to come into effect on 1 April 2026 and that includes specific information and advice about the operation of the GD3 Price Control Financial Model.
GD3 Price Control Financial Model	means the model of that name that was first published by the Authority to come into effect on 1 April 2026.
GD3 Price Control Financial Instruments	means the GD3 Price Control Financial Handbook and the GD3 Price Control Financial Model.

GD3 Price Control Financial Model Working Group	means the working group identified in and whose terms of reference are set out in Chapter 2 of the GD3 Price Control Financial Handbook.
GDN Collaborative VCMA Project	means a VCMA Project which is funded by more than one of the following: Cadent Gas Ltd, Northern Gas Networks Ltd, the SGN Group and Wales & West Utilities Ltd.
General Reinforcement	means reinforcing the network to maintain exit and entry supply resilience and operational safety. This includes, but is not limited to, laying or upsizing existing mains, parallel laying of new mains, installation or modification of governors, and installation or modification of pressure management systems, as well as entry reinforcement activities in relation to pipelines, compressors, pressure management, storage and NTS offtake metering for low flow. These activities are not subject to the Economic test and could be unattributable increments of a reinforcement project that are not fully allocated to specific customers in accordance with the connection charge methodology.
Great Britain	means the landmass of England, Wales and Scotland, including internal waters.
Safety Disconnection	means a disconnection undertaken by the licensee in accordance with its obligations under regulation 14 of the Pipeline Safety Regulations 1996 and in recognition of the overlapping obligation on suppliers under regulation 16 (3) of the Gas Safety (Installation and Use) Regulations 1998.
Heat Policy Area	means any of the following: <ul style="list-style-type: none"> <li>(a) the quality and composition of gas permitted to be conveyed through the pipeline network, as set out in, the Gas Safety (Management) Regulations 1996 or Gas (Calculation of Thermal Energy) Regulations 1996;</li> <li>(b) the connection charging arrangements for Distributed Entry Connections, as set out in the connection charging methodology required by Standard Licence Condition 4B (Connection Charging Methodology);</li> <li>(c) the connection charging arrangements for domestic premises seeking connection to the Distribution Network, as set out in Standard Licence Condition 4B;</li> <li>(d) the associated costs from a government decision on hydrogen for heating or other government heat policy decision.</li> </ul>
HGV	means a heavy goods vehicle with a gross vehicle weight of no less than 7,000kg.

HSE	means the Health and Safety Executive or any public body acquiring its functions.
IGEM/TD/1	means the Institute of Gas Engineers & Managers standard for steel pipelines and associated installations for high pressure gas transmission.
Improvement Plan	means a plan of the sort that the licensee submits as part of their Network and Information Systems (NIS) compliance reporting requirements each year as set under the 'NIS Guidance for Downstream Gas and Electricity Operators of Essential Services in Great Britain v2.0' last published by the Authority on 1st April 2022 (or after if or when a new version is made available).
Included Mains	means all mains which prior to Decommissioning were mains that operated at low, medium, or intermediate distribution pressures and consisted of materials other than Standard Mains Materials (and includes all decommissioned, transferred, or replaced services).
Independent System	has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).
Independent System Operator and Planner (ISOP)	means the person for the time being designated as the Independent System Operator and Planner under section 162 of the Energy Act 2023 who holds an Electricity System Operator Licence and Gas System Planner Licence.
Information Gathering Plan	means a plan required to be prepared by Part E of Special Condition 9.2 (Network Asset Risk Metric methodology).
Innovation	means: <ul style="list-style-type: none"> <li>(a) solutions that have been trialled by any Network Licensee as part of a RIIO-2 Network Innovation Allowance project pursuant to the requirements of the RIIO-2 NIA Governance Documents or a RIIO-3 NIA Project; or</li> <li>(b) involves the application of technology, systems or processes that were not proven as at the time of submission of the Business Plan.</li> </ul>
Iron Mains Risk Reduction Programme	means the HSE mandated programme of work that addresses the failure of at risk iron gas mains and the consequent risk of injuries, fatalities and damage to buildings.
IT	means a licensee's information technology for business systems that relate to the use of computers, software,

	hardware and other systems and devices to perform business operations.
Joint Office of Gas Transporters	means the body established by Gas Transporter Licensees in compliance with Standard Special Condition A12 (Joint Office Governance Arrangements).
Large Van	means a van with a gross vehicle weight of no less than 3,500kg.
LDZ	has the meaning given to that term in the Network Code.
Leakage	means gas lost from the relevant LDZ during transportation which has been released into the atmosphere.
Legacy Safety Disconnections	means Safety Disconnections undertaken by licensees before the start of RIIO-GD3 as Simple Disconnections.
Licensed Activity	means the activities of the licensee connected with the development, administration, maintenance and operation of the Distribution Network and with the Supply Of Distribution Network Services.
Liquefied Natural Gas Import Or Export Facility	means containers for the storage of liquefied natural gas operated by the licensee and any other facilities used by the licensee in connection with the storage of liquefied natural gas in Great Britain which both are operated by the person who holds this licence and were so operated at a time during the period of 12 months ending with 1 March 1996.
Liquefied Petroleum Gas	means a mix of hydrocarbon gases including propane and butane in accordance with the engineering standard titled 'British Standard European Norm 589:2018 Automotive Fuels. LPG. Requirements and test methods'.
Local Area Energy Plan	means a plan owned by a local authority that has been developed in the context of achieving net zero and on which a range of stakeholders including Network Licensees have been invited to comment.
Long-term Monetised Risk	means the Monetised Risk measured over a defined period of time greater than one year from a given start date and equal to the cumulative Single-year Monetised Risk values over the defined period.
Loss of Development Claim	means costs incurred, or expected to be incurred, by the licensee in relation to settling any claims from landowners whose land contains network assets, which relate to: <ul style="list-style-type: none"> <li>(a) loss of land development;</li> <li>(b) sterilised minerals;</li> </ul>

	<p>(c) landfill and tipping; and</p> <p>(d) power generation</p> <p>where the licensee can demonstrate that it has used reasonable endeavours to challenge both the basis of the claim and the quantum of the compensation sought.</p>
Mains Risk Prioritisation Score	means the score provided by the mains risk prioritisation system used to calculate the safety risk of explosion incidents, injuries, fatalities and damage to buildings from mains remaining in use.
Major Incident	means a loss of supply to greater than 250 customers following a single incident.
Material Classification Protocol	means a document published by Streetworks UK and coming into effect on 1 <sup>st</sup> October 2025.
Materiality Threshold	<p>for the relevant distribution network, has the value:</p> <p>EoE: £8.8m</p> <p>Lon: £6.3m</p> <p>NW: £6.0m</p> <p>WM: £4.5m</p> <p>Northern Gas Networks Ltd: £5.9m</p> <p>Scotland Gas Networks plc: £4.6m</p> <p>Southern Gas Networks plc: £9.9m</p> <p>Wales &amp; West Utilities Ltd: £6.3m</p>
Mature Innovation	<p>in relation to the Digitalisation Re-opener means a product or service that has:</p> <p>(a) progressed through network innovation spending, such as the SIF, NIC, or NIA, to the point where it is ready to be considered as part of business-as-usual operations; or</p> <p>(b) is the result of industry-wide activities relating to the modernisation of regulatory reporting</p>
Medium Van	means a van with a gross vehicle weight of greater than 2,100kg and less than 3,500kg.
MOB Riser Interruptions	has the meaning given to that term in the RIGs.
Monetised Risk	means an estimation of Asset Risk as derived in accordance with the NARM Methodology as well as the similarly



	derived estimated risks associated with aggregated asset groupings, and disaggregated sub-components, as relevant.
Monetised Risk Benefit	<p>means the risk benefit delivered or expected to be delivered by an Asset Intervention, which:</p> <ul style="list-style-type: none"> <li>(a) is the difference between without intervention and with intervention Monetised Risk;</li> <li>(b) can be measured over one year or over a longer period of time; and</li> <li>(c) includes both direct (i.e. on the asset itself) and indirect (i.e. on adjacent assets or on the wider system) risk benefits.</li> </ul>
Multiple Occupancy Building	<p>means buildings containing a minimum of three individual premises, each with a separate supply point and supplied via an internal or external riser, and where at least one of those premises is more than two floors above ground level. The premises may be domestic, non-domestic, or a combination of the two. Buildings where all premises on the third floor or above are supplied through individual pipes, with the meter and emergency control valve located at a lower level, are not included. MOB's are categorised as medium-rise (3 – 5 floors), high-rise (6 – 9 floors) or high risk (10+ floors).</p>
NARM Asset	<p>means an asset specified within the NARM Methodology where its associated Monetised Risk can be estimated by applying the NARM Methodology.</p>
NARM Asset Category	<p>means a group of assets with similar functions and design as specified in the NARM Methodology.</p>
NARM Handbook	<p>means the document of that name issued by the Authority and maintained under Special Condition 3.1 (Baseline Network Risk Outputs) that:</p> <ul style="list-style-type: none"> <li>(a) sets out the methodology for calculating relevant funding adjustments and penalties as a result of Outturn Network Risk Outputs being different to Baseline Network Risk Outputs; and</li> <li>(b) provides guidance to the licensee on providing justification for over-delivery and under-delivery; the treatment of Non-Intervention Risk Changes and the meaning and treatment of 'clearly identifiable over-delivery' and 'clearly identifiable under delivery'.</li> </ul>
NARM Methodology	<p>means the methodology established pursuant to Special Condition 9.2 (Network Asset Risk Metric methodology).</p>

NARM Objectives	means the objectives set out in Part B of Special Condition 9.2 (Network Asset Risk Metric methodology).
National Balancing Point	has the meaning given to this term in the Approved Market Price Report.
National Risk Register	means the UK Government's official public assessment of the most serious risks facing the UK, including malicious threats, accidents, system failures, natural and environmental hazards, and other risks that could impact critical national infrastructure, as published by the Cabinet Office: <a href="#">National Risk Register 2025 - GOV.UK</a>
Natural And Environmental Hazards	means hazards as described in the National Risk Register, including storms, flooding (coastal, fluvial, surface water), drought, wildfire, extreme temperatures, earthquakes, volcanic eruptions, severe space weather.
National Underground Asset Register	is a digital map of underground pipes and cables in England, Wales and Northern Ireland funded by asset owners under the Data (Use and Access) Act 2025.
NCSC Cyber Assessment Framework	means the cyber assessment framework (CAF), issued by the NCSC, which provides a structured methodology for evaluating and enhancing organisational cyber resilience. It comprises 16 principles addressing governance, risk management, and technical controls, offering a consistent basis for assessing compliance and maturity. The framework is outcome-focused rather than prescriptive, enabling organisations to evidence progress toward robust cybersecurity.
NCSC CAF Contributing Outcomes	means the 39 specific cybersecurity objectives within the NCSC Cyber Assessment Framework (CAF), each aligned to one of 16 CAF principles and designed to help organisations demonstrate and improve their cyber resilience through measurable progress ratings such as "Not Achieved", "Partially Achieved", or "Achieved".
Net Zero Carbon Targets	means the targets set out in: <ul style="list-style-type: none"> <li>(a) section 1 of the Climate Change Act 2008;</li> <li>(b) section A1 of the Climate Change (Scotland) Act 2009; and</li> <li>(c) section 29 of the Environment (Wales) Act 2016.</li> </ul>

Net Zero Development	<p>means a change in circumstances related to the achievement of the Net Zero Carbon Targets that is:</p> <ul style="list-style-type: none"> <li>(a) a change in national government policy (including policies of the devolved national parliaments);</li> <li>(b) a change in local government policy;</li> <li>(c) the successful trial of new technologies or other technological advances;</li> <li>(d) a change in the pace or nature of the uptake of low carbon technologies; or</li> <li>(e) a new obligation arising from the agreement of a Local Area Energy Plan or an equivalent arrangement.</li> </ul>
Network Asset	means the assets that collectively form the pipeline system to which this licence relates, and includes the principal components of those assets.
Network Asset Risk Metric	means the Monetised Risk associated with a NARM Asset or the Monetised Risk Benefit associated with a NARM Asset Intervention.
Network Asset Risk Workbook	<p>means the workbook of that name in Microsoft Excel® format issued by the Authority and maintained under Special Condition 3.1 (Baseline Network Risk Outputs) that contains the following data:</p> <ul style="list-style-type: none"> <li>(a) Baseline Network Risk Outputs;</li> <li>(b) Disaggregated Network Risk Outputs</li> <li>(c) the baseline funding associated with the Disaggregated Network Risk Outputs;</li> <li>(d) Asset Intervention underlying the Disaggregated Network Risk Outputs; and</li> <li>(e) records of results from Rebasing exercise.</li> </ul>
Network Charges	means charges made or levied, or to be made or levied, on any person by the licensee for the provision of services as part of its Licensed Activity.
Network Code	has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).
Network Licensee	means the holder of a licence granted under section 7 of the Act or section 6(1)(b) or (c) of the Electricity Act 1989.
Network Risk Output	means the risk benefit delivered or expected to be delivered by an Asset Intervention and is calculated as the difference between Monetised Risk values associated with the "without intervention scenario" and the "with intervention

	scenario" measured over a one-year period from the end of the Price Control Period.
New Large Load Connections	<p>means:</p> <p>(a) any person seeking connection, or significant alteration to existing connection for the purpose of entering gas onto the Distribution Network which is subject to the Economic Test: or</p> <p>(b) any person seeking connection, or significant alteration to existing connection for the purpose of offtaking gas from the Distribution Network with a maximum offtake capacity in excess of 1500 standard cubic metres per hour, which is subject to the Economic Test.</p>
Network Innovation Allowance (NIA)	means the Network Innovation Allowance provided by Special Condition 5.2 (RIIO-3 Network Innovation Allowance).
NIC	means the arrangements known as the network innovation competition established by Special Condition 1I (The Network Innovation Competition) of this licence as in force on 31 March 2021.
NIC Governance Document	means the document of that name maintained by the Authority in accordance with Part B of Special Condition 7.7 (RIIO-GD1 network innovation competition) of this licence as in force on 31 March 2026.
NIS-R	The Network and Information Systems Regulations 2018, UK law implementing the EU NIS Directive, which sets security and incident reporting requirements for Operators of Essential Services (e.g., energy, transport, water, health) and Relevant Digital Service Providers (e.g., cloud services, online marketplaces) to improve resilience against cyber and physical threats.
NRO	A NIS Responsible Officer (NRO) is a formally designated individual within an Operator of Essential Services (OES) who holds overall responsibility the OES's compliance with the NIS-R.
Non-intervention Risk Changes	means the factors set out in the NARM Handbook that are unrelated to the licensee's Asset Interventions and impact the licensee's Outturn Network Risk Outputs.
Not Delivered	means where the licensee has not delivered the output as set out in the relevant special condition in full or in part by the relevant delivery date and does not intend to deliver the output in full or in part at a later date.

NTS	has the meaning given to that term in the Network Code.
NTS Exit Flat Capacity	has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).
NTS Exit Flat Capacity Costs	means the total costs incurred by the licensee for NTS Exit Flat Capacity in respect of all NTS offtakes, less any revenues received from the NTS Operator in respect of NTS Exit Flat Capacity.
NTS Exit Flex Capacity	has the meaning given to the term “NTS Exit (Flexibility) Capacity” in the Uniform Network Code.
NTS Exit Flex Capacity Costs	the total costs incurred by the licensee for NTS Exit Flex Capacity in respect of all NTS offtakes less any revenues received from the NTS Operator in respect of NTS Exit Flex Capacity.
NTS Operator	has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).
Ombudsman Finding Against The Licensee	<p>means a decision by the Energy Ombudsman where the licensee is required to:</p> <ul style="list-style-type: none"> <li>(a) make a payment in respect of the relevant Distribution Network which is greater than that previously offered to the complainant;</li> <li>(b) change its processes beyond what it had previously indicated to the complainant that it would; or</li> <li>(c) both (a) and (b)</li> </ul> <p>as clarified in the RIGs.</p>
Operational Performance	is a measure of returns which includes totex and output delivery incentive performance but excludes performance on debt, tax, and the business plan incentive. It also excludes the baseline allowed return on equity.
Outturn Network Risk Output	means the Monetised Risk Benefit delivered during the Price Control Period through the licensee’s Asset Interventions and derived so as to give a fair and accurate reflection of the licensee’s delivery when compared against Baseline Network Risk Outputs as part of the Authority’s assessment of the licensee’s overall delivery of its Baseline Network Risk Outputs.
Outturn Workload Of Tier 1 Mains Decommissioned	means the volume of Decommissioning at a Tier 1 Mains Decommissioned Workload Activity level as delivered throughout the Price Control Period.

Outturn Workload Of Tier 1 Services Repex	means the volume of services at a Tier 1 Services Repex Workload Activity level as delivered throughout the Price Control Period.
Outturn Workload Value of Tier 1 Mains Decommissioned	means the value of the total volume of Decommissioning at a Tier 1 Mains Decommissioned Workload Activity level as delivered throughout the Price Control Period.
Parent Main	means the gas distribution main to which a new service connection is being connected.
Partial DPLA Rollout	means the limited implementation of the Digital Platform for Leakage Analytics, either: <ul style="list-style-type: none"> <li>a) restricted to the observed measurement component only, involving the deployment and use of in-field sensor data for low pressure and medium pressure networks and fixed and/or hand-held technologies at above ground installations, without the inclusion of the probabilistic modelling component for intermediate pressure and high pressure networks; or</li> <li>b) an alternative form of implementation that is not the Full DPLA Rollout.</li> </ul>
Partially Delivered	means where the licensee has delivered some, but not all of the output specified in the relevant special condition.
Partially Delivered With Alternative Specification	means where the licensee has delivered a different specification to that set out in the relevant special condition, while achieving only part of the Consumer Outcome that would have been achieved if the licensee had delivered the output as set out in the relevant special condition.
Partner Licensee	means a Network Licensee or a different Distribution Network of the same Network Licensee that has agreed to accept or transfer responsibility for a CAM Activity.
PCD Reporting Requirements and Methodology Document	means the document of that name issued by the Authority in accordance with Part B of Special Condition 9.3 (Price Control Deliverable assessment principles and reporting requirements).
PCFM Variable Values	means the values in the table of that name in the GD3 Price Control Financial Handbook.
Pension Scheme Established Deficit	means the difference between assets and liabilities, determined at any point in time, attributable to pensionable

	service up to the end of the 31 March 2013 and relating to the Transportation Business under the Authority's Price Control Pension Principles. The term applies equally if there is a subsequent surplus.
Physical Security Upgrade Programme	means the programme of physical security investment at Critical National Infrastructure sites mandated by UK Government, including the programme in place at the start of the Price Control Period and any successor, replacement, or additional programme designated by UK Government during the Price Control Period.
Planned Supply Interruptions Element	means the element of the Customer Satisfaction Survey that measures customer satisfaction in relation to planned supply interruptions work carried out by the licensee.
Prescribed Rates	means: <ul style="list-style-type: none"> <li>(a) business rates in England and Wales;</li> <li>(b) non-domestic rates in Scotland; or</li> <li>(c) any equivalent tax or duty replacing those rates that is levied on the licensee in respect of its Licensed Activity.</li> </ul>
Price Control Deliverable	means the outputs, delivery dates and associated allowances in Special Conditions 3.2, 3.3, 3.9, 3.10, 3.11, 3.19, 3.23, 3.24, 3.25, 3.27, 3.28, 3.29, 3.30 and 3.31.
Price Control Pension Principles	means the principles set out in the Authority's guidance note on price control pension principles issued as Appendix 3 to the decision letter, 'Decision on the Authority's policy for funding Pension Scheme Established Deficits' dated 7 April 2017.
Price Control Period	means the period of five Regulatory Years commencing on 1 April 2026.
PRS	means pressure reduction stations that are installed on gas networks to reduce and control gas pressures.
RAV	means regulatory asset value.
Rebased Baseline Network Risk Output	means a Baseline Network Risk Output that has been revised to give effect to a modified NARM Methodology as approved under paragraph 9.2.9 of Special Condition 9.2 (Network Asset Risk Metric methodology). If approved by the Authority, the Rebased Baseline Network Risk Output will supersede the Baseline Network Risk Output for the purpose of Special Condition 3.1 (Baseline Network Risk Output).

Rebasing	means the process of modifying the Baseline Network Risk Output as set out in Part C of Special Condition 3.1 (Baseline Network Risk Outputs).
Recovered Revenue	has the meaning given to that term in Part B of Special Condition 2.1 (Revenue restriction).
Regulatory Financial Performance Reporting	means the reporting template and associated guidance of the same name that the licensee is required to submit to the Authority in accordance with the RIGs.
Regulatory Reporting Pack	means the reporting templates published by the Authority that must be completed and submitted by the licensee each Regulatory Year in accordance with the RIGs.
Regulatory Year	means a period of twelve months commencing on 1 April at 05:00 and ending on the following 1 April immediately before 05:00.
Relevant Premises	means: <ul style="list-style-type: none"> <li>(a) any premises connected to a system to which this licence relates which was an Independent System on the 31st March 2026 and which remains an Independent System; and</li> <li>(b) any premises subsequently connected, in pursuance of section 10 of the Act, to a system to which this licence relates which was an Independent System on the 31st March 2026 and which remains an Independent System.</li> </ul>
Relevant Shipper	has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).
Relevant Special Condition	means Special Condition 2.1 (Revenue restriction), together with such of the Special Conditions of this licence as is ancillary to the operation of the provisions of Special Condition 2.1 to which a Disapplication Request under Special Condition 9.7 (Disapplication of Relevant Special Conditions) relates.
Relevant Valuation Agency	means: <ul style="list-style-type: none"> <li>(a) the Valuation Office Agency in England and Wales; and</li> <li>(b) the Scottish Assessors Association in Scotland.</li> </ul>
Re-opener	means the mechanisms created by: <ul style="list-style-type: none"> <li>(a) Special Conditions 3.3, 3.4, 3.6, 3.7, 3.8, 3.13, 3.14, 3.15, 3.16, 3.17, 3.20, 3.22 and 3.26;</li> </ul>



	<p>(b) Part C of Special Condition 3.2 (Cyber resilience Price Control Deliverable, cyber resilience Re-opener, and use it or lose it (CYt CYREt, CYUt)); and</p> <p>(c) Part C of Special Condition 3.30 (Mandated category 3 security Price Control Deliverable and Re-opener (MDS<sub>t</sub>)).</p>
Re-opener Guidance and Application Requirements Document	means the document of that name issued by the Authority in accordance with Part B of Special Condition 9.4 (Re-opener Guidance and Application Requirements Document).
Repeat Complaint	means a Complaint where the customer makes contact to express dissatisfaction with the same or substantially the same matter that was the subject of a previously Resolved Complaint within a 12 month period, as may be further clarified in the RIGs.
Repex	means replacement expenditure related to the long term programme of work to replace old and deteriorating mains, risers and services.
Repex Related HSE Policy Area	<p>means:</p> <p>(a) government policy related to Repex including under any of the following pieces of legislation:</p> <ul style="list-style-type: none"> <li>(i) the Pipeline Safety Regulations 1996 Regulation 13A;</li> <li>(ii) the Gas Safety Management Regulations 1996;</li> <li>(iii) the Pressure System Safety Regulations 2000; and</li> <li>(iv) the Health and Safety at Work etc Act 1974, or</li> </ul> <p>(b) an established HSE enforcement policy related to Repex.</p>
Resilience Activity	<p>means an activity undertaken by the licensee in response to changes to engineering standards, climate resilience, resilience standards, or emergency protocols and as result of changes in UK Government policy, including:</p> <p>(a) recommendations made by the ISOP and endorsed by UK Government ; or</p> <p>(b) actions arising from the National Risk Register that impact the licensee's network and relate to:</p> <ul style="list-style-type: none"> <li>(i) System Failures; or</li> <li>(ii) Natural and Environmental Hazards, and other risks requiring resilience measures, where mandated by the UK Government to</li> </ul>

	maintain security of supply or protect Critical National Infrastructure.
Resolved Complaint	means a Complaint in respect of which there remains no outstanding action to be taken by the licensee, as may be further clarified in the RIGs.
RIGs	means the document published by the Authority in accordance with Standard Special Condition A40 (Regulatory Instructions and Guidance).
RIIO Principles	means the principles for the assessment of business plans set out in the document entitled “Decision on strategy for the next gas distribution price control” (Ref 47/11) published by the Authority on 31 March 2011.
RIIO-2 NIA	means the arrangements established by Special Condition 5.2 (RIIO-2 Network Innovation Allowance) of this licence as in force on 31 March 2026.
RIIO-2 NIA Governance Document	means the document issued by the Authority in accordance with Part C of Special Condition 5.2 (RIIO-2 Network Innovation Allowance) as in force on 31 March 2026.
RIIO-3 Final Determinations	means the documents published by the Authority on 4 December 2025 setting out the Authority's decisions in relation to the Price Control Period.
RIIO-3 NIA Governance Document	means the document issued by the Authority in accordance with Part B of Special Condition 5.2 (RIIO-3 Network Innovation Allowance).
RIIO-3 NIA Projects	means those projects undertaken by the licensee that appear to the Authority to satisfy such requirements of the RIIO-3 NIA Governance Document as are necessary to enable the projects to be funded under the provisions of Special Condition 5.2 (RIIO-3 Network Innovation Allowance).
RIIO-GD3 Outputs and Mechanisms	means the licence obligations outputs and mechanisms that the licensee is funded, incentivised and committed to deliver during the Price Control Period.
Risk Score	means a GDN-specific risk score relating to Tier 2 mains as determined by the Mains Risk Prioritisation System common methodology.
RPEs	has the meaning given to the term “Real Price Effects” in the GD3 Price Control Financial Handbook.

Senior Accounting Officer	has the meaning given to that term in Schedule 46 to the Finance Act 2009, as amended from time to time.
Senior Accounting Officer Certificate (SAO2)	means the certificate provided to H.M. Revenue and Customs by the Senior Accounting Officer of the licensee in accordance with Schedule 46 to the Finance Act 2009. This document may be redacted to remove details of entities other than the licensee.
Seven Day Repair Metric	means the percentage of outstanding gas repair jobs that are fully resolved within seven calendar days from the date they were reported or identified.
SGN Group	means Southern Gas Networks plc and Scotland Gas Networks plc.
Shrinkage	means gas lost from a Distribution Network due to Leakage, theft and gas used for operational purposes.
Shrinkage And Leakage Model	means a controlled spreadsheet utilising a combination of asset based calculations that determine overall gas losses from a Distribution Network, whose main components are: low pressure mains and services, medium pressure mains, metallic mains replacement, system pressure data, mono-ethylene glycol treatment, numbers of governors and other above ground installations, venting related to above ground installation operation, interference damages, theft of gas and own use gas.
SIF Directly Attributable Costs	means costs relating to the maintenance and management of intellectual property generated through Eligible SIF Projects undertaken by the licensee that have not been otherwise remunerated by Network Charges, Directly Remunerated Services or the SIF Funding Mechanism.
SIF Disallowed Expenditure	means any revenue received by the licensee from the NTS Operator under the SIF Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the SIF Governance Document or the terms of the relevant SIF Project Direction.
SIF Funding	means the proportion (if any) of the total amount of funding raised by the NTS Operator in accordance with the SIF Funding Mechanism that the Authority determines is to be allocated to the licensee in respect of its Eligible SIF Projects, as adjusted by the amount of any SIF Funding Return

SIF Funding Mechanism	means the mechanism by which the licensee receives the amount of authorised SIF Funding in any Regulatory Year from the NTS Operator, less any SIF Funding Return.
SIF Funding Return	means the total amount, in respect of the licensee, of any amounts arising under the SIF Funding Return Mechanism.
SIF Funding Return Mechanism	<p>means a mechanism which provides for payments to be made by the licensee to the NTS Operator, in each case to such extent (if any) as may be relevant, of:</p> <ul style="list-style-type: none"> <li>(a) SIF Halted Project Revenues;</li> <li>(b) SIF Disallowed Expenditure;</li> <li>(c) SIF Returned Royalty Income; and</li> <li>(d) SIF Returned Project Revenues.</li> </ul>
SIF Governance Document	means the document issued by the Authority under Part C of Special Condition 9.11 (The strategic innovation fund)
SIF Halted Project Revenues	means any revenues received by the licensee from the NTS Operator under the SIF Funding Mechanism in respect of an Eligible SIF Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the SIF Governance Document or the terms of the relevant SIF Project Direction.
SIF Project Direction	means a direction issued by the Authority pursuant to the SIF Governance Document setting out the terms to be followed in relation to an Eligible SIF Project as a condition of its funding under the SIF Funding Mechanism.
SIF Returned Project Revenues	<p>means:</p> <ul style="list-style-type: none"> <li>(a) revenues received by the licensee from the NTS Operator under the SIF Funding Mechanism in respect of an Eligible SIF Project that the Authority determines have not been spent, and where that project has been carried out in accordance with the applicable provisions of the SIF Governance Document and/or the terms of the relevant SIF Project Direction; or</li> <li>(b) revenues earned from an Eligible SIF Project by the licensee other than SIF Returned Royalty Income, that the Authority determines are payable to customers</li> </ul>
SIF Returned Royalty Income	means revenue earned from intellectual property generated through Eligible SIF Projects undertaken by the licensee, less SIF Directly Attributable Costs, and that is payable to customers under the SIF Funding Mechanism, as calculated

in accordance with the provisions of the SIF Governance Document.

**Simple Disconnection** means a disconnection that only involves isolating the gas service at the emergency control valve or at the higher external termination point which is typically at the street or external service pipes, without excavation.

**Single-year Monetised Risk** means the Monetised Risk measured over a given one year time period.

**Small Decarbonisation Projects** means a project that is within the scope of paragraph 3.4.4 (a) to (d) of Special Condition 3.4 (Small Decarbonisation Projects Re-opener).

**Small Decarbonisation Projects Re-opener Governance Document** means the document issued by the Authority in accordance with Part B of Special Condition 3.4 (Small Decarbonisation Projects Re-opener).

**Small Van** means a van with a gross vehicle weight of no more than 2,100kg.

**Specified Amount** has the meaning given to that term in Standard Special Condition A48 (Last Resort Supply: Payment Claims).

**Specified Streetworks Cost** means costs directly incurred, or expected to be incurred, by the licensee as a result of complying with obligations or requirements arising under any orders or regulations made pursuant to Part 3 of the Traffic Management Act 2004 or, in Scotland, the Transport (Scotland) Act 2019 or under any other streetworks legislation applicable to the licensee including:

- (a) one-off set-up costs;
- (b) permit fee costs;
- (c) administrative costs arising from the introduction of permit or lane rental schemes;
- (d) costs arising from the introduction of permit conditions;
- (e) costs arising from changes to working practices required by the introduction or alteration of any code of practice applicable to the licensee;
- (f) costs arising from lane rental charges levied on the licensee by highway authorities;
- (g) costs arising from changes to inspection fees payable by the licensee;

	<ul style="list-style-type: none"> <li>(h) costs arising from changes to the requirements imposed on the licensee in respect of highway reinstatement;</li> <li>(i) costs arising from the introduction of new congestion charging schemes or changes to existing ones; and</li> <li>(j) costs arising from the requirements imposed on the licensee in respect of the new Street Works UK (SWUK) Material Classification Protocol.</li> </ul>
Standard Mains Materials	means polyethylene or any similar polymer-based material (other than polyvinyl chloride), any Fully Structural Lining Solutions or steel that is provided with cathodic corrosion protection.
Statutory Undertaker	means a person to whom a licence may be granted under section 50 and section 109 of the New Roads and Street Works Act 1991.
Strategic Innovation Fund (SIF)	means the strategic innovation fund established by Special Condition 9.11 (The strategic innovation fund).
Supply Of Distribution Network Services	<p>means the undertaking and performance for gain or reward of engagements:</p> <ul style="list-style-type: none"> <li>(a) in connection with the conveyance of gas through the Transportation System;</li> <li>(b) for the prevention of the escape of gas which has been taken off the Transportation System; and</li> <li>(c) relating to the acquisition of capacity rights, gas or gas derivatives for the purpose of: <ul style="list-style-type: none"> <li>(i) the balancing of the Transportation System through the acquisition or disposal of gas to replace gas lost from the Transportation System; and</li> <li>(ii) facilitating constraint management.</li> </ul> </li> </ul>
System Failures	means failures as described in the National Risk Register, including failure of the National Electricity Transmission System (NETS), regional electricity network failure, failure of gas supply infrastructure, simultaneous loss of fixed and mobile communications, loss of positioning, navigation and timing services.
Tax Reconciliation	means the reconciliation between the licensee's Calculated Tax Allowance and its Actual Corporation Tax Liability as reported to the Authority as part of the GD3 Price Control Financial Model.

Tax Strategy	has the meaning given to that term in Schedule 19 to the Finance Act 2016, as amended from time to time. This may be the Tax Strategy of the wider UK corporate group, of which the licensee is a member.
Third Party Damage And Water Ingress Costs	means payments made by the licensee in respect of: <ul style="list-style-type: none"> <li>(a) failures under regulation 7 of the Gas (Standards of Performance) Regulations 2005 to meet the prescribed standard of performance for restoration of supply following interruptions resulting from third party damage and water ingress.</li> <li>(b) failures under paragraph 3.5 of Section J (Exit Requirements) of the Network Code to make gas available for offtake following third party damage and water ingress.</li> </ul>
Threshold Risk Score	means the Mains Risk Prioritisation Score agreed between the licensee and the HSE as part of the licensee's approved programme under regulation 13 of the Pipelines Safety Regulation 1996.
Tier 1 Main	has the meaning given to it in the RIGs.
Tier 1 Mains Baseline Value	means the portion of Totex Allowance that represents the funding for the Baseline Target Workload Of Tier 1 Mains Decommissioned set out in Appendix 3 to Special Condition 3.10 (Tier 1 Mains decommissioned Price Control Deliverable).
Tier 1 Mains Decommissioned Workload Activity	means a specific category of Tier 1 Mains Decommissioning activity, defined on the basis of work type, material type and diameter band.
Tier 1 Service	means a service pipe connected to a Tier 1 Main.
Tier 1 Service Intervention	means remedial action taken on a Tier 1 Service in connection with Tier 1 Mains Decommissioning work.
Tier 1 Services Baseline Value	means the portion of Totex Allowance that represents the funding for the Baseline Target Workload Of Tier 1 Services Repex set out in Appendix 1 to Special Condition 3.11 (Tier 1 Services Repex Price Control Deliverable).
Tier 1 Services Repex Workload Activity	means a specific category of Tier 1 Service Intervention activity, defined on the basis of intervention type.
Tier 1 Stub	means a short length of Tier 1 Main that is connected to a parent main that is not a Tier 1 Main, which meet the criteria for decommissioning under the Iron Mains Risk Reduction Programme providing it meets the specifications

	in the licensee's policy and procedures for implementing and managing their Approved Programmes.
Tier 1 Stubs Decommissioned	<p>means Tier 1 Stubs which have been physically removed or made safe by one of the following replacement designs:</p> <ul style="list-style-type: none"> <li>(a) Insertion;</li> <li>(b) Replacement by open cut;</li> <li>(c) Remote foam bagging;</li> <li>(d) Parent main cut-out; or</li> <li>(e) Other approved replacement design.</li> </ul>
Tier 1 Stubs Investigated But Not Decommissioned	<p>means instances where a Tier 1 Stub has either:</p> <ul style="list-style-type: none"> <li>(a) Been identified in off-site processes, but upon on-site investigation (e.g. digging) has not been found, or</li> <li>(b) Has been found on-site, but has been determined to be suitable, in alignment with HSE criteria, to be left in-situ.</li> </ul>
Total NIA Expenditure	means expenditure that satisfies the requirements of the RIIO-3 NIA Governance Document and is partly recovered by the licensee under Part A of Special Condition 5.2 (RIIO-3 Network Innovation Allowance).
Totex Allowance	means the sum of values under the headings "Variant allowances" and "Non-variant allowances" in the "LicenseeSelect" sheet of the GD3 Price Control Financial Model.
Totex Incentive Mechanism	<p>means the mechanism within the GD3 Price Control Financial Model which provides for the licensee to bear a specified share of any overspend, or retain a specified share of any underspend, represented in either case by a difference between:</p> <ul style="list-style-type: none"> <li>(a) the licensee's Totex Allowance; and</li> <li>(b) the licensee's Actual Totex.</li> </ul>



Totex Incentive Strength	<p>has the value for the relevant Distribution Network set out below:</p> <p>EoE: 50%</p> <p>Lon: 50%</p> <p>NW: 50%</p> <p>WM: 50%</p> <p>Northern Gas Networks Ltd: 50%</p> <p>Scotland Gas Networks plc: 50%</p> <p>Southern Gas Networks plc: 50%</p> <p>Wales &amp; West Utilities Ltd: 50%</p>
Transportation Business	has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).
Transportation Charging Statement	means the statement referred to in paragraph 1 of Standard Special Condition A4 (Charges – General)
Transportation System	has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).
Twenty-Eight Day Repair Metric	means the percentage of outstanding gas repair jobs that are fully resolved within twenty-eight calendar days from the date they were reported or identified.
Uniform Network Code	has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).
Uniform Network Code Transportation Principal Document	means the document of that name published by the Joint Office of Gas Transporters as amended from time to time.
Unplanned Interruption	has the meaning given to that term in the RIGs.
Unplanned Interruption Excessive Deterioration Level	has the value set out in Appendix 1 to Special Condition 4.4 (Unplanned Interruption Mean Duration output delivery incentive).
Unplanned Interruption Mean Duration	has the meaning given to that term in the RIGs.

Unplanned Interruption Mean Duration Penalty	means a penalty calculated under Part A of Special Condition 4.4 (Unplanned Interruption Overall Mean Duration output delivery incentive).
Unplanned Interruption Minimum Performance Level	has the value set out in Appendix 1 to Special Condition 4.4 (Unplanned Interruption Mean Duration output delivery incentive).
Unplanned Supply Interruptions Element	means the element of the Customer Satisfaction Survey that measures customer satisfaction in relation to unplanned supply interruptions work carried out by the licensee.
Use It Or Lose It Adjustment	<p>means an adjustment to allowances where they have not been spent, or have not been spent in a way that is efficient to:</p> <ul style="list-style-type: none"> <li>(a) addressing the licensee’s stated needs to maintain or improve its cyber resilience with respect to the relevant NCSC CAF Contributing Outcomes, in relation to Special Condition 3.2;</li> <li>(b) develop projects in line with Special Condition 3.5 (Decarbonisation Project Development Use It Or Lose It allowance) and the Decarbonisation Project Development UIOLI Governance Document which will not exceed the allowance provided; and</li> <li>(c) develop projects in line with Special Condition 3.21 (Biomethane Distributed Entry Reinforcement use it or lose it allowance) and the Biomethane UIOLI Governance Document which will not exceed the allowance provided.</li> </ul>
Valid Claim	has the meaning given to that term in Standard Special Condition A48 (Last Resort Supply: Payment Claims).
VCMA Project	means a project that meets the eligibility criteria set out in the VCMi Governance Document.
VCMi Governance Document	means the document of that name issued by the Authority in accordance with Part B of Special Condition 5.4 (Vulnerability and carbon monoxide allowance).
Working Day	has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).
Zero Emission Vehicle (ZEV)	means a vehicle that emits no carbon dioxide or other targeted greenhouse gases at the exhaust.

# Chapter 2: Revenue restriction

## Special Condition 2.1 Revenue restriction

### Introduction

- 2.1.1 The purpose of this condition is to place obligations on the licensee in relation to the setting of Network Charges.
- 2.1.2 This condition also establishes the definition of Recovered Revenue ( $RR_t$ ) and provides the formulae for the calculation for Allowed Revenue ( $AR_t$ ).

### Part A: Licensee's obligation when setting Network Charges

- 2.1.3 The licensee must, when setting Network Charges, use its best endeavours to ensure that Recovered Revenue equals Allowed Revenue.
- 2.1.4 The licensee must, when calculating the value of Allowed Revenue, use the latest versions of the GD3 Price Control Financial Model and of the GD3 Price Control Financial Handbook published by the Authority under Special Condition 8.1 (Governance of the GD3 Price Control Financial Instruments).
- 2.1.5 The licensee must publish on its website a copy of the GD3 Price Control Financial Model containing the value of Allowed Revenue it used when setting Network Charges for the Regulatory Year to which the relevant Transportation Charging Statement relates. This must be published together with its final pricing notice prepared in accordance with Standard Special Condition A4 (Charges – General).
- 2.1.6 The licensee must ensure that each copy of the GD3 Price Control Financial Model remains on its website for at least five years.

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

- 2.1.7 Recovered Revenue ( $RR_t$ ) means the revenue received by the licensee from Network Charges, for the Supply of Distribution Network Services to gas shippers, in respect of its Licensed Activity, net of Bad Debt as derived in accordance with Part H of this condition.

### Part C: Formula for calculating the Allowed Revenue term ( $AR_t$ )

- 2.1.8 The value of  $AR_t$  is derived in accordance with the following formula:

$$AR_t = R_t \frac{PI_t}{PI_{2023/24}} + K_t + FP_t + LAR_t$$

where:

- $R_t$  means Calculated Revenue and is derived in accordance with Part D of this condition;
- $PI_t$  means the price index term and is derived in accordance with Part E of this condition;

$PI_{2023/24}$	means the price index term for the Regulatory Year commencing on 1 April 2023 and is derived in accordance with Part E of this condition
$FP_t$	means the forecasting penalty and is derived in accordance with Part G of this condition;
$K_t$	means the K Correction term and is derived in accordance with Part F of this condition; and
$LAR_t$	means the legacy adjustments term and is derived in accordance with Special Condition 7.1 (Legacy adjustments to revenue).

## **Part D: Formula for calculating the Calculated Revenue term ( $R_t$ )**

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

$$R_t = FM_t + PT_t + DPN_t + RTN_t + RTNA_t + EIC_t + DRS_t + CSUB_t + ODI_t + BPI_t + ORA_t + TAX_t + TAXA_t + RPA_t$$

where:

$FM_t$	means fast money and has the value set out in the “Revenue” sheet of the GD3 Price Control Financial Model;
$PT_t$	means the pass-through items term and is derived in accordance with Special Condition 6.1 (Pass-through items);
$DPN_t$	means RAV depreciation and has the value set out in the “Revenue” sheet of the GD3 Price Control Financial Model;
$RTN_t$	means return and has the value set out in the “Revenue” sheet of the GD3 Price Control Financial Model;
$RTNA_t$	means return adjustment and is derived in accordance with Special Condition 2.3 (Return Adjustment);
$EIC_t$	means the allowance for equity issuance costs and has the value set out in the “Revenue” sheet of the GD3 Price Control Financial Model;
$DRS_t$	means Directly Remunerated Services and has the value calculated in the “Revenue” sheet of the GD3 Price Control Financial Model;
$CSUB_t$	means the cross-subsidy adjustment and has the value set out in the “Revenue” sheet of the GD3 Price Control Financial Model;
$ODI_t$	means the total output delivery incentive term and is derived in accordance with Special Condition 4.1 (Total output delivery incentive performance);
$BPI_t$	means the business plan incentive term and has the value set out in the “Revenue” sheet of the GD3 Price Control Financial Model;
$ORA_t$	means total other revenue allowances and is derived in accordance with Special Condition 5.1 (Total other revenue allowances);
$TAX_t$	means the tax allowance and has the value set out in the "Revenue" sheet of the GD3 Price Control Financial Model and is further described in Chapter 6 of the GD3 Price Control Financial Handbook; and

$TAXA_t$  means the tax allowance adjustment term and has the value zero, unless the Authority directs otherwise in accordance with Special Condition 2.2 (Tax allowance adjustment).

$RPA_t$  means the revenue profiling adjustment, has the value set out in the “Revenue” sheet of the GD3 Price Control Financial Model and may be adjusted by the licensee with agreement from the Authority.

### **Part E: Formula for calculating the price index term ( $PI_t$ )**

2.1.10 The value of  $PI_t$  is the arithmetic average of each of the twelve monthly values of  $PI_m$  from 1 April to 31 March within Regulatory Year  $t$ , derived in accordance with the following formula:

$$PI_m = PI_{m-1} \cdot \frac{CPIH_m}{CPIH_{m-1}}$$

where:

$m$  refers to a year and month; and

$CPIH_m$  means the Consumer Prices Index Including Owner Occupiers' Housing Costs for the year and month  $m$ .

### **Part F: Correction term ( $K_t$ )**

2.1.11 For Regulatory Years commencing prior to or on 1 April 2026, the value of  $K_t$  is zero.

2.1.12 For Regulatory Years commencing after 1 April 2026, the value of  $K_t$  is derived in accordance with the following formula:

$$K_t = (AR_{t-1} - RR_{t-1})(1 + nomWACC_{t-1})$$

where:

$AR_t$  means Allowed Revenue. For Regulatory Years commencing on or after 1 April 2026  $AR_t$  is derived in accordance with Part C of this condition;

$RR_t$  means Recovered Revenue derived in accordance with Part B; and

$nomWACC_t$  means the nominal weighted average cost of capital and has the value set out in the “AllowedRevenue” sheet of the GD3 Price Control Financial Model.

2.1.13 The value of  $K_t$  is in nominal prices.

## Part G: Forecasting penalty (FP<sub>t</sub>)

2.1.14 For Regulatory Years commencing prior to 1 April 2028, the value of FP<sub>t</sub> is zero.

2.1.15 For Regulatory Years commencing on or after 1 April 2028, the value of FP<sub>t</sub> is derived in accordance with the following formula:

$$FP_t = BRFP_t + RRFp_t$$

where:

*BRFP<sub>t</sub>* means the base revenue forecasting penalty and is derived in accordance with paragraph 2.1.16; and

*RRFP<sub>t</sub>* means the Recovered Revenue forecasting penalty and is derived in accordance with paragraph 2.1.19.

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

$$BRFP_t = (BR_{t-1} - BR_{t-1}^*) \times \frac{PI_{t-1}}{PI_{2023/24}} \cdot BRFPA_{t-1} \times \begin{cases} 1.15\% & \text{if } BR_{t-1}^*/BR_{t-1} \geq 1.08 \\ -1.15\% & \text{if } BR_{t-1}^*/BR_{t-1} \leq 0.92 \\ 0, & \text{otherwise} \end{cases}$$

where:

*BR<sub>t</sub>* means the sum of the terms FM<sub>t</sub>, DPN<sub>t</sub>, RTN<sub>t</sub> and PT<sub>t</sub> set out in Part D of this condition;

*BR<sub>t</sub><sup>\*</sup>* means the sum of the terms FM<sub>t</sub>, DPN<sub>t</sub>, RTN<sub>t</sub>, PT<sub>t</sub> set out in Part D of this condition, as at the time they were published for Regulatory Year t by the licensee in accordance with paragraph 2.1.5; and

*BRFPA<sub>t</sub>* means the penalty adjustment and has the value of 1, unless the Authority directs otherwise in accordance with paragraph 2.1.17.

2.1.17 The Authority will, following discussion with the licensee, direct a value for BRFPA<sub>t</sub> which is not less than zero and not more than 1, if it is satisfied that differences between the values of BR<sub>t</sub> and BR<sub>t</sub><sup>\*</sup> were for reasons outside the reasonable control of the licensee.

2.1.18 For the avoidance of doubt, differences between the values of BR<sub>t</sub> and BR<sub>t</sub><sup>\*</sup> that are due to the effect of inflation will be disregarded for the purposes of the penalty.

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

$$RRFP_t = ((RR_{t-1} + BD_t) - AR_{t-1}^*) \times RRFPA_{t-1} \times \begin{cases} 1.15\% & \text{if } AR_{t-1}^*/RR_{t-1} \geq 1.06 \\ -1.15\% & \text{if } AR_{t-1}^*/RR_{t-1} \leq 0.94 \\ 0, & \text{otherwise} \end{cases}$$

where:

$RR_t$  means Recovered Revenue as set out in Part B;

$AR_t^*$  means the value of Allowed Revenue published by the licensee in accordance with paragraph 2.1.5; and

$RRFPA_t$  means the penalty adjustment and has the value of 1, unless the Authority directs otherwise in accordance with paragraph 2.1.20.

2.1.20 The Authority will, following discussion with the licensee, direct a value for  $RRFPA_t$  which is not less than zero and not more than 1, if it is satisfied that differences between the values of  $RR_t$  and  $AR_t^*$  were for reasons outside the reasonable control of the licensee.

2.1.21 Where the Authority is satisfied that differences between the values of  $RR_t$  and  $AR_t^*$  or  $BR_t$  and  $BR_t^*$  arose for reasons outside the reasonable control of the licensee, the Authority may issue a direction under paragraph 2.1.17 or under paragraph 2.1.20 before the licensee has finalised the calculation of Allowed Revenue for Regulatory Year  $t+1$ .

2.1.22 Before making a direction under paragraphs 2.1.17 or 2.1.20 the Authority will publish on the Authority's Website:

(a) the text of the proposed direction;

(b) the reasons for the proposed direction; and

(c) a period during which representations may be made on the proposed direction, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

2.1.23 The value of  $FP_t$  is in nominal prices.

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

2.1.24 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 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  $nomWACC$  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 been paid by the Defaulting Gas Shipper or been credited by the administrator or liquidator of a Defaulting Gas Shipper.

## **Special Condition 2.2 Tax allowance adjustment (TAXA<sub>t</sub>)**

### **Introduction**

- 2.2.1 The purpose of this condition is to establish a process for setting the value of the term TAXA<sub>t</sub> (the tax allowance adjustment term), which contributes to Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 2.2.2 The effect is to adjust Calculated Revenue, if required and in accordance with Chapter 6 of the GD3 Price Control Financial Handbook.
- 2.2.3 This condition also explains the process the Authority will follow when directing any change in the value of TAXA<sub>t</sub> as a result of the tax review.

### **Part A: Undertaking a tax review**

- 2.2.4 The Authority may undertake a tax review in accordance with Chapter 6 of the GD3 Price Control Financial Handbook.
- 2.2.5 Where the Authority notifies the licensee that it has decided to undertake a tax review and gives the reasons for that decision, the Authority may procure the services of an Appropriately Qualified Independent Examiner to carry out the formal tax review in accordance with Chapter 6 of the GD3 Price Control Financial Handbook and to provide its written findings to the Authority within a reasonable time frame. Where the Authority has procured the services of an Appropriately Qualified Independent Examiner, the licensee must:
  - (a) provide the Authority and the Appropriately Qualified Independent Examiner with access to any relevant information that they may require to examine the differences between the licensee's Calculated Tax Allowance and its Actual Corporation Tax Liability; and
  - (b) carry out any reasonable steps specified by the Authority or the Appropriately Qualified Independent Examiner for the purposes of the tax review.
- 2.2.6 Following completion of the review the Authority may direct an adjustment to the value of the TAXA<sub>t</sub> term if required, in accordance with Chapter 6 of the GD3 Price Control Financial Handbook specifying the Regulatory Years to which that adjustment relates.

### **Part B: The process for making a direction**

- 2.2.7 Before making a direction under paragraph 2.2.6, the Authority must send to the licensee and publish on the Authority's website:
  - (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a statement setting out the period during which representations on the proposed direction may be made, which will be up to 28 days unless the Authority determines that a longer period is appropriate.



## Special Condition 2.3 Return Adjustment (RTNA<sub>t</sub>)

### Part A: Introduction

- 2.3.1 The purpose of this condition is to calculate the term RTNA<sub>t</sub> (the return adjustment term), which feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 2.3.2 The effect of this condition is to adjust Calculated Revenue following a review of Operational Performance after the Price Control Period.
- 2.3.3 It also explains the process the Authority will follow when directing any change as a result of the review.

### Part B: Undertaking a review of Operational Performance

- 2.3.4 After the Price Control Period, the Authority will undertake a review of Operational Performance.
- 2.3.5 Following its review, the Authority will direct any adjustment to the value of the term RTNA<sub>t</sub> in accordance with the method set out in Parts B and C and any further applicable explanation or elaboration within the GD3 Price Control Financial Handbook.

### Part C: Formulae for calculating the return adjustment term (RTNA<sub>t</sub>)

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

$$RTNA_t = RTNR \cdot \frac{RAVL_t \cdot (1 - G)}{\sum_{t=2026/27}^{2030/31} RAVL_t \cdot (1 - G)} \cdot \frac{\sum_{t=2026/27}^{2030/31} RAVD_t \cdot (1 - G)}{\sum_{t=2026/27}^{2030/31} RAVL_t \cdot (1 - G)}$$

where:

- RTNR* means the return adjustment for the licensee over the Price Control Period, derived in accordance with paragraphs 2.3.7.7 and 2.3.8;
- RAVD<sub>t</sub>* means the RAV value for the Distribution Network derived in accordance with the GD3 Price Control Financial Model;
- RAVL<sub>t</sub>* means the RAV value for the licensee and has the value derived in accordance with the GD3 Price Control Financial Model; and
- G* means notional gearing, and has the value of 60%.

- 2.3.7 Where Operational Performance is equal to or greater than zero, the value of RTNR is derived in accordance with the following formula:

$$RTNR = \sum_{t=2026/27}^{2030/31} RAVL_t \cdot (1 - G) \cdot$$

$$(-MAX(MIN(OPP, T2) - T1, 0) \cdot AR1 - MAX(OPP - T2, 0) \cdot AR2)$$

where:

$RAVL_t$  means the RAV value for the licensee and has the value derived in accordance with the GD3 Price Control Financial Model; and

$G$  means notional gearing, and has the value of 60%;

$OPP$  means the Operational Performance value for the licensee, in percentage terms, over the Price Control Period and has the value derived in accordance with the GD3 Price Control Financial Model;

$T1$  means threshold 1, and has the value of 3%;

$T2$  means threshold 2, and has the value of 4%;

$AR1$  means adjustment rate 1, and has the value of 50%; and

$AR2$  means adjustment rate 2, has the value of 90%.

- 2.3.8 When Operational Performance is less than zero, the value of RTNR is derived in accordance with the following formula:

$$RTNR = \sum_{t=2026/27}^{2030/31} RAVL_t \cdot (1 - G) \cdot$$

$$(MAX(MIN(-OPP, T2) - T1, 0) \cdot AR1 + MAX(-OPP - T2, 0) \cdot AR2)$$

where each term has the meaning given in paragraph 2.3.6 and 2.3.7.

#### **Part D: The process for making a direction**

- 2.3.9 Before making a direction under paragraph 2.3.5, the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations on the proposed direction may be made, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

- 2.3.10 A direction under paragraph 2.3.5 will set out the value of the  $RTNA_t$  term and the Regulatory Years to which that adjustment relates.



## Chapter 3: Totex Allowance adjustments

### Special Condition 3.1 Baseline Network Risk Outputs (NARM<sub>t</sub>)

#### Introduction

- 3.1.1 This condition specifies the value of the term NARM<sub>t</sub> (the Baseline Allowed NARM Expenditure term), which contributes to the calculation of the Totex Allowance.
- 3.1.2 The purpose of this condition is to:
- (a) set out the Baseline Network Risk Outputs that the licensee is funded to deliver;
  - (b) provide for a mechanism to adjust funding and for the application of a penalty in certain circumstances;
  - (c) provide for the Rebasing of Baseline Network Risk Outputs; and
  - (d) require the licensee to provide a close out report.
- 3.1.3 This condition also establishes:
- (a) the NARM Handbook;
  - (b) the Network Asset Risk Workbook; and
  - (c) a robust and transparent change control framework for those documents.

#### Part A: Value of the Baseline Allowed NARM Expenditure term (NARM<sub>t</sub>)

- 3.1.4 The value of NARM<sub>t</sub> is set out in Appendix 1.
- 3.1.5 [Not used]

#### Part B: Requirement to deliver Baseline Network Risk Outputs

- 3.1.6 The licensee is funded to deliver, by the end of the Price Control Period, its Baseline Network Risk Outputs as set out in Appendix 1.
- 3.1.7 Where the Outturn Network Risk Outputs are different to the Baseline Network Risk Outputs, any funding adjustments and penalties will be calculated by the Authority in accordance with the NARM Handbook and using the data in the Network Asset Risk Workbook.

#### Part C: Rebasing of Baseline Network Risk Outputs

- 3.1.8 The licensee must, when submitting Rebased Baseline Network Risk Outputs in accordance with Part C of Special Condition 9.2 (Network Asset Risk Metric methodology) ensure that the Rebased Baseline Network Risk Outputs are:
- (a) calculated using the NARM Methodology as approved under paragraph 9.2.12 of Special Condition 9.2;

- (b) representative of the same assumed volume and type of intervention for each NARM Asset Category as assumed in the setting of the Baseline Network Risk Outputs;
  - (c) Equally Challenging as the Baseline Network Risk Outputs; and
  - (d) in the same format as the Network Asset Risk Workbook.
- 3.1.9 Where the licensee proposes Rebased Baseline Network Risk Outputs in accordance with Part C of Special Condition 9.2, the Authority will consider the proposal and by direction:
  - (a) approve it, in cases where the Rebased Baseline Network Risk Outputs meet the criteria in paragraph 3.1.8;
  - (b) approve it with adjustments, in cases where the adjustments are necessary to enable the Rebased Baseline Network Risk Outputs to meet the criteria in paragraph 3.1.8; or
  - (c) reject it, in cases where the Rebased Baseline Network Risk Outputs do not meet the criteria set out in paragraph 3.1.8 and the Authority is unable to adjust them to make them satisfy those criteria.
- 3.1.10 Before issuing a direction under paragraph 3.1.9, the Authority will publish on the Authority's Website:
  - (a) the text of the proposed direction;
  - (b) the date on which the Authority intends the proposed direction to come into effect;
  - (c) the reasons for the proposed direction; and
  - (d) a period during which representations may be made on the proposed direction, which will be up to 28 days unless the Authority determines that a longer period is appropriate.
- 3.1.11 Where the Authority approves Rebased Baseline Network Risk Outputs under paragraph 3.1.9(a) or (b):
  - (a) the Rebased Baseline Network Risk Output will supersede the Baseline Network Risk Outputs for the purposes of this condition; and
  - (b) the direction under paragraph 3.1.9(a) or (b) will modify Appendix 1 to reflect this.

**Part D: Requirement to provide a closeout report**

- 3.1.12 The licensee must provide to the Authority a report, together with detailed supporting evidence, setting out the requested information in (a) to (e) below of this condition. The report should be provided on or before 31 October 2026 for RIIO-2 and on or before 31 October 2031 for RIIO-3. The requested information is:
  - (a) the licensee's Outturn Network Risk Outputs and a breakdown of those Outturn Network Risk Outputs in the manner specified by the Authority by direction under Standard Condition A40 (Regulatory Instructions and Guidance);

- (b) the costs incurred by the licensee in delivering its Outturn Network Risk Outputs and a breakdown of those costs in the manner specified by the Authority by direction under Standard Condition A40 (Regulatory Instructions and Guidance);
- (c) details of any Non-intervention Risk Changes, including the associated impact on Baseline Network Risk Outputs or Outturn Network Risk Outputs;
- (d) justification cases for any portions of over-delivery or under-delivery against Baseline Network Risk Outputs that the licensee considers to be justified; and
- (e) details of any portions of over-delivery or under-delivery against Baseline Network Risk Outputs that the licensee considers qualify as 'clearly identifiable over-delivery' or 'clearly identifiable under-delivery' as per the criteria set out in the NARM Handbook.

## **Part E: The NARM Handbook**

- 3.1.13 The NARM Handbook forms part of this condition.
- 3.1.14 The Authority will publish the NARM Handbook on the Authority's Website.
- 3.1.15 The Authority may make modifications under this Part at any time during the Price Control Period, but only when it becomes aware of modifications of the type set out in paragraph 3.1.16 that if made would improve the clarity or usefulness to users of the NARM Handbook.
- 3.1.16 The following categories of modifications may be made under this Part:
  - (a) formatting changes such as re-numbering of paragraphs, capitalising defined terms, renaming or re-ordering of sections;
  - (b) deleting irrelevant material such as transitional provisions that have expired;
  - (c) updates such as to dates, version numbers of documents, titles of re-enacted legislation and re-named bodies;
  - (d) consequential changes required to reflect modifications made to the special conditions of this licence such as amendments made to Appendix 1 or the Network Asset Risk Workbook;
  - (e) correction of manifest errors; and
  - (f) changes to the guidance provided by the NARM Handbook.
- 3.1.17 Before amending the NARM Handbook by direction, the Authority will publish on the Authority's Website:
  - (a) the text of the proposed amendments to the NARM Handbook;
  - (b) the date on which the Authority intends the proposed amendments to the NARM Handbook to come into effect;
  - (c) the reasons for the proposed amendments to the NARM Handbook; and

- (d) a period during which representations may be made on the proposed amendments to the NARM Handbook, which will be up to 28 days unless the Authority determines that a longer period is appropriate.
- 3.1.18 The Authority will ensure that any modifications of the NARM Handbook, whether under this Part or otherwise, are promptly incorporated into a consolidated version of the NARM Handbook maintained on the Authority's Website.

## **Part F: The Network Asset Risk Workbook**

- 3.1.19 The Network Asset Risk Workbook forms part of this condition.
- 3.1.20 The Authority will:
  - (a) send to the licensee the Network Asset Risk Workbook; and
  - (b) publish a redacted version of the Network Asset Risk Workbook on the Authority's Website.
- 3.1.21 The Authority may make modifications under this Part at any time during the Price Control Period, but only when it becomes aware of modifications of the type set out in paragraph 3.1.22 that if made would improve the clarity or usefulness to users of the Network Asset Risk Workbook.
- 3.1.22 The following categories of modifications may be made under this Part:
  - (a) formatting changes such as re-numbering of paragraphs, capitalising defined terms, cell labelling, renaming or re-ordering of sections or worksheets;
  - (b) deleting irrelevant material such as transitional provisions that have expired;
  - (c) updates such as to dates, version numbers of documents, titles of re-enacted legislation and re-named bodies;
  - (d) consequential changes required to reflect modifications made to the special conditions of this licence such as amendments made to Appendix 1 or the NARM Handbook; and
  - (e) correction of manifest errors.
- 3.1.23 Before amending the Network Asset Risk Workbook by direction, the Authority will publish on the Authority's Website:
  - (a) the proposed amendments to the Network Asset Risk Workbook;
  - (b) the date on which the Authority intends the proposed amended Network Asset Risk Workbook to come into effect;
  - (c) the reasons for the proposed amendments to the Network Asset Risk Workbook; and
  - (d) a period during which representations may be made on the proposed amendments to the Network Asset Risk Workbook, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

3.1.24 The Authority will:

- (a) ensure that any modifications of the Network Asset Risk Workbook, whether under this Part or otherwise, are promptly incorporated into a consolidated version of the Network Asset Risk Workbook;
- (b) send the consolidated version to the licensee; and
- (c) maintain a redacted consolidated version on the Authority's Website.

## Appendix 1

### Northern Gas Networks Ltd

**Cumulative total of Baseline Network Risk Outputs (R£m\*) and Baseline Allowed NARM Expenditure (NARM<sub>t</sub>) for delivering Baseline Network Risk Outputs (£m)**

Baseline Network Risk Output (R£m)	Baseline Allowed NARM Expenditure, excluding RPEs (£m)	Baseline Allowed NARM Expenditure, excluding RPEs (£m)	Baseline Allowed NARM Expenditure, excluding RPEs (£m)	Baseline Allowed NARM Expenditure, excluding RPEs (£m)	Baseline Allowed NARM Expenditure, excluding RPEs (£m)	Baseline Allowed NARM Expenditure, excluding RPEs (£m)
	2026/27	2027/28	2028/29	2029/30	2030/31	RIIO-3 Total
TBC	45.5	41.8	45.3	46.1	47.8	226.4

\* R£m is the unit used to denote Monetised Risk values.

## **Special Condition 3.2 Cyber resilience Price Control Deliverable, cyber resilience Re-opener, and cyber resilience use it or lose it (CY<sub>t</sub> CYRE<sub>t</sub>, CYU<sub>t</sub>)**

### **Introduction**

- 3.2.1 The purpose of this condition is to calculate the terms CY<sub>t</sub> (the cyber resilience Price Control Deliverable term), CYRE<sub>t</sub> (the cyber resilience Re-opener term) and CYU<sub>t</sub> (the cyber resilience use it or lose it allowance). These contribute to the calculation of the Totex Allowance.
- 3.2.2 The effect of this condition is to:
- (a) specify in the Cyber Resilience Baseline Allowances Table (in Appendix 1) the cyber resilience baseline allowances;
  - (b) specify the outputs, delivery dates and associated allowances for the Price Control Deliverables in the Cyber Resilience PCD Table (in Appendix 2);
  - (c) specify the associated allowances for the cyber resilience use it or lose it in the Cyber Resilience UIOLI Allowances Table (in Appendix 4);
  - (d) establish that the allowances for use it or lose it have achieved the intended cyber resilience in terms of needs;
  - (e) establish a Re-opener mechanism for the licensee and the Authority to trigger amendments to the Cyber Resilience Re-opener Allowances Table



(in Appendix 3) and the Cyber Resilience PCD Table, during the Price Control Period;

(f) provide for a Use It Or Lose It Adjustment; and

(g) provide for an assessment of the Price Control Deliverables.

- 3.2.3 This condition also sets out the process the Authority will follow when directing any changes under paragraphs 3.2.11, 3.2.12, 3.2.14 and 3.2.15.

**Part A: Formulae for calculating the cyber resilience Price Control Deliverable term ( $CY_t$ ), the cyber resilience Re-opener term ( $CYRE_t$ ) and the cyber resilience use it or lose it allowance term ( $CYU_t$ )**

- 3.2.4 The value of  $CY_t$  is derived in accordance with the following formula;

$$CY_t = CYA_t - CYRA_t$$

where:

$CYA_t$  has the value set out in the Cyber Resilience Allowances Table; and

$CYRA_t$  has the value zero unless otherwise directed by the Authority in accordance with paragraph 3.2.16.

- 3.2.5 The value of  $CYRE_t$  is derived in accordance with the following formula;

$$CYRE_t = CYO_t - CYRO_t$$

where:

$CYO_t$  means the value set out in the Cyber Resilience Re-opener Allowances Table directed by the Authority as a result of the circumstances set out in paragraph 3.2.9; and

$CYRO_t$  has the value zero unless otherwise directed by the Authority in accordance with paragraph 3.2.16.

- 3.2.6 The value of  $CYU_t$  is derived in accordance with the following formula;

$$CYU_t = CYAU_t - CYRAU_t$$

where:

$CYAU_t$  has the value set out in the Cyber Resilience UIOLI Allowances Table; and

$CYRAU_t$  has the value zero unless otherwise directed by the Authority in accordance with paragraph 3.2.17.

**Part B: What is the licensee funded to deliver?**

- 3.2.7 The Cyber Resilience PCD Table specifies the outputs that the licensee is funded to deliver, the delivery dates for those outputs and the allowances provided.

- 3.2.8 The Cyber Resilience UIOLI Allowances Table specifies the allowances for use it or lose it for cyber resilience projects the licensee is funded to deliver where the associated costs are uncertain.

## **Part C: Cyber resilience Re-opener**

- 3.2.9 This part establishes a Re-opener that may be used where there are:
- (a) new activities, including new technology, capable of improving cyber resilience, including risk reduction and improved status of the licensee's network and information systems with respect to NCSC CAF Contributing Outcomes;
  - (b) changes to levels of risks or threats relating to cyber resilience, that take the licensee outside of its organisational risk appetite and which require the licensee to undertake significant new activities to address; or
  - (c) changes to statutory or regulatory requirements or guidance to cyber resilience, or which require the licensee to undertake significant new activities to maintain compliance with the requirements;
- 3.2.10 The licensee may apply to the Authority for a direction amending allowances in the Cyber Resilience Re-opener Allowances Table and the Cyber Resilience PCD Table between 1st April 2028 and 8th April 2028, and during such other periods as the Authority may direct.
- 3.2.11 An application under paragraph 3.2.10 must be made in writing to the Authority and must:
- (a) give details of the circumstances referred to in paragraph 3.2.9 that the licensee considers exist;
  - (b) set out any amendments or additions to the outputs, delivery dates or allowances set out in the Cyber Resilience PCD Table;
  - (c) explain how any amendments or additions requested would improve cyber resilience, including risk reduction and improved status of the licensee's network and information systems with respect to NCSC CAF Contributing Outcomes, where appropriate;
  - (d) explain the basis of the calculations for any amendments or additions requested to allowances;
  - (e) explain why the proposed allowances are economically efficient; and
  - (f) provide such detailed evidence to support (a) to (e) as is reasonable in the circumstances.
- 3.2.12 An application under paragraph 3.2.10 must:
- (a) relate to circumstances of the type referred to in paragraph 3.2.9 which could not have been reasonably provided for on the date the licensee submitted its Cyber Resilience Plan;
  - (b) take account of any allowed expenditure, which can be avoided as a result of the change; and
  - (c) be confined to costs incurred or expected to be incurred on or after 1 April 2026.
- 3.2.13 The Authority will only direct changes under this Part C where an application is made by the licensee under paragraph 3.2.10:

- (a) if a circumstance in paragraph 3.2.9 exists; and
  - (b) the requirements in paragraphs 3.2.11 and 3.2.12 have been met.
- 3.2.14 The Authority may direct changes to the Cyber Resilience Re-opener Allowances Table and the Cyber Resilience PCD Table at any time during the Price Control Period where it has become aware of the circumstances set out in paragraph 3.2.9.
- 3.2.15 A direction under this Part C:
- (a) may adjust allowances in the Cyber Resilience Re-opener Allowances Table and the Cyber Resilience PCD Table as a result of circumstances set out in paragraph 3.2.9;
  - (b) may modify the text in Cyber Resilience Re-opener Allowances Table to amend the date of publication of the documents containing the Cyber Resilience Re-opener Allowances Table and the Cyber Resilience PCD Table;
  - (c) will set out the value of the CYO<sub>t</sub>; and
  - (d) must be confined to costs incurred or expected to be incurred on or after 1st April 2026.

**Part D: Assessment of delivery under this condition (CYRA<sub>t</sub>, CYRO<sub>t</sub> and CYRAU<sub>t</sub>)**

- 3.2.16 The Authority will, in accordance with the assessment principles set out Special Condition 9.3 (Price Control Deliverable assessment principles and reporting requirements), consider directing a value for CYRA<sub>t</sub> or CYRO<sub>t</sub>, where the licensee has not Fully Delivered an output in the Cyber Resilience PCD Table.
- 3.2.17 The Authority will consider directing a value for CYRAU<sub>t</sub> where, it considers that a Use It Or Lose It Adjustment is appropriate.

**Part E: Cyber resilience Price Control Deliverable reporting requirements**

- 3.2.18 The licensee must send reports to the Authority, in a form approved by the Authority, that include:
- (a) a summary of progress against key milestones contained in the licensee's Improvement Plan;
  - (b) a summary of developments against the outputs in the Cyber Resilience PCD Table;
  - (c) the licensee's assessment of the impact of the progress and developments referred to in sub-paragraphs (a) and (b) on improving cyber resilience, including risk reduction;
  - (d) a description of how the licensee has considered any relevant guidance provided by the Authority; and
  - (e) such detailed supporting evidence as is reasonable in the circumstances.
- 3.2.19 Unless the Authority otherwise directs, the licensee must send reports under paragraph 3.2.18 by no later than the dates, and in relation to the periods, set out in Appendix 5.

## **Part F: Cyber resilience use it or lose it reporting allowance requirements**

- 3.2.20 The licensee must, by no later than the dates, and in relation to the periods set out in Appendix 5, provide a qualitative report explaining how expenditure funded from allowances for use it or lose it has contributed to activities intended to maintain or improve its cyber resilience.
- 3.2.21 The report under paragraph 3.2.20 must:
- (a) set out the relevant NCSC CAF Contributing Outcomes that the investment was intended to address;
  - (b) provide a narrative summary of the intended needs and the actual needs addressed to maintain or improve the licensee's cyber resilience, including a high-level statement on needs that remain outstanding and the associated residual risks as understood by the licensee;
  - (c) set out any use it or lose it allowances that remain unspent; and
  - (d) include a confirmation from the licensee's NRO, or their nominated representative, that the information contained within the qualitative report represents the licensee's reasonable understanding of the cyber resilience outcomes achieved through the use it or lose it expenditure.
- 3.2.22 The qualitative report must describe, at a narrative level, the activities undertaken to meet the needs for which the use it or lose allowances were awarded, the factors considered when prioritising those needs and the licensee's assessment of the impact of the use it or lose it expenditure on its cyber resilience.
- 3.2.23 This qualitative assessment does not constitute a Price Control Deliverable and is not subject to the evaluative assessment principles set out in Special Condition 9.3.
- 3.2.24 The Authority may consider the reports provided under this Part for the purpose of monitoring and making any direction under paragraph 3.2.17.

## **Part G: What process will the Authority follow in making a direction?**

- 3.2.25 Before making a direction under paragraph 3.2.13, 3.2.14, 3.2.16 or 3.2.17, the Authority will send to the licensee:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a statement setting out the period during which representations may be made on the proposed direction, which will be up to 28 days unless the Authority determines that a longer period is appropriate.
- 3.2.26 A direction under paragraph 3.2.16 will set out:
- (a) the value of the CYRA<sub>t</sub> and CYRO<sub>t</sub> terms, and the Regulatory Years to which those adjustments relate; and
  - (b) the methodology and data that has been used to decide the delivery status and value of any adjustments to the CYRA<sub>t</sub>, and CYRO<sub>t</sub> terms;

(c) The delivery status of the output that has not been Fully Delivered.

3.2.27 A direction under paragraph 3.2.17 will set out:

- (a) the value of the CYRAUt term, and the Regulatory Years to which the adjustment relates, and
- (b) the data that has been used to decide the value of any adjustments to the CYRAUt term.

#### **Appendix 1**

##### **Title and publication date of document containing the Cyber Resilience Allowances Table**

<b>Title</b>	<b>Publication Date</b>
RIIO-3 Final Determinations – NGN Cyber Resilience	04 December 2025

#### **Appendix 2**

##### **Title and publication date of document containing the Cyber Resilience PCD Table**

<b>Title</b>	<b>Publication Date</b>
RIIO-3 Final Determinations – NGN Cyber Resilience	04 December 2025

#### **Appendix 3**

##### **Title and publication date of document containing the Cyber Resilience Re-opener Allowances Table**

<b>Title</b>	<b>Publication Date</b>
RIIO-3 Re-opener Decision – NGN Cyber Resilience	To be confirmed

#### **Appendix 4**

##### **Title and publication date of document containing the Cyber Resilience UIOLI Allowances Table**

<b>Title</b>	<b>Publication Date</b>
RIIO-3 Final Determinations – NGN Cyber Resilience	04 December 2025

## Appendix 5

Report submission dates and the associated periods to be reported on

Dates each year by which reports must be submitted to the Authority	Associated periods to be reported on
31 July 2027	1 April 2026 to 31 March 2027
31 July 2028	1 April 2027 to 31 March 2028
31 July 2029	1 April 2028 to 31 March 2029
31 July 2030	1 April 2029 to 31 March 2030
31 July 2031	1 April 2030 to 31 March 2031

### Special Condition 3.3 Resilience Re-opener physical security PCD and Re-opener (PSUP<sub>t</sub> and PSUPRE<sub>t</sub>)

- 3.3.1 The purpose of this condition is to calculate the terms PSUP<sub>t</sub> (physical security Price Control Deliverable term), PSUPRE<sub>t</sub> (physical security Re-opener term) and RESRE<sub>t</sub> (the Resilience Re-opener terms). These terms contribute to the calculation of the Totex Allowance.
- 3.3.2 The effect of this condition is to:
- (a) in relation to the physical security Price Control Deliverable term and physical security Re-opener term:
    - i. specify at Appendix 1 the physical security baseline allowances;
    - ii. specify the outputs, delivery dates and associated allowances for the Physical Security Price Control Deliverable set out in the physical security PCD table in Appendix 2;
    - iii. establish a Re-opener mechanism for the licensee and the Authority to trigger amendments to the Physical Security PCD Table during the Price Control Period; and
    - iv. provide for an assessment of the Price Control Deliverable; and
  - (b) in relation to the Resilience Re-opener term, establish a Re-opener that the Authority may trigger during the Price Control Period.
- 3.3.3 This condition also sets out the process the Authority will follow when making any changes to Appendix 2 and 3 to this condition.

#### Part A: Formulae for calculating the physical security Price Control Deliverable term (PSUP<sub>t</sub>), and the physical security and Resilience Activity Re-opener terms (PSUPRE<sub>t</sub> and RESRE<sub>t</sub>)

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

$$PSUP_t = PSUPA_t - PSUPRA_t$$

where:

*PSUPA<sub>t</sub>* means the baseline allowances in the Physical Security Baseline Allowances Table in Appendix 1; and

*PSUPRA<sub>t</sub>* has the value zero unless otherwise directed by the Authority in accordance with Part E.

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

$$PSUPRE_t = PSUPO_t - PSUPRO_t$$

where:

*PSUPO<sub>t</sub>* means the sum of allowances directed by the Authority as set out in Parts C and D; and

*PSUPRO<sub>t</sub>* has the value zero unless otherwise directed by the Authority in accordance with Part E.

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

$$RESRE_t = RESO_t - RESRO_t$$

where:

*RESO<sub>t</sub>* the sum of allowance determined by Authority in accordance with Part G; and

*RESRO<sub>t</sub>* has the value zero unless otherwise directed by the Authority in accordance with Part E.

## **Part B: What is the licensee funded to deliver?**

3.3.7 Appendices 2 and 3 specify the Price Control Deliverables that the licensee is funded to deliver, the delivery dates for those outputs and the allowances provided.

## **Part C: Licensee triggered physical security Re-opener**

3.3.8 The licensee may apply to the Authority for a direction amending the physical security PCD Table, in Appendix 2, where the scope of work the licensee is required to carry out under the Physical Security Upgrade Programme has changed.

3.3.9 The licensee may only apply to the Authority under paragraph 3.3.8 between:

(a) 1 April 2028 and 8 April 2028; and

(b) 1 April 2030 and 8 April 2030; or

(c) during such other periods as the Authority may direct.

3.3.10 An application under paragraph 3.3.8 must be made in writing to the Authority and set out:

- (a) the changes to the scope of work the licensee is required to carry out under the physical security programme to be designated by UK Government to which the application relates;
- (b) the change in Critical National Infrastructure classification for each site to which the application relates;
- (c) any amendments requested to the outputs, delivery dates or allowances in the physical security PCD Table;
- (d) an explanation of the basis of the calculations for any amendments requested to allowances; and
- (e) such detailed supporting evidence as is reasonable in the circumstances.

3.3.11 An application under paragraph 3.3.8 must:

- (a) only relate to changes to the scope of work which take effect on or after 28 June 2024 and which the licensee is required to carry out under the Physical Security Upgrade Programme;
- (b) take account of any allowed expenditure, which can be avoided as a result of the change; and
- (c) be confined to costs incurred or expected to be incurred on or after 1 April 2026.

#### **Part D: Authority triggered physical security Re-opener**

3.3.12 The Authority may amend the outputs, delivery dates or allowances in Appendix 2 by direction without an application being made under paragraph 3.3.7 where there have been changes to the scope of works the licensee is required to carry out under the Physical Security Upgrade Programme that:

- (a) have been mandated on or after 28 June 2024; and
- (b) relate to costs incurred or expected to be incurred on or after 1 April 2026.

#### **Part E: Assessment of the Price Control Deliverables (PSUPRA<sub>t</sub>, PSUPRO<sub>t</sub> and RESRO<sub>t</sub>)**

3.3.13 The Authority will, in accordance with the assessment principles set out in Part A of Special Condition 9.3 (Price Control Deliverable assessment principles and reporting requirements), and where the licensee has not Fully Delivered an output as specified in Appendix 2 or 3, direct a value for PSUPRA<sub>t</sub>, PSUPRO<sub>t</sub>, and RESRO<sub>t</sub>.

#### **Part F: What process will the Authority follow in making a direction?**

3.3.14 Before making a direction under paragraph 3.3.8, 3.3.12 or 3.3.13, the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.



- 3.3.15 A direction under paragraph 3.3.8 or 3.3.12 will:
- (a) set out in full the physical security PCD Table in Appendix 2 as amended; and
  - (b) replace the text in Appendix 2 with the title and publication date of the direction.
- 3.3.16 A direction under paragraph 3.3.13 will set out:
- (a) the delivery status of the output that has not been Fully Delivered;
  - (b) the value of the PSUPRA<sub>t</sub> and PSUPRO<sub>t</sub> terms and the Regulatory Years to which those adjustments relate; and
  - (c) the methodology and data that has been used to decide the delivery status and value of any adjustments to the PSUPRA<sub>t</sub> and PSUPRO<sub>t</sub> terms.

**Part G: Resilience Re-opener term and process for modifications and reporting requirements**

- 3.3.17 Where the Authority considers that amendments are necessary to fund a Resilience Activity that was not anticipated at the start of the Price Control Period, it may, at any time during the Price Control Period, make a modification to the allowances set out in Appendix 3.
- 3.3.18 The Authority may only make a modification under this Part where it is satisfied that:
- (a) the Resilience Activity is required;
  - (b) the proposed allowances are efficient and justified; and
  - (c) the costs relate to expenditure incurred or expected to be incurred on or after 1 April 2026.
- 3.3.19 When making a modification under this Part, the Authority may require the licensee to provide such information as it may reasonably require.
- 3.3.20 The Authority will only make a modification under this Part where the aggregated costs of the Resilience Activities meet or exceed the Materiality Threshold.
- 3.3.21 For the purposes of paragraph 3.3.21, the Authority may group multiple Resilience Activities to meet the Materiality Threshold.
- 3.3.22 Any modification under this Part will be made under section 23 of the Gas Act 1986.

**Appendix 1**

**Title and publication date of document containing the Physical Security Baseline Allowances Table**

<b>Title</b>	<b>Publication Date</b>
NGN Redacted Information Document	TBC

## Appendix 2

### Title and publication date of document containing the Physical Security PCD Table

Title	Publication Date
N/A – Not yet published	N/A – Not yet published

## Appendix 3

### Resilience Activities: Outputs, delivery dates, and allowances

Site Reference	Output	Delivery date	Allowance (£)
N/A	N/A	N/A	N/A

## Special Condition 3.4 Small Decarbonisation Projects Re-opener (SDP<sub>t</sub>)

### Introduction

- 3.4.1 The purpose of this condition is to establish a Re-opener triggered by the Authority where projects have been identified that will support the achievement of Net Zero Carbon Targets.
- 3.4.2 The work or projects may be funded via the SDP<sub>t</sub> term (the Small Decarbonisation Projects Re-opener term) in this licence or, where appropriate, for funding via all gas consumers, via a pass-through term in the NTS Operator's licence (SDPS<sub>t</sub>). The SDP<sub>t</sub> term contributes to the calculation of the Totex Allowance.
- 3.4.3 This condition also:
- (a) requires the licensee to comply with funding conditions and directions to return unspent funding to the NTS Operator;
  - (b) requires the licensee to comply with the Small Decarbonisation Projects Re-opener Governance Document; and
  - (c) explains the process the Authority will follow when:
    - i. directing any changes as a result of the Re-opener; and
    - ii. issuing or amending the Small Decarbonisation Projects Re-opener Governance Document.

### Part A: The Small Decarbonisation Projects Re-opener

- 3.4.4 The Authority may use this Re-opener where:
- (a) there is a Small Decarbonisation Project needed that will support the achievement of Net Zero Carbon Targets;

- (b) the Small Decarbonisation Project has caused or is expected to cause the cost of the licensee's Licensed Activity to increase during the Price Control Period;
  - (c) the effect, or estimated effect, of the Small Decarbonisation Project on the cost of the Licensed Activity is not otherwise provided for in this licence nor under another Re-opener;
  - (d) the effect, or estimated effect, of the Small Decarbonisation Project on the cost of Licensed Activity exceeds £1m but does not exceed £100m; and
  - (e) costs incurred or expected to be incurred relate to changes on or after 1 April 2026.
- 3.4.5 The Authority may issue a direction setting out the following, where the conditions in paragraph 3.4.4 are satisfied:
- (a) the amount of funding for each Small Decarbonisation Project being provided under this Re-opener;
  - (b) whether that funding is to be provided via the  $SDP_t$  term in this licence or via the pass-through term  $SDPS_t$  in the NTS Operator's licence or a combination of the two;
  - (c) the Regulatory Years in which the funding is to be provided; and
  - (d) any conditions that the licensee must comply with.
- 3.4.6 The licensee must comply with any conditions set under paragraph 3.4.5(d).
- 3.4.7 If the licensee does not spend funding provided under this Re-opener or does not comply with any conditions set under paragraph 3.4.5(d) the Authority may direct as appropriate:
- (a) a reduction to the  $SDP_t$  term; and/or
  - (b) that the licensee return, within a time period specified in the Authority's direction, funding paid to it by the NTS Operator in accordance with a direction under Part F of Special Condition 6.1 (Transportation owner pass-through items) of the NTS Operator's licence.
- 3.4.8 If the licensee does not spend funding provided via the pass-through term  $SDPS_t$  in the NTS Operator's licence on Small Decarbonisation Projects as set out in a direction made under paragraph 3.4.5, the Authority may direct that the licensee must return that funding to the NTS Operator.
- 3.4.9 The licensee must comply with a direction under paragraph 3.4.7(b) and 3.4.8 to return funding to the NTS Operator.

## **Part B: Small Decarbonisation Projects Re-opener Governance Document**

- 3.4.10 The licensee must comply with the Small Decarbonisation Projects Re-opener Governance Document in relation to Small Decarbonisation Projects funded by this Re-opener.
- 3.4.11 The Authority will issue and amend the Small Decarbonisation Projects Re-opener Governance Document by direction.

- 3.4.12 The Authority will publish the Small Decarbonisation Projects Re-opener Governance Document on the Authority's Website.
- 3.4.13 Before issuing the Small Decarbonisation Projects Re-opener Governance Document by direction, the Authority will publish on the Authority's Website:
- (a) the text of the proposed Small Decarbonisation Projects Re-opener Governance Document;
  - (b) the date on which the Authority intends the Small Decarbonisation Projects Re-opener Governance Document to come into effect; and
  - (c) a period during which representations may be made on the content of the Small Decarbonisation Projects Re-opener Governance Document, which will be up to 28 days unless the Authority determines that a longer period is appropriate.
- 3.4.14 Before amending the Small Decarbonisation Projects Re-opener Governance Document by direction, the Authority will publish on the Authority's Website:
- (a) the text of the amended Small Decarbonisation Projects Re-opener Governance Document;
  - (b) the date on which the Authority intends the amended Small Decarbonisation Projects Re-opener Governance Document to come into effect;
  - (c) the reasons for the amendments to the Small Decarbonisation Projects Re-opener Governance Document; and
  - (d) a period during which representations may be made on the amendments to the Small Decarbonisation Projects Re-opener Governance Document, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

### **Part C: Process the Authority will follow in making a direction**

- 3.4.15 Before making a direction under paragraphs 3.4.5, 3.4.7 or 3.4.8 the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

## **Special Condition 3.5 Decarbonisation Project Development Use It Or Lose It allowance (DPD<sub>t</sub>)**

### **Introduction**

- 3.5.1 The purpose of this condition is to calculate the term DPD<sub>t</sub> (the Decarbonisation Project Development Use It Or Lose It term). This contributes to the calculation of the Totex Allowance.

- 3.5.2 The effect of this condition is to:
- (a) specify the allowance for the Decarbonisation Project Development Use It Or Lose It;
  - (b) require the licensee to comply with the Decarbonisation Project Development UIOLI Governance Document; and
  - (c) provide for a Use It Or Lose It Adjustment.
- 3.5.3 This condition also explains the process the Authority will follow when issuing or amending the Decarbonisation Project Development UIOLI Governance Document.

**Part A: Formula for calculating the Decarbonisation Project Development Use It Or Lose It allowance term ( $DPD_t$ )**

- 3.5.4 The value of  $DPD_t$  is derived in accordance with the following formula:

$$DPD_t = DPDA_t - DPDR_t$$

where:

- $DPDA_t$  means the allowances in Appendix 1 that relate to the licensee; and
- $DPDR_t$  has the value zero unless otherwise directed by the Authority in accordance with Part C.

**Part B: Decarbonisation Project Development UIOLI Governance Document**

- 3.5.5 The licensee must comply with the Decarbonisation Project Development UIOLI Governance Document when incurring expenditure in relation to the allowance provided by this condition.
- 3.5.6 The Authority will issue and amend the Decarbonisation Project Development UIOLI Governance Document by direction.
- 3.5.7 The Authority will publish the Decarbonisation Project Development UIOLI Governance Document on the Authority's Website.
- 3.5.8 The Decarbonisation Project Development UIOLI Governance Document will make provision about the governance and administration of the Decarbonisation Project Development Use It Or Lose It, including:
- (a) the definition of "allowable DPD expenditure" and "unrecoverable DPD expenditure";
  - (b) the eligibility criteria, which expenditure incurred in relation to the allowance provided by this condition must meet; and
  - (c) the reporting obligations in respect of which expenditure incurred in relation to the Decarbonisation Project Development Use It Or Lose It which the licensees must meet.

- 3.5.9 Before directing that the Decarbonisation Project Development UIOLI Governance Document comes into effect, the Authority will publish on the Authority's Website:
- (a) the text of the proposed Decarbonisation Project Development UIOLI Governance Document;
  - (b) the date on which the Authority intends the Decarbonisation Project Development UIOLI Governance Document to come into effect; and
  - (c) a period during which representations may be made on the content of the Decarbonisation Project Development UIOLI Governance Document, which will be up to 28 days unless the Authority determines that a longer period is appropriate.
- 3.5.10 Before directing an amendment to the Decarbonisation Project Development UIOLI Governance Document, the Authority will publish on the Authority's Website:
- (a) the text of the amended Decarbonisation Project Development UIOLI Governance Document;
  - (b) the date on which the Authority intends the amended Decarbonisation Project Development UIOLI Governance Document to come into effect;
  - (c) the reasons for the amendments to the Decarbonisation Project Development UIOLI Governance Document; and
  - (d) a period during which representations may be made on the amendments to the Decarbonisation Project Development UIOLI Governance Document, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

### **Part C: Use It Or Lose It Adjustment**

- 3.5.11 The Authority will direct an amendment to the value of  $DPDR_t$  where it considers that a Use It Or Lose It Adjustment is appropriate.

### **Part D: Process the Authority will follow in making a direction**

- 3.5.12 Before making a direction under paragraph 3.5.11, the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will be up to 28 days unless the Authority determines that a longer period is appropriate.
- 3.5.13 The direction will set out the value of the  $DPDR_t$  term and the Regulatory Years to which that adjustment relates.

## Appendix 1

### Decarbonisation Project Development Use It Or Lose It allowance (DPDA<sub>t</sub>) by Regulatory Year (£m)

Distribution Network	2026/27	2027/28	2028/29	2029/30	2030/31	Total
EoE	2.41	2.41	2.41	2.41	2.40	12.04
Lon	1.98	1.98	1.98	1.97	1.97	9.88
NW	1.63	1.63	1.63	1.63	1.63	8.15
WM	1.27	1.27	1.27	1.27	1.27	6.35
Northern Gas Networks Ltd	1.66	1.66	1.66	1.5	1.5	8.28
Scotland Gas Networks plc	1.20	1.20	1.20	1.20	1.20	6.00
Southern Gas Networks plc	2.79	2.79	2.79	2.79	2.78	13.94
Wales & West Utilities Ltd	1.86	1.86	1.86	1.85	1.85	9.28

### Special Condition 3.6 Decarbonisation and environmental policy Re-opener (DEP<sub>t</sub>)

#### Introduction

- 3.6.1 The purpose of this condition is to calculate the term DEP<sub>t</sub> (the decarbonisation and environmental policy Re-opener term). This contributes to the calculation of the Totex Allowance.
- 3.6.2 The effect of this condition is to:
- (a) specify any Price Control Deliverable relating to Net Zero Developments or relating to Environmental Developments;
  - (b) establish a Re-opener for the Authority to trigger modifications to any such Price Control Deliverable and the outputs, delivery dates and allowances established by the other special conditions of this licence; and
  - (c) provide for an assessment of the Price Control Deliverable specified in this condition.
- 3.6.3 This condition also sets out the process the Authority will follow when making any changes under this condition.

#### Part A: Formula for calculating the decarbonisation and environmental policy Re-opener term (DEP<sub>t</sub>)

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

$$DEP_t = DEPRO_t - DEPROR_t$$

where:

DEPRO<sub>t</sub> means the sum of allowances in Appendix 1

DEPROR<sub>t</sub> means the assessment of the Price Control Deliverable and has the value zero unless otherwise directed by the Authority in accordance with Part D. A downwards adjustment should be represented as a positive DEPROR<sub>t</sub> value, while a positive adjustment should be represented as a negative value.

## **Part B: What is the licensee funded to deliver?**

3.6.5 Appendix 1 specifies the outputs that the licensee is funded to deliver, the delivery dates for those outputs and the allowances associated with those outputs.

## **Part C: Decarbonisation and environmental policy Re-opener**

3.6.6 This Re-opener may be used where:

- (a) a Net Zero Development or an Environmental Development has occurred or is expected to occur;
- (b) the Net Zero Development or an Environmental Development has caused or is expected to cause the cost of Licensed Activity to increase or decrease during the Price Control Period;
- (c) the effect of the Net Zero Development or an Environmental Development on the cost of Licensed Activity is not otherwise provided for in this licence;
- (d) the effect of the Net Zero Development or an Environmental Development has not already been assessed under another Re-opener;
- (e) the effect, or estimated effect, of the Net Zero Development or an Environmental Development on the cost of Licensed Activity results in Allowed Revenue Adjustment that exceeds the Materiality Threshold; and
- (f) costs incurred or expected to be incurred relate to changes on or after 1 April 2026.

3.6.7 The Authority may make modifications under this Re-opener at any time during the Price Control Period.

3.6.8 The following modifications to the licence may be made under this Re-opener:

- (a) modifications to the outputs, delivery dates and allowances in Appendix 1; and
- (b) modifications to the outputs, delivery dates and allowances in the other special conditions of this licence.

3.6.9 Any modifications made under the Re-opener in this Part C will be made under section 23 of the Act.



## **Part D: Assessment of the Price Control Deliverable (DEPROR<sub>t</sub>)**

- 3.6.10 The Authority will, in accordance with the assessment principles set out in Part A of Special Condition 9.3 (Price Control Deliverable assessment principles and reporting requirements), consider directing a value for DEPROR<sub>t</sub> where the licensee has not Fully Delivered an output in Appendix 1.

## **Part E: The process for making a direction**

- 3.6.11 Before making a direction under paragraph 3.6.10 the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will be up to 28 days unless the Authority determines that a longer period is appropriate.
- 3.6.12 A direction under paragraph 3.6.10 will set out:
- (a) the delivery status of the output that has not been Fully Delivered;
  - (b) the value of the DEPROR<sub>t</sub> term and the Regulatory Years to which that value relates; and
  - (c) the methodology and data that has been used to decide the delivery status and value of any adjustment to the DEPROR<sub>t</sub> term.

## **Appendix 1**

### **Decarbonisation and environmental policy Price Control Deliverable (£m) per Regulatory Year**

<b>Output</b>	<b>Delivery date</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>	<b>2030/31</b>	<b>Total</b>
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

## **Special Condition 3.7 Digitalisation Re-opener (DIGI<sub>t</sub>)**

- 3.7.1 The purpose of this condition is to calculate the term DIGI<sub>t</sub> (the Digitalisation Re-opener allowance term). This contributes to the calculation of the Totex Allowance.
- 3.7.2 The effect of this condition is to establish a Re-opener for the licensee and the Authority to trigger amendments to the value of DIGI<sub>t</sub> during the Price Control Period where there is a change in requirements for digital and data services from the government or the Authority, or an advancement of Mature Innovation projects.

- 3.7.3 This condition also sets out the process the Authority will follow when directing any changes under Part A or Part C of this condition.

**Part A: What costs are within scope of this Re-opener?**

- 3.7.4 The licensee may apply to the Authority for a direction to amend the value of DIGI<sub>t</sub> specified in 3.7.13Appendix 1 where the licensee incurs or expects to incur costs that result in Allowed Revenue Adjustment that exceed the Materiality Threshold as a result of:

- (a) a change in legislation, licences, regulatory requirements, or industry codes, under which a licensee is required to provide new, or significantly altered, digital or data services, including government or the Authority implementing energy sector reforms such as the Data Sharing Infrastructure or National Underground Asset Register; or
- (b) the licensee implementing Mature Innovation related to data and digitalisation to fulfil obligations in the conditions of this licence.

- 3.7.5 The licensee may apply to the Authority for a direction to amend the value of DIGI<sub>t</sub> specified in 3.7.13Appendix 1 where the licensee incurs or expects to incur costs that fall below the Materiality Threshold, provided that all such costs meet the requirement set out in paragraph 3.7.4(a).

**Part B: Digitalisation Re-opener**

- 3.7.6 The licensee may only apply to the Authority for a modification under Part A:
- (a) between 1 October 2028 and 31 October 2028; and
  - (b) during such other periods as the Authority may direct.

- 3.7.7 An application under Part A must be made in writing to the Authority and:
- (a) give details demonstrating how it is eligible to apply under Part A;
  - (b) set out the proposed modifications to the value of DIGI<sub>t</sub> in 3.7.13Appendix 1;
  - (c) explain the basis for calculating the modifications requested to the term DIGI<sub>t</sub> and the relevant profiling of the term DIGI<sub>t</sub>; and
  - (d) provide such detailed supporting evidence as is reasonable in the circumstances.

- 3.7.8 An application under this Part must:
- (a) where any of the circumstances in paragraph 3.7.4(a) or 3.7.5 apply, relate to changes to the roles and responsibilities of the licensee introduced on or after 11 December 2024;
  - (b) be confined to costs incurred or expected to be incurred on or after 1 April 2026; and
  - (c) take account of allowed expenditure which can be avoided as a result of the modifications requested.

## **Part C: Authority triggered Re-opener**

3.7.9 The Authority will also consider directing amendments to the value of  $DIGI_t$  without an application being made under Part A where it considers that circumstances of the type referred to in Part A exist.

3.7.10 A modification under this Part C will be made under section 11A of the Act.

## **Part D: Process the Authority will follow in making a direction**

3.7.11 The Authority may only make a direction under Part A where:

- (a) a circumstance in Part A exists; and
- (b) the requirements in paragraph 3.7.8 have been met.

3.7.12 Before making a direction under Part A, the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a statement setting out the period during which representations may be made on the proposed direction, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

3.7.13 The direction will set out any adjustments to the value of the  $DIGI_t$  term and the Regulatory Years to which those adjustments relate.

## **Appendix 1**

### **Digitalisation Re-opener allowances ( $DIGI_t$ ) by Regulatory Year (£m)**

	26/27	27/28	28/29	29/30	30/31	Total allowance (all years)
$DIGI_t$	0	0	0	0	0	0

## **Special Condition 3.8 Coordinated adjustment mechanism Re-opener ( $CAM_t$ )**

### **Introduction**

3.8.1 The purpose of this condition is to calculate the term  $CAM_t$  (the coordinated adjustment mechanism term). This contributes to the calculation of the Totex Allowance.

3.8.2 The effect of this condition is to establish a Re-opener enabling the licensee or the Authority to trigger amendments to  $CAM_t$  and associated outputs where an opportunity that delivers greater overall consumer value has been identified to reallocate responsibility for, and revenue associated with, a CAM Activity to or from a Partner Licensee.

- 3.8.3 This condition also explains the process the Authority will follow when directing any changes as a result of this Re-opener.

**Part A: What costs are within scope of this Re-opener?**

- 3.8.4 The licensee may apply to the Authority at any time during the Price Control Period for a direction adjusting the value of the CAM<sub>t</sub> term and the outputs, delivery dates and allowances within the special conditions relating to the CAM Activity for any Regulatory Year during the Price Control Period as a result of reaching agreement to reallocate responsibility and associated revenue for a CAM Activity to or from a Partner Licensee.

**Part B: How to make an application**

- 3.8.5 An application under paragraph 3.8.4 must be made in writing to the Authority and:

- (a) give a description of the engagement between the licensee and the Partner Licensee which has led to the application;
- (b) explain whether the licensee is applying to have the CAM Activity reallocated to the licensee from the Partner Licensee, or from the licensee to the Partner Licensee;
- (c) explain why the original allocation of the CAM Activity no longer delivers greater overall consumer value, and why the reallocation delivers greater overall consumer value;
- (d) give a description of the CAM Activity and associated revenue that the licensee is applying to reallocate;
- (e) set out any amendments requested to the outputs, delivery dates or allowances established by the special conditions of this licence and that of the Partner Licensee, relating to the CAM Activity;
- (f) set out the adjustments to the value of the CAM<sub>t</sub> term for both the licensee and the Partner Licensee that the licensee is requesting and the Regulatory Years to which those adjustments relate;
- (g) explain the basis of the calculation for the proposed adjustments to the value of the licensee and the Partner Licensee's CAM<sub>t</sub> terms or other allowances of the licensee and the Partner Licensee;
- (h) provide such detailed supporting evidence as set out in the Re-opener Guidance and Application Requirements Document; and
- (i) provide a copy of the agreement between the licensee and the Partner Licensee to transfer responsibility for and associated revenue of the CAM Activity.

- 3.8.6 An application under paragraph 3.8.4 must:

- (a) take account of any allowed expenditure by both the licensee and the Partner Licensee, which can be avoided as a result of the change; and
- (b) be confined to costs incurred or expected to be incurred on or after 1 April 2026.

## **Part C: Authority triggered Re-opener**

- 3.8.7 The Authority will also consider directing modifications to this licence and to the licence of the Partner Licensee without an application being made under paragraph 3.8.4 where:
- (a) The ISOP has identified instances where the Partner Licensee would be better placed to deliver outputs established by the special conditions of this licence; and
  - (b) The Authority has reached agreement with the licensee and the Partner Licensee that the Partner Licensee would be better placed to deliver outputs established by the special conditions of this licence.
- 3.8.8 The Authority triggered Re-opener may include requirements for submission of evidence and detailed adjustments to outputs and allowances as set out in Part B.

## **Part D: What process will the Authority follow in making a direction**

- 3.8.9 Before making a direction under paragraph 3.8.4 or paragraph 3.8.7 the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will be up to 28 days unless the Authority determines that a longer period is appropriate.
- 3.8.10 The direction will set out:
- (a) any adjustments to the PCFM Variable Values of this licence and to the licence of the Partner Licensee;
  - (b) the Regulatory Years to which those adjustments relate; and
  - (c) any amendments to the outputs and delivery dates established by the special conditions of this licence and by the licence of the Partner Licensee.

## **Special Condition 3.9 Operational transport emissions reduction Price Control Deliverable ( $OTE_t$ )**

### **Introduction**

- 3.9.1 The purpose of this condition is to calculate the term  $OTE_t$  (the operational transport emissions reduction Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.
- 3.9.2 This condition specifies the allowances for the Price Control Deliverable and the reduction in allowances if the licensee does not deliver the target volume of Zero Emission Vehicles (ZEVs).

**Part A: Formula for calculating the operational transport emissions reduction Price Control Deliverable term (OTE<sub>t</sub>)**

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

$$OTE_t = \left( \sum_{n=1}^{[X]} OTEU_n \times \min(OTED_n, OTEV_n) \right) \frac{OTEAt}{\sum OTEAt}$$

where:

- OTEAt* means the allowance set out in Appendix 1;
- $\sum OTEAt$  means the total operational transport emissions reduction allowance for the Price Control Period;
- OTEV<sub>n</sub>* means the target number of vehicles for each vehicle category n and set out in Appendix 2;
- OTED<sub>n</sub>* means the number of vehicles for each vehicle category n the licensee delivers as of 31 March 2031;
- OTEUn* means the vehicle category allowed unit costs, as set out in Appendix 2; and
- n* means the vehicle category, as set out in Appendix 2.

**Part B: What is the licensee funded to deliver?**

3.9.4 The licensee is funded to deliver the target volume of vehicles for each vehicle category specified in Appendix 2 by 31 March 2031.

## Appendix 1

### Operational transport emissions reduction PCD allowance by Regulatory Year (£m)

<b>Distribution Network</b>	<b>2026/2027</b>	<b>2027/2028</b>	<b>2028/2029</b>	<b>2029/30</b>	<b>2030/31</b>	<b>Total Allowance</b>
EoE	1.40	0.10	0.20	4.70	0.20	6.60
Lon	1.16	0.41	0.56	2.61	0.36	5.10
NW	2.80	0.35	0.65	1.70	0.30	5.80
WM	1.15	0.50	1.10	0.10	0.35	3.20
Northern Gas Networks Ltd	0.22	0.12	0.16	0.29	0.20	1.00
Scotland Gas Networks plc	0.02	0.13	0.27	0.34	0.35	1.11
Southern Gas Networks plc	0.02	0.13	0.27	0.34	0.35	1.11
Wales & West Utilities	0.04	0.02	0.01	0.03	0.00	0.10

## Appendix 2

### Target number of ZEV purchases and unit costs

<b>Distribution Network</b>	<b>Vehicle category (n)</b>	<b>Target numbers OTEV<sub>n</sub></b>	<b>Allowed unit cost (£), OTEU<sub>n</sub></b>
Northern Gas Networks Ltd	Cars - purchased Small Vans - purchased Medium Vans - purchased	13 18 100	[REDACTED]
Wales & West Utilities	Cars - purchased	9	[REDACTED]

## Special Condition 3.10 Tier 1 Mains decommissioned Price Control Deliverable (T1MD<sub>t</sub>)

### Introduction

- 3.10.1 The purpose of this condition is to calculate the term T1MD<sub>t</sub> (the Tier 1 Mains decommissioned Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.
- 3.10.2 This condition specifies the outputs, allowances and delivery dates for the Price Control Deliverable, as well as the adjustment to allowances to reflect the workload delivered.

### Part A: Formula for calculating the Tier 1 Mains decommissioned Price Control Deliverable term (T1MD<sub>t</sub>)

- 3.10.3 After the Price Control Period the value of T1MD<sub>t</sub> will be derived in accordance with the following formula:

$$T1MD_t = T1MRA_t + \left[ \sum_i C_i(DV_i - BV_i) \cdot 10^{-6} \right] \cdot \frac{T1MRA_t}{T1MRA}$$

where:

- i* denotes each Tier 1 Mains Decommissioned Workload Activity;
- DV<sub>i</sub>* means the Outturn Workload Of Tier 1 Mains Decommissioned within the relevant Tier 1 Mains Decommissioned Workload Activity;
- BV<sub>i</sub>* means the Baseline Activity Volume Of Tier 1 Mains Decommissioned within the relevant Tier 1 Mains Decommissioned Workload Activity, as set out in Appendix 2;
- C<sub>i</sub>* means the Allowed Unit Cost Of Tier 1 Mains Decommissioned within the relevant Tier 1 Mains Decommissioned Workload Activity as set out in Appendix 2;
- T1MRA<sub>t</sub>* means the Tier 1 Mains Baseline Value for the Regulatory Year as set out in Appendix 3; and
- T1MRA* means the total Tier 1 Mains Baseline Value across all years of the Price Control Period, as set out in Appendix 3.

### Part B: What is the licensee funded to deliver?

- 3.10.4 The licensee is funded to deliver a Baseline Target Workload Of Tier 1 Mains Decommissioned during the Price Control Period, as set out in Appendix 1.

### Part C: Reporting requirements

- 3.10.5 If the total Outturn Workload Value Of Tier 1 Mains Decommissioned across all Tier 1 Mains Decommissioned Workload Activities for the Distribution Network is more than 2% below T1MRA then the licensee must submit to the Authority a report for publication that details the reasons for, and effects of, this under-delivery in a format directed by the Authority.



## Appendix 1

### Baseline Target Workloads of Tier 1 Mains Decommissioned

Distribution Network	Volume (km)
EoE	2,722.86
Lon	1,683.54
NW	1,874.23
WM	1,491.31
Northern Gas Networks Ltd	2,186.50
Scotland Gas Networks plc	1,075.00
Southern Gas Networks plc	3,200.00
Wales & West Utilities Ltd	1,674.77

## Appendix 2

### Baseline Activity Volumes Of Tier 1 Mains Decommissioned and Allowed Unit Costs of Tier 1 Mains Decommissioned

Distribution Network	Diameter band of decommissioned pipe	Baseline Activity Volumes of Tier 1 Mains Decommissioned (km)	Allowed Unit Cost (£/km)
Northern Gas Networks Ltd	≤3"	73.13	[REDACTED]
Northern Gas Networks Ltd	4"-5"	1,125.87	[REDACTED]
Northern Gas Networks Ltd	6"-7"	642.38	[REDACTED]
Northern Gas Networks Ltd	8"	345.11	[REDACTED]

## Appendix 3

### Tier 1 Mains Baseline Values by Regulatory Year (T1MRA<sub>t</sub>, £m)

Distribution Network	26/27	27/28	28/29	29/30	30/31	Total Value (all years)
EoE	93.23	93.84	97.33	100.61	104.72	489.72
Lon	75.10	82.63	88.99	97.07	104.50	448.28
NW	68.39	69.04	71.65	75.01	76.93	361.02
WM	54.27	56.70	57.48	59.62	64.40	292.47
Northern Gas Networks Ltd	78.09	84.04	90.90	96.94	103.03	453.00
Scotland Gas Networks plc	37.07	37.18	34.94	34.04	33.66	176.88
Southern Gas Networks plc	148.10	144.60	144.06	140.24	138.82	715.82
Wales & West Utilities Ltd	80.55	77.91	76.98	76.92	73.88	386.24

### Special Condition 3.11 Tier 1 Services Repex Price Control Deliverable (T1SR<sub>t</sub>)

#### Introduction

- 3.11.1 The purpose of this condition is to calculate the term T1SR<sub>t</sub> (the Tier 1 Services Repex Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.
- 3.11.2 This condition specifies the outputs, allowances and delivery dates for the Price Control Deliverable, as well as the adjustment to allowances to reflect the workload delivered.

#### Part A: Formula for calculating the Tier 1 Services Repex Price Control Deliverable term

- 3.11.3 After the Price Control Period the value of T1SR<sub>t</sub> will be derived in accordance with the following formula:

$$T1SR_t = T1SRA_t + \sum_i ((DV_i - BV_i) \cdot C_i \cdot 10^{-6}) \cdot \frac{T1SRA_t}{T1SRA}$$

where:

- $i$  denotes each Tier 1 Services Repex Workload Activity;
- $DV_i$  means the Outturn Workload Of Tier 1 Services Repex within the relevant Tier 1 Services Repex Workload Activity;
- $BV_i$  means the Baseline Activity Volume Of Tier 1 Services Repex within the relevant Tier 1 Services Repex Workload Activity, as set out in Appendix 2;
- $C_i$  means the Allowed Unit Cost Of Tier 1 Services Repex within the relevant Tier 1 Services Repex Workload Activity as set out in Appendix 2;
- $T1SRA$  means the total Tier 1 Services Baseline Value across all years of the Price Control Period, as set out in Appendix 3; and
- $T1SRA_t$  means the Tier 1 Services Baseline Value, as set out in Appendix 3.

#### **Part B: What is the licensee funded to deliver?**

- 3.11.4 The licensee is funded to deliver a Baseline Target Workload Of Tier 1 Services Repex during the Price Control Period, as set out in Appendix 1.

#### **Part C: Reporting requirements**

- 3.11.5 If the total Outturn Workload Of Tier 1 Services Repex across all Tier 1 Services Repex Workload Activities for the Distribution Network is more than 10% less than the Baseline Target Workload Of Tier 1 Services Repex, then the licensee must submit to the Authority a report for publication that details the reasons for, and effects of, this under-delivery, in a format directed by the Authority.

### **Appendix 1**

#### **Baseline Target Workloads Of Tier 1 Services Repex**

<b>Distribution Network</b>	<b>Volume (no. interventions)</b>
EoE	229,963
Lon	166,687
NW	145,313
WM	128,707
Northern Gas Networks Ltd	158,893
Scotland Gas Networks plc	76,325
Southern Gas Networks plc	262,400
Wales & West Utilities Ltd	122,984

## Appendix 2

### Baseline Activity Volumes Of Tier 1 Services Repex and Allowed Unit Costs

Distribution Network	Type of service intervention	Baseline Activity Volume of Tier 1 Services (no. interventions)	Allowed Unit Cost (£/intervention)
EoE	Relay	139,756	[REDACTED]
EoE	Test & Transfer	90,207	[REDACTED]
Lon	Relay	124,265	[REDACTED]
Lon	Test & Transfer	42,422	[REDACTED]
NW	Relay	97,534	[REDACTED]
NW	Test & Transfer	47,779	[REDACTED]
WM	Relay	85,269	[REDACTED]
WM	Test & Transfer	43,439	[REDACTED]
Northern Gas Networks Ltd	Relay	93,213	[REDACTED]
Northern Gas Networks Ltd	Test & Transfer	65,679	[REDACTED]
Scotland Gas Networks plc	Relay	38,926	[REDACTED]
Scotland Gas Networks plc	Test & Transfer	37,399	[REDACTED]
Southern Gas Networks plc	Relay	173,208	[REDACTED]
Southern Gas Networks plc	Test & Transfer	89,192	[REDACTED]
Wales & West Utilities Ltd	Relay	61,492	[REDACTED]
Wales & West Utilities Ltd	Test & Transfer	61,492	[REDACTED]

## Appendix 3

### Tier 1 Services Baseline Values by Regulatory Year (T1SRA<sub>t</sub>, £m)

Distribution Network	26/27	27/28	28/29	29/30	30/31	Total Value (all years)
EoE	55.67	58.55	52.18	48.05	40.93	255.37
Lon	44.99	46.00	45.34	45.60	45.87	227.80
NW	31.76	29.70	26.36	23.65	19.24	130.72
WM	29.00	28.33	26.96	23.35	19.23	126.86

<b>Distribution Network</b>	<b>26/27</b>	<b>27/28</b>	<b>28/29</b>	<b>29/30</b>	<b>30/31</b>	<b>Total Value (all years)</b>
Northern Gas Networks Ltd	15.70	17.24	18.97	20.50	22.11	94.53
Scotland Gas Networks plc	12.39	12.43	11.68	11.38	11.25	59.12
Southern Gas Networks plc	43.20	42.18	42.02	40.91	40.49	208.79
Wales & West Utilities Ltd	25.40	27.90	25.01	25.02	28.54	131.87

### **Special Condition 3.12 Tier 2A mains and services replacement volume driver (RE<sub>t</sub>)**

#### **Introduction**

- 3.12.1 The purpose of this condition is to calculate the term RE<sub>t</sub> (the tier 2A mains and services replacement volume driver). This contributes to the calculation of the Totex Allowance.
- 3.12.2 The effect of this condition is to adjust revenue to fund the licensee for mains and services replacement expenditure incurred in relation to Above Risk Action Threshold Tier 2 Mains.

#### **Part A: Formula for calculating the tier 2A mains and services replacement volume driver**

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

$$RE_t = \sum_{n=1}^3 (L_{n,t} \times U_{n,t} \times 10^{-6})$$

where:

$L_{n,t}$  means the length of Above Risk Action Threshold Tier 2 Mains in kilometres decommissioned in respect of diameter band n, where the diameter bands are prescribed in the following table, except that any diameter of mains not prescribed by the table or any mains measured in metric measurement is to be reported in the diameter band corresponding to the nearest imperial equivalent;

Diameter band n	Nominal internal diameter of mains decommissioned (inches)
1	>8 to <10
2	≥10 to ≤12
3	>12 to <18

; and

$U_{n,t}$

means the specific matrix costs in respect of diameter band n as set out in the relevant table in Appendix 1.

## Appendix 1

### Distribution Network specific matrix costs (£ per kilometre mains decommissioned including associated service interventions) for Above Risk Action Threshold Tier 2 Mains: Distribution Network by Regulatory Year: Northern Gas Networks Limited

Diameter band n	2026/27	2027/28	2028/29	2029/30	2030/31
1	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
3	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

## Special Condition 3.13 HSE policy Re-opener (REP<sub>t</sub>)

### Introduction

- 3.13.1 The purpose of this condition is to calculate the term REP<sub>t</sub> (the HSE policy Re-opener term). This contributes to calculation of the Totex Allowance.
- 3.13.2 The effect of this condition is to establish a Re-opener triggered by either the licensee or the Authority where there have been specified changes to Repex costs resulting from a change to Repex Related HSE Policy Area, or specified changes to programmes of work to remediate non-compliant Legacy Safety Disconnections as determined in writing by HSE.
- 3.13.3 This condition also explains the process that the Authority will follow when directing any changes as a result of the Re-opener.

### Part A: Scope of this Re-opener

- 3.13.4 Where paragraph 3.13.5 applies, the licensee may apply to the Authority for a direction adjusting:

- (a) the value of  $REP_t$  term;
- (b) the values in Special Condition 3.1 (Baseline Network Risk Output) that relate to Repex;
- (c) the values in Special Condition 3.10 (Tier 1 Mains decommissioned Price Control Deliverable);
- (d) the values in Special Condition 3.11 (Tier 1 Services Repex Price Control Deliverable); and
- (e) the values in Special Condition 3.19 (Tier 1 Stubs decommissioning Price Control Deliverable).

3.13.5 This paragraph applies where there are:

- (a) changes to a Repex Related HSE Policy Area that will materially impact Repex; or
- (b) additional costs directly arising from changes to programmes of work to remediate non-compliant Legacy Safety Disconnections as determined in writing by HSE.

#### **Part B: When to make an application**

3.13.6 The licensee may only apply to the Authority for an adjustment under paragraph 3.13.4, relating to the condition in paragraph 3.13.5 part (a):

- (a) Between 1 October 2027 and 7 October 2027;
- (b) Between 1 October 2029 and 7 October 2029; and
- (c) during such later periods as the Authority may direct.

3.13.7 The licensee may only apply to the Authority for an adjustment under paragraph 3.13.4, relating to the condition in paragraph 3.13.15 part (b):

- (a) Between 1 October 2027 and 7 October 2027; and
- (b) during such later periods as the Authority may direct.

#### **Part C: How to make an application**

3.13.8 An application under paragraph 3.13.4 must be made in writing to the Authority and must:

- (a) provide:
  - i. evidence in writing by HSE, either by letter and/or a formal notice served under the Health and Safety at Work etc Act 1974, of a change to a Repex Related HSE Policy Area;
  - ii. evidence of notice in writing from the HSE of a change in an Approved Programme; or
  - iii. evidence of agreement in writing from the HSE of changes to programmes of work to remediate non-compliant Legacy Safety Disconnections,
 to which the application relates;

- (b) set out the proposed adjustments to the value of the  $REP_t$  term that the licensee is requesting;
- (c) set out any adjustments to Special Condition 3.1, 3.10, 3.11 or 3.19 that the licensee is requesting;
- (d) explain the basis of the calculation for any proposed adjustments to the  $REP_t$  term or any values in Special Conditions 3.1, 3.10, 3.11 or 3.19;
- (e) specify the Regulatory Years to which any adjustments proposed under sub-paragraph (b) or (c) relate; and
- (f) include such detailed supporting evidence, including Cost-Benefit Analysis, impact assessments and engineering justification statements, as is reasonable in the circumstances.

3.13.9 An application must:

- (a) relate to changes to a Repex Related HSE Policy Area, or Approved Programme which relates to Repex, or changes to programmes of work to remediate Legacy Safety Disconnections that came into effect during the Price Control Period;
- (b) take account of any allowed expenditure which can be avoided as a result of the changes;
- (c) be confined to costs incurred or expected to be incurred that exceed the Materiality Threshold; and
- (d) relate to costs incurred or expected to be incurred on or after 1 April 2026.

#### **Part D: Authority triggered re-opener**

3.13.10 The Authority may direct an adjustment to the value of the  $REP_t$  term or Special Conditions 3.1, 3.10, 3.11 or 3.19 where it considers that there have been changes to a Repex Related HSE Policy Area or the licensee's Approved Programme that materially impact Repex, that:

- (a) have come into effect during the Price Control Period;
- (b) relate to changes to costs incurred or expected to be incurred that exceed the Materiality Threshold; and
- (c) relate to changes to costs incurred or expected to be incurred on or after 1 April 2026.

#### **Part E: Process the Authority will follow in making a direction**

3.13.11 Before making a direction under paragraph 3.13.4 or 3.13.10, the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

3.13.12 The direction will set out:



- (a) any adjustments to the value of the  $REP_t$  term;
- (b) any amendments to Special Conditions 3.1, 3.10, 3.11 and 3.19; and
- (c) the Regulatory Years to which any adjustments to allowances made under sub-paragraphs (a) and (b) relate.

## **Special Condition 3.14 Heat policy Re-opener ( $HPRA_t$ )**

### **Introduction**

- 3.14.1 The purpose of this condition is to calculate the term  $HPRA_t$  (the Heat policy Re-opener term). This contributes to the calculation of the Totex Allowance.
- 3.14.2 This condition also explains the process the Authority will follow when directing any changes as a result of the Re-opener.

### **Part A: Authority triggered Re-opener**

- 3.14.3 The Authority will consider directing an adjustment to the  $HPRA_t$  term or the outputs, delivery dates or allowances established by the special conditions of this licence where there have been changes to any Heat Policy Area that affects the licensee's legal obligations that:
  - (a) have come into effect on or after 1 April 2026;
  - (b) exceed the Materiality Threshold; and
  - (c) relate to costs incurred or expected to be incurred on or after 1 April 2026.

### **Part B: The process for making a direction**

- 3.14.4 Before making a direction under paragraph 3.14.3 the Authority will publish on the Authority's Website:
  - (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will be up to 28 days unless the Authority determines that a longer period is appropriate.
- 3.14.5 The direction will set out:
  - (a) any adjustments to the PCFM Variable Values of this licence;
  - (b) the Regulatory Years to which those adjustments relate; and
  - (c) any amendments to the outputs and delivery dates established by the special conditions of this licence.

## **Special Condition 3.15 Diversions and Loss of Development Claims Re-opener ( $DIV_t$ )**

### **Introduction**

- 3.15.1 The purpose of this condition is to calculate the term  $DIV_t$  (the Diversions and Loss of Development Claims Re-opener term). This contributes to the calculation of the Totex Allowance.
- 3.15.2 The effect of this condition is to establish a Re-opener triggered by the licensee where there are material additional Diversion Costs, reasonable alternative solutions that avoid Diversion Costs, Loss of Development Claims or costs of rectifying or mitigating damage to Network Assets due to adverse environmental factors beyond the control of the licensee.
- 3.15.3 This condition also explains the process the Authority will follow when directing any changes as a result of the Re-opener.

### **Part A: What is the scope of this Re-opener?**

- 3.15.4 The licensee may apply to the Authority for a direction adjusting the value of the  $DIV_t$  term for any Regulatory Year during the Price Control Period in relation to additional:
- (a) Diversion Costs or the cost of reasonable alternative solutions that avoid Diversion Costs;
  - (b) Loss of Development Claims; or
  - (c) costs of diverting gas assets due to adverse environmental factors.

### **Part B: When to make an application**

- 3.15.5 The licensee may only make an application under paragraph 3.15.4 between 1 April 2028 and 7 April 2028, and during such later periods as the Authority may direct.

### **Part C: How to make an application**

- 3.15.6 An application under paragraph 3.15.4 must be made in writing to the Authority and:
- (a) specify the Diversion Costs, the cost of reasonable alternative solutions to avoid Diversion Costs, Loss of Development Claims or costs of rectifying damage to Network Assets due to adverse environmental factors beyond the control of the licensee that have led to the application;
  - (b) set out the adjustments to the value of the  $DIV_t$  term that the licensee is requesting and the Regulatory Years to which that adjustment relates;
  - (c) explain the basis of the licensee's calculation of the proposed adjustments to the value of the  $DIV_t$  term;

- (d) if the application relates to Diversion Costs, include engineering justification statements that the Diversion Costs are efficient and unavoidable;
- (e) if the application relates to reasonable alternative solutions to avoid Diversion Costs, these must be at lower lifetime cost than a Diversion and provide the equivalent consumer benefits as a Diversion would;
- (f) if the application relates to Loss of Development Claims, demonstrate that reasonable challenge has been made to the basis for, and quantum, of any Loss of Development Claim; and
- (g) include such detailed supporting evidence, including Improvement Plans, risk mitigation approaches, Cost-Benefit Analysis and impact assessments, as is reasonable in the circumstances.

3.15.7 An application under paragraph 3.15.4 must:

- (a) be confined to Diversion Costs, the cost of reasonable alternative solutions to avoid Diversion Costs, Loss of Development Claims or costs of rectifying damage to Network Assets due to adverse environmental factors beyond the control of the licensee that were incurred or are expected to be incurred on or after 1 April 2026;
- (b) take account of any allowed expenditure, which can be avoided as a result of the change; and
- (c) relate to costs incurred or expected to be incurred that exceed the Materiality Threshold.

#### **Part D: What process will the Authority follow in making a direction?**

3.15.8 Before making a direction under paragraph 3.15.4 the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

3.15.9 The direction will set out any adjustments to the value of the  $DIV_t$  term and the Regulatory Years to which that adjustment relates.

### **Special Condition 3.16 New Large Load Connections Re-opener (NLLR<sub>t</sub>)**

#### **Introduction**

3.16.1 The purpose of this condition is to calculate the term NLLR<sub>t</sub> (the New Large Load Connections Re-opener term). This contributes to the calculation of the Totex Allowance.

3.16.2 The effect of this condition is to establish a Re-opener triggered by the licensee where connection of New Large Load Connections will trigger specific

reinforcement expenditure that cannot be recovered through the Connection Charge.

- 3.16.3 This condition sets out the process the Authority will follow when directing any changes as a result of this Re-opener.

**Part A: What is the scope of this Re-opener?**

- 3.16.4 The licensee may apply to the Authority for a direction to adjust the value of the NLLR<sub>t</sub> term for any Regulatory Year during the Price Control Period where the connection of New Large Load Connections will trigger specific reinforcement expenditure that cannot be recovered through the Connection Charge.

**Part B: When to make an application**

- 3.16.5 The licensee may only apply to the Authority for an adjustment under paragraph 3.16.4 Between 1 October 2028 and 7 October 2028, and during such later periods as the Authority may direct.

**Part C: How to make an application**

- 3.16.6 An application under paragraph 3.16.4 must be made in writing to the Authority and must:
- (a) specify the name and connection specifications of the New Large Load Connections to which the application relates;
  - (b) set out the adjustments to the value of the NLLR<sub>t</sub> term that the licensee is requesting, and the Regulatory Years to which that adjustment relates;
  - (c) explain the basis of the calculation for the proposed adjustments to the NLLR<sub>t</sub> term including the Economic Test; and
  - (d) include such detailed supporting evidence, including any commitments that those seeking the New Large Load Connections may have provided, engineering justification statements and analysis of potential alternatives to specific reinforcement, as is reasonable in the circumstances.
- 3.16.7 An application under paragraph 3.16.4 must:
- (a) take account of any allowed expenditure, which can be avoided as a result of the change;
  - (b) relate to costs that exceed the Materiality Threshold; and
  - (c) be confined to costs incurred or expected to be incurred on or after 1 April 2026.

**Part D: What process will the Authority follow in making a direction?**

- 3.16.8 Before making a direction under paragraph 3.16.4, the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and

- (c) a period during which representations may be made on the proposed direction, which will be up to 28 days unless the Authority determines that a longer period is appropriate from the date of publication.
- 3.16.9 The direction will set out any adjustments to the value of the NLLR<sub>t</sub> term and the Regulatory Years to which that adjustment relates.

## **Special Condition 3.17 Specified Streetworks Costs Re-opener (STW<sub>t</sub>)**

### **Introduction**

- 3.17.1 The purpose of this condition is to calculate the term STW<sub>t</sub> (the Specified Streetworks Costs Re-opener term). This contributes to the calculation of the Totex Allowance.
- 3.17.2 The effect of this condition is to establish a Re-opener triggered by either the licensee or by the Authority in relation to Specified Streetworks Costs.
- 3.17.3 This condition also explains the process the Authority will follow when directing any changes as a result of the Re-opener.

### **Part A: What is the scope of this Re-opener?**

- 3.17.4 The licensee may apply to the Authority for a direction adjusting the value of the STW<sub>t</sub> term for any Regulatory Year during the Price Control Period in relation to Specified Streetworks Costs.

### **Part B: When to make an application**

- 3.17.5 The licensee may only apply to the Authority for an adjustment under paragraph 3.17.4 Between 1 April 2029 and 7 April 2029, and during such later periods as the Authority may direct.

### **Part C: How to make an application**

- 3.17.6 An application under paragraph 3.17.4 must be made in writing to the Authority and must:
  - (a) state the Specified Streetworks Costs that have led to the application;
  - (b) set out the adjustments to the value of the STW<sub>t</sub> term that the licensee is requesting and the Regulatory Years to which that adjustment relates;
  - (c) explain the basis of the licensee's calculation of the proposed adjustments to the value of the STW<sub>t</sub> term; and
  - (d) include such detailed supporting evidence that the Specified Streetworks Costs are efficient and unavoidable as is reasonable in the circumstances.
- 3.17.7 An application under paragraph 3.17.4 must:
  - (a) relate to:

- (i) permit schemes, lane rental schemes or requirements that have been imposed or are expected to be imposed on or after 1 April 2026; or
- (ii) costs incurred from the new Material Classification Protocol replacing the existing Environment Agency Regulatory Position Statements (RPS) 298 and 299 from 1st October 2025 to 31st March 2026; or
- (b) take account of any allowed expenditure which can be avoided as a result; and
- (c) relate to costs incurred or expected to be incurred that exceed or are expected to exceed the Materiality Threshold.

#### **Part D: What process will the Authority follow in making a direction?**

3.17.8 Before making a direction under paragraph 3.17.4 the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

3.17.9 The direction will set out any adjustments to the value of the  $STW_t$  term and the Regulatory Years to which that adjustment relates.

### **Special Condition 3.18 Safety Disconnections volume driver (GDVD<sub>t</sub>)**

#### **Introduction**

3.18.1 The purpose of this condition is to calculate the term GDVD<sub>t</sub> (the safety disconnections adjustment term). This contributes to the calculation of the Totex Allowance.

3.18.2 The effect of this condition is to adjust revenue to fund Safety Disconnections.

#### **Part A: Formula for calculating the safety disconnections adjustment term (GDVD<sub>t</sub>)**

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

$$GDVD_t = ((SDC_t \cdot SDUC) + (CDC_t \cdot CDUC)) \cdot 10^{-6}$$

where:

$SDC_t$  means the number of Simple Disconnections carried out by the licensee;

$SDUC$	means the individual Simple Disconnection unit cost as set out in Appendix 1;
$CDC_t$	means the number of Complex Disconnections carried out by the licensee;
$CDUC$	means the individual Complex Disconnection unit cost as set out in Appendix 2; and
$GDVD_t$	means the safety disconnections adjustment term.

## Appendix 1

### Simple Disconnection unit costs

Distribution Network	Simple Disconnection unit cost (£)
EoE	148
Lon	132
NW	153
WM	143
Northern Gas Networks Ltd	245
Scotland Gas Networks plc	181
Southern Gas Networks plc	220
Wales and West Utilities Ltd	250

## Appendix 2

### Complex Disconnection unit costs

Distribution Network	Complex Disconnection unit cost (£)
EoE	1,137
Lon	1,600
NW	1,212
WM	1,177
Northern Gas Networks Ltd	693
Scotland Gas Networks plc	1,414
Southern Gas Networks plc	1,810
Wales and West Utilities Ltd	1,111

## Special Condition 3.19 Tier 1 Stubs decommissioning Price Control Deliverable (STBD<sub>t</sub>)

### Introduction

- 3.19.1 The purpose of this condition is to calculate the term STBD<sub>t</sub> (the Tier 1 Stubs decommissioning Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.
- 3.19.2 This condition specifies the allowances and target workloads for the Price Control Deliverable and the reduction in allowances if the licensee does not deliver the target volume of Tier 1 Stubs decommissioned.

### Part A: Formula for calculating the Tier 1 Stubs decommissioning Price Control Deliverable term [STBD<sub>t</sub>]

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

$$STBD_t = STBDA_t - STBIAd - STBDAd$$

where:

- STBDA<sub>t</sub>* means the allowance derived in accordance with paragraph 3.19.4;  
*STBIAd* means the adjustment derived in accordance with paragraph 3.19.6;  
and  
*STBDAd* means the adjustment derived in accordance with paragraph 3.19.7.

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

$$STBDA_t = (TW_t \cdot CS \cdot 10^{-6}) + (FNS_t \cdot CNS \cdot 10^{-6})$$

where:

- TW<sub>t</sub>* means the target workload of Tier 1 Stubs Decommissioned as set out in Appendix 1;  
*CS* means the allowed unit cost of Tier 1 Stubs Decommissioned as set out in Appendix 2;  
*FNS<sub>t</sub>* means the forecast number of Tier 1 Stubs Investigated But Not Decommissioned as set out in Appendix 3; and  
*CNS* means the allowed unit cost of Tier 1 Stubs Investigated But Not Decommissioned as set out in Appendix 4.

### Part B: What is the licensee funded to deliver?

- 3.19.5 The licensee is funded to deliver a target workload of Tier 1 Stubs decommissioned and stubs investigated but not decommissioned during the Price Control Period, as set out in Appendix 1 and Appendix 3 respectively.

### Part C: Assessment of the Price Control Deliverable

- 3.19.6 After the Price Control Period, the value of STBIAd will be derived in accordance with the following formula:



$$STBIAd = \max(CNS(FNS_t - ANS_t) \cdot 10^{-6}, 0)$$

where:

- CNS* means the allowed unit cost of Tier 1 Stubs Investigated But Not Decommissioned as set out in Appendix 4;
- FNS<sub>t</sub>* means the forecast number of Tier 1 Stubs Investigated But Not Decommissioned as set out in Appendix 3; and
- ANS<sub>t</sub>* means the number of Tier 1 Stubs Investigated But Not Decommissioned as of 31<sup>st</sup> March per Regulatory Year.

3.19.7 After the Price Control Period, the value of STBDAd will be derived in accordance with the following formula:

$$STBDAd = \{CS(TW_t - AW_t) \cdot 10^{-6}$$

where:

- TW<sub>t</sub>* means the target workload of Tier 1 Stubs Decommissioned as set out in Appendix 1;
- CS* means the allowed unit cost Of Tier 1 Stubs Decommissioned as set out in Appendix 2; and
- AW<sub>t</sub>* means the number of Tier 1 Stubs Decommissioned as of 31<sup>st</sup> March per Regulatory Year.

## Appendix 1

### Target workload volume (number of Tier 1 Stubs) of Tier 1 Stubs Decommissioned by Regulatory Year

Distribution Network	26/27	27/28	28/29	29/30	30/31	Total (all years)
EoE	137	137	137	137	137	685
Lon	162	162	162	161	161	808
NW	188	188	188	188	189	941
WM	228	228	228	227	227	1,138
Northern Gas Networks Ltd	53	53	53	0	0	159
Scotland Gas Networks plc	37	37	36	28	22	160
Southern Gas Networks plc	107	107	107	106	106	533
Wales & West Utilities Ltd	305	305	305	305	307	1,527

## Appendix 2

### Allowed unit cost Of Tier 1 Stubs Decommissioned

Distribution Network	Allowed Unit Cost (£/Tier 1 Stub)
EoE	[REDACTED]
Lon	[REDACTED]
NW	[REDACTED]
WM	[REDACTED]
Northern Gas Networks Ltd	[REDACTED]
Scotland Gas Networks plc	[REDACTED]
Southern Gas Networks plc	[REDACTED]
Wales & West Utilities Ltd	[REDACTED]

## Appendix 3

### Forecast volume (number of Tier 1 Stubs) of Tier 1 Stubs Investigated But Not Decommissioned by Regulatory Year

Distribution Network	26/27	27/28	28/29	29/30	30/31	Total (all years)
EoE	201	201	201	201	201	1,005
Lon	212	212	212	212	212	1,060
NW	287	287	287	287	287	1,435
WM	357	357	357	357	357	1,785
Northern Gas Networks Ltd	405	405	405	0	0	1,215
Scotland Gas Networks plc	6	6	7	5	3	27
Southern Gas Networks plc	18	18	18	18	18	90
Wales & West Utilities Ltd	211	211	211	211	211	1,055

## Appendix 4

### Allowed unit cost of Tier 1 Stubs Investigated But Not Decommissioned

Distribution Network	Allowed Unit Cost (£/Tier 1 Stub)
EoE	[REDACTED]
Lon	[REDACTED]
NW	[REDACTED]
WM	[REDACTED]
Northern Gas Networks Ltd	[REDACTED]
Scotland Gas Networks plc	[REDACTED]
Southern Gas Networks plc	[REDACTED]
Wales & West Utilities Ltd	[REDACTED]

### Special Condition 3.20 General Reinforcements Re-opener (GRCR<sub>t</sub>)

#### Introduction

- 3.20.1 The purpose of this condition is to calculate the term GRCR<sub>t</sub> (the General Reinforcements Re-opener term). This contributes to the calculation of the Totex Allowance.
- 3.20.2 The effect of this condition is to establish a Re-opener triggered by the licensee or by the Authority where General Reinforcements will trigger reinforcement expenditure that cannot be recovered through any other charge.
- 3.20.3 This condition sets out the process the Authority will follow when directing any changes as a result of the Re-opener.

#### Part A: What is the scope of this Re-opener?

- 3.20.4 The licensee may apply to the Authority for a direction to adjust the value of the GRCR<sub>t</sub> term for any Regulatory Year during the Price Control Period where General Reinforcements will trigger reinforcement expenditure that cannot be recovered through any other charge.

#### Part B: How to make an application

- 3.20.5 An application under paragraph 3.20.4 must be made in writing to the Authority and must:
- (a) specify the name and specifications of the General Reinforcement to which the application relates;
  - (b) set out the adjustments to the value of the GRCR<sub>t</sub> term that the licensee is requesting, and the Regulatory Years to which that adjustment relates;
  - (c) explain the bases of the calculation for the proposed adjustments to the GRCR<sub>t</sub> term; and

- (d) include such detailed supporting evidence, engineering justification statements and analysis of potential alternatives to General Reinforcement, as is reasonable in the circumstances.

3.20.6 An application under paragraph 3.20.4 must:

- (a) take account of any allowed expenditure, which can be avoided as a result of the change;
- (b) relate to costs that exceed the Materiality Threshold; and
- (c) be confined to costs incurred or expected to be incurred on or after 1 April 2026.

### **Part C: What process will the Authority follow in making a direction?**

3.20.7 Before making a direction under paragraph 3.20.4, the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction, which will be up to 28 days unless the Authority determines that a longer period is appropriate from the date of publication.

3.20.8 The direction will set out any adjustments to the value of the  $GRCR_t$  term and the Regulatory Years to which that adjustment relates.

### **Special Condition 3.21 Biomethane Distributed Entry Reinforcement use it or lose it allowance ( $BDER_t$ )**

3.21.1 The purpose of this condition is to calculate the term  $BDER_t$  (the Biomethane Distributed Entry Reinforcement use it or lose it allowance). This contributes to the calculation of the Totex Allowance.

3.21.2 The effect of this condition is to:

- (a) specify the allowance for  $BDER_t$ ;
- (b) provide for a Use It Or Lose It Adjustment; and
- (c) require the licensee to comply with the Biomethane UIOLI Governance Document.

3.21.3 This condition also explains the process the Authority will follow when issuing or amending the Biomethane UIOLI Governance Document.

### **Part A: Formula for calculating the Biomethane Distributed Entry Reinforcement use it or lose it allowance term ( $BDER_t$ )**

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

$$BDER_t = BDERA_t - BDERR_t$$

where:

$BDERA_t$  means the allowances in Appendix 1 that relate to the licensee; and  
 $BDERR_t$  has the value zero unless otherwise directed by the Authority in accordance with Part B.

### **Part B: Use It Or Lose It Adjustment**

- 3.21.5 The Authority will direct an amendment to the value of  $BDER_t$  where it considers that a Use It Or Lose It Adjustment is appropriate.

### **Part C: Biomethane UIOLI Governance Document**

- 3.21.6 The licensee must comply with the Biomethane UIOLI Governance Document when incurring expenditure in relation to the allowance provided by this condition.
- 3.21.7 The Authority will issue and amend the Biomethane UIOLI Governance Document by direction.
- 3.21.8 The Authority will publish the Biomethane UIOLI Governance Document on the Authority's Website.
- 3.21.9 The Biomethane UIOLI Governance Document will make provision about the governance and administration of the Biomethane Distributed Entry Reinforcement use it or lose it allowance, including:
- (a) allowable Biomethane Distributed Entry Reinforcement use it or lose it expenditure and unrecoverable Biomethane Distributed Entry Reinforcement use it or lose it expenditure;
  - (b) the eligibility criteria, which expenditure incurred in relation to the allowance provided by this condition must meet;
  - (c) the reporting obligations in respect of which expenditure incurred in relation to the Biomethane Distributed Entry Reinforcement allowance which the licensee must meet; and
  - (d) the cap level that each project must not exceed.
- 3.21.10 Before directing that the Biomethane UIOLI Governance Document comes into effect, the Authority will publish on the Authority's Website:
- (a) the text of the proposed Biomethane UIOLI Governance Document;
  - (b) the date on which the Authority intends the Biomethane UIOLI Governance Document to come into effect; and
  - (c) a period during which representations may be made on the content of the Biomethane UIOLI Governance Document, which will be up to 28 days unless the Authority determines that a longer period is appropriate.
- 3.21.11 Before directing an amendment to the Biomethane UIOLI Governance Document, the Authority will publish on the Authority's Website:
- (a) the text of the proposed amendments to the Biomethane UIOLI Governance Document;

- (b) the date on which the Authority intends the amended Biomethane UIOLI Governance Document to come into effect;
- (c) the reasons for the proposed amendments to the Biomethane UIOLI Governance Document; and
- (d) a period during which representations may be made on the proposed amendments to the Biomethane UIOLI Governance Document, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

#### **Part D: Authority's direction process**

3.21.12 Before making a direction under paragraph 3.21.5, the Authority will publish on the Authority's website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

3.21.13 The direction will set out the value of the BDER<sub>t</sub> term and the Regulatory Years to which that adjustment relates.

#### **Part E: Review by the Authority**

3.21.14 In the Regulatory Year commencing on 1 April 2027, the Authority may review the licensee's management of Biomethane, including the costs incurred by the licensee as part of this activity.

3.21.15 The review may also include, but not be limited to, review of the cap per Biomethane Connection, the total allowances in Appendix 1 and the review of the Biomethane UIOLI Governance Document. The Authority will discuss the scope and timescale for undertaking the review with the licensee.

3.21.16 Upon completion of the review, the Authority will set out any further steps which it considers appropriate in relation to the licensee's management of Biomethane, including modifications under section 23 of the Act.

### **Appendix 1**

#### **Biomethane use it or lose it allowance (£m)**

<b>Distribution Network</b>	<b>Allowance (£m)</b>
EoE	20.00
Lon	20.00
NW	20.00
WM	20.00
NGN	20.00
Sc	20.00
So	20.00

## **Special Condition 3.22 Complex Distribution Systems Re-opener (CDS<sub>t</sub>)**

### **Introduction**

- 3.22.1 The purpose of this condition is to calculate the term CDS<sub>t</sub> (the Complex Distribution Systems Re-opener term). This contributes to the calculation of the Totex Allowance.
- 3.22.2 The effect of this condition is to establish a Re-opener to be triggered by the licensee where the licensee incurs costs relating to the condition-based replacement of assets within Complex Distribution Systems during the Price Control Period.
- 3.22.3 This condition also explains the process that the Authority will follow when directing any changes as a result of the Re-opener.

### **Part A: What is the scope of this Re-opener?**

- 3.22.4 The licensee may apply to the Authority for a direction adjusting the value of the CDS<sub>t</sub> term for any Regulatory Year during the Price Control Period where the licensee incurs costs relating to condition-based replacement of assets within Complex Distribution Systems, which the licensee considers have been efficiently incurred and where those costs have not already been provided for by the special conditions of this licence.

### **Part B: When to make an application**

- 3.22.5 The licensee may only apply to the Authority for an adjustment under paragraph 3.22.4 between 1 October 2028 and 7 October 2028, and during such later periods as the Authority may direct.

### **Part C: How should an application be made?**

- 3.22.6 An application under paragraph 3.22.4 must be made in writing to the Authority and must:
- (a) specify the additional costs relating to the replacement of assets within Complex Distribution Systems;
  - (b) give justification for the needs case of the proposal;
  - (c) give engineering and cost justifications for the set of technical solutions for replacing the assets;
  - (d) provide detailed cost estimates for replacing the volumes included in the application supported by market assessment and cost scoping of materials, labour and equipment;
  - (e) set out a proposed project timeline for replacing the volumes proposed in the application;

- (f) set out the adjustments to the value of the  $CDS_t$  term that the licensee is requesting, and the Regulatory Years to which that adjustment relates;
- (g) explain the basis of the calculation for the proposed adjustments to the  $CDS_t$  term; and
- (h) include such detailed supporting evidence including Cost-Benefit Analysis, impact assessments and engineering justification statements, as is reasonable in all the circumstances.

3.22.7 An application must:

- (a) be confined to costs that are incurred or are expected to be incurred on or after 1 April 2026; and
- (b) take account of any allowed expenditure which can be avoided as a result of the changes.

**Part D: What process will the Authority follow in making a direction?**

3.22.8 Before making a direction under paragraph 3.22.4, the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

3.22.9 The direction will set out:

- (a) any adjustments to the value of the  $CDS_t$  term; and
- (b) the Regulatory Years to which any adjustments to the allowance under sub-paragraph (a) relates.



**Special Condition 3.23 Not used**

**Special Condition 3.24 Not used**

**Special Condition 3.25 Not used**

**Special Condition 3.26 Not used**

**Special Condition 3.27 Not used**

**Special Condition 3.28 Not used**

**Special Condition 3.29 Not used**

**Special Condition 3.30 Not used**

**Special Condition 3.31 Not used**

**Special Condition 3.32 GD2/GD3 crossover adjustment (GD2ACA<sub>t</sub>)**

#### **Introduction**

3.32.1 The purpose of this condition is to:

- (a) calculate the term GD2ACA<sub>t</sub> (the aggregate GD2/GD3 crossover adjustment term). This term contributes to the Totex Allowance.
- (b) specify the values for each individual GD2/GD3 crossover adjustment term that contribute to GD2ACA<sub>t</sub>.
- (c) define the scope and coverage of modifications to GD2/GD3 crossover adjustment terms that contribute to GD2ACA<sub>t</sub>; and
- (d) establish the GD2/GD3 Crossover Submissions Requirements and Guidance Document

#### **Part A: Formula for calculating the aggregate GD2/GD3 crossover adjustment term (GD2ACA<sub>t</sub>)**

3.32.2 The value of the GD2ACA<sub>t</sub> term is calculated in accordance with the following formula:

$$\begin{aligned} GD2ACA_t = & GD2CROT_t + GD2CROTRE_t + GD2CRIT_t + GD2CRITRE_t \\ & + GD2NOITRE_t + GD2CAP_t + GD2OTC_t + GD2STUB_t + GD2MOBS_t \\ & + GD2GHRR_t + GD2PWF_t \text{ (Cadent Only)} \\ & + GD2IPR_t \text{ (SGN Scotland Only)} + GD2RPM_t \text{ (SGN Southern only)} \\ & + GD2BMI_t \text{ (SGN Only)} + GD2GER_t \text{ (SGN Only)} + GD2RDF_t + GD2NZ_t \\ & + GD2NZP_t - GD2R_t \end{aligned}$$

*where:*

<i>GD2CROT<sub>t</sub></i>	means the GD2/GD3 crossover adjustment relating to the Cyber resilience OT baseline term (CROT <sub>t</sub> ) as specified in Special Condition 3.2 of the RIIO-GD2 licence as in force on 31 March 2026 [all licensees]
<i>GD2CROTRE<sub>t</sub></i>	means the GD2/GD3 crossover adjustment relating to the Cyber resilience OT non-baseline term (CROTRE <sub>t</sub> ) as specified in Special Condition 3.2 of the RIIO-GD2 licence as in force on 31 March 2026 [all licensees]
<i>GD2CRIT<sub>t</sub></i>	means the GD2/GD3 crossover adjustment relating to the Cyber resilience IT baseline term (CRIT <sub>t</sub> ) as specified in Special Condition 3.3 of the RIIO-GD2 licence as in force on 31 March 2026 [all licensees]
<i>GD2CRITRE<sub>t</sub></i>	means the GD2/GD3 crossover adjustment relating to the Cyber resilience IT non-baseline term (CRITRE <sub>t</sub> ) as specified in Special Condition 3.3 of the RIIO-GD2 licence as in force on 31 March 2026 [all licensees]
<i>GD2NOITRE<sub>t</sub></i>	means the GD2/GD3 crossover adjustment relating to the Non-operational IT Capex Re-opener term (NOITRE <sub>t</sub> ) as specified in Special Condition 3.7 of the RIIO-GD2 licence as in force on 31 March 2026 [all licensees]
<i>GD2CAP<sub>t</sub></i>	means the GD2/GD3 crossover adjustment relating to the Capital Projects Price Control Deliverable term (CAP <sub>t</sub> ) as specified in Special Condition 3.12 of the RIIO-GD2 licence as in force on 31 March 2026 [all licensees]
<i>GD2OTC<sub>t</sub></i>	means the GD2/GD3 crossover adjustment relating to the Commercial Fleet EV Price Control Deliverable term (OTC <sub>t</sub> ) as specified in Special Condition 3.13 of the RIIO-GD2 licence as in force on 31 March 2026 [all licensees]
<i>GD2STUB<sub>t</sub></i>	means the GD2/GD3 crossover adjustment relating to the Tier 1 Stubs Repex Re-opener (STUB <sub>t</sub> ) as specified in Special Condition 3.18 of the RIIO-GD2 licence as in force on 31 March 2026 [all licensees]
<i>GD2MOBS<sub>t</sub></i>	means the GD2/GD3 crossover adjustment relating to the Multiple Occupancy Buildings Safety Re-opener (MOBS <sub>t</sub> ) as specified in Special Condition 3.21 of the RIIO-GD2 licence as in force on 31 March 2026 [all licensees]
<i>GD2GHRR<sub>t</sub></i>	means the GD2/GD3 crossover adjustment relating to the Gas Holder Demolitions Price Control Deliverable (GHRR <sub>t</sub> ) as specified in Special Condition 3.25 of the RIIO-GD2 licence as in force on 31 March 2026 [all licensees]
<i>GD2PWF<sub>t</sub></i> <i>[Cadent only]</i>	means the GD2/GD3 crossover adjustment relating to the Personalising Welfare Facilities Price Control Deliverable (PWF <sub>t</sub> ) as specified in Special Condition 3.26 of the RIIO-GD2 licence as in force on 31 March 2026 [Cadent only]

$GD2IPR_t$ [SGN Scotland only]	means the GD2/GD3 crossover adjustment relating to the Intermediate Pressure Configurations Price Control Deliverable ( $IPR_t$ ) as specified in Special Condition 3.28 of the RIIO-GD2 licence as in force on 31 March 2026 [SGN Scotland only]
$GD2RPM_t$ [SGN Southern only]	means the GD2/GD3 crossover adjustment relating to the Remote Pressure Management Price Control Deliverable ( $RPM_t$ ) as specified in Special Condition 3.29 of the RIIO-GD2 licence as in force on 31 March 2026 [SGN Southern only]
$GD2BMI_t$ [SGN only]	means the GD2/GD3 crossover adjustment relating to the Biomethane Improved Access Rollout Price Control Deliverable ( $BMI_t$ ) as specified in Special Condition 3.30 of the RIIO-GD2 licence as in force on 31 March 2026 [SGN only]
$GD2GER_t$ [SGN only]	means the GD2/GD3 crossover adjustment relating to the Gas Escape Reduction Price Control Deliverable ( $GER_t$ ) as specified in Special Condition 3.31 of the RIIO-GD2 licence as in force on 31 March 2026 [SGN only]
$GD2RDF_t$	means the GD2/GD3 crossover adjustment relating to the Net Zero And Re-opener Development Fund use it or lose it allowance term ( $RDF_t$ ) as specified in Special Condition 3.5 of the RIIO-GD2 licence as in force on 31 March 2026 [all licensees]
$GD2NZ_t$	means the GD2/GD3 crossover adjustment relating to the Net zero Re-opener and Price Control Deliverable term ( $NZ_t$ ) as specified in Special Condition 3.6 of the RIIO-GD2 licence as in force on 31 March 2026 [all licensees]
$GD2NZP_t$	means the GD2/GD3 crossover adjustment relating to the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener term ( $NZP_t$ ) as specified in Special Condition 3.9 of the RIIO-GD2 licence as in force on 31 March 2026 [all licensees]
$GD2R_t$	has the value zero unless otherwise directed by the Authority in accordance with Part F.

## **Part B: Values of individual GD2/GD3 crossover adjustments and modifications to those values**

- 3.32.3 The values of each individual GD2/GD3 crossover adjustment term that contributes to the calculation of  $GD2ACA_t$  and the Regulatory Years to which such values apply are set out in Appendix 1 and Appendix 2.
- 3.32.4 The Authority may amend any values in Appendix 1 and Appendix 2, and amend this licence in relation to outputs, targets and delivery dates associated with a GD2/GD3 Crossover Item at any time during the Price Control Period under section 23 of the Act.

- 3.32.5 In making amendments to any value in Appendix 1 and Appendix 2, the Authority will:
- (a) have regard to the general principles for GD2/GD3 crossover adjustments set out in the GD2/GD3 Crossover Submission Requirements and Guidance Document issued in accordance with Part D; and
  - (b) take account of the value of the Legacy Adjustment Term (LADJt) term derived, or expected to be derived, in accordance with Special Condition 7.2 of this licence.

**Part C: Definition of a GD2/GD3 Crossover Item and scope of any adjustments**

- 3.32.6 A GD2/GD3 Crossover Item is an output, Price Control Deliverable or activity:
- (a) that is funded in part or in full by a mechanism specified in this licence as in force on 31 March 2026; and
  - (b) in the delivery of which the licensee, acting reasonably and efficiently, has incurred or is expected to incur expenditure during the Price Control Period.
- 3.32.7 The Authority may amend any value in Appendix 1 or 2 if either one of the following are satisfied:
- (a) Allowances provided by mechanisms in this licence as in force on 31 March 2026 in respect of a GD2/GD3 Crossover Item relating to that value were intended to cover part of the efficient cost of the item, and there is no other mechanism in this licence at the time of the amendment that would, or may be reasonably expected to, fund the remaining efficient cost of the GD2/GD3 Crossover Item; or
  - (b) The derivation of the Legacy AIP Adjustment term (LADJt) in accordance with Special Condition 7.2 Legacy AIP Adjustment term (LADJt) has resulted, or is expected to result, in a reduction to allowances otherwise provided by a mechanism specified in this licence as in force on 31 March 2026 for the GD2/GD3 Crossover item such that the efficient cost of delivering the item in full is not adequately remunerated through allowances that have been provided, or will be provided, through mechanisms in this licence.

**Part D: GD2/GD3 Crossover Submission Requirements and Guidance Document**

- 3.32.8 The Authority will issue and amend the GD2/GD3 Crossover Submission Requirements and Guidance by direction.
- 3.32.9 The Authority will publish the GD2/GD3 Crossover Submission Requirements and Guidance on the Authority's website.
- 3.32.10 The licensee must comply with the GD2/GD3 Crossover Submission Requirements and Guidance.
- 3.32.11 The GD2/GD3 Crossover Submission Requirements and Guidance will include, or make provision for, the following:

- (a) the general principles to which the Authority will have regard to when making amendments to any value in Appendix 1.
  - (b) the timing and format of requests by the licensee for an amendment to any value in Appendix 1 and other parts of this licence.
  - (c) the details of information required to be provided by the licensee to the Authority to support a request for amendment to values in Appendix 1.
- 3.32.12 Before directing any amendment to the GD2/GD3 Crossover Submission Requirements and Guidance Document, Ofgem will publish on its website:
- (a) The text of the amended GD2/GD3 Crossover Submission Requirements Guidance Document;
  - (b) The date on which the Authority intends the amended GD2/GD3 Crossover Submission Requirements and Guidance Document to come into effect;
  - (c) The reasons for the amendments to the GD2/GD3 Crossover Submission Requirements and Guidance Document; and
  - (d) The period during which representations may be made on the amendments to the GD2/GD3 Crossover Submission Requirements and Guidance Document, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

**Part E: What is the licensee funded to deliver?**

- 3.32.13 Appendix 2 specifies the outputs that the licensee is funded to deliver, the individual GD2/GD3 crossover adjustment that the output is funded by, the delivery dates for those outputs and the allowances provided for the output.

**Part F: Assessment of outputs (GD2R<sub>t</sub>)**

- 3.32.14 The Authority will, in accordance with the assessment principles set out in Part A of Special Condition 9.3 (Price Control Deliverable assessment principles and reporting requirements), consider directing a value for GD2R<sub>t</sub> where the licensee has not Fully Delivered an output in Appendix 2.

**Part G: What process will the Authority follow in making a direction?**

- 3.32.15 Before making a direction under paragraph 3.23.14 the Authority must publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction;
  - (c) a period during which representations may be made on the proposed direction which will be up to 28 days unless the Authority determines that a longer period is appropriate.
- 3.32.16 A direction under paragraph 3.23.14 must set out:
- (a) the delivery status of the output that has not been Fully Delivered;
  - (b) the value of the GD2R<sub>t</sub> term and the Regulatory Years to which those adjustments relate; and

(c) the methodology and data that have been used to decide the delivery status and any value of any adjustments to the  $GD2R_t$  term.

### Appendix 1

**The values of the individual GD2/GD3 crossover adjustments, per Regulatory Year (£m)**

<b>Term</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>	<b>2030/31</b>	<b>RIIO-3 Total</b>
$GD2CROT_t$	0	0	0	0	0	0
$GD2CROTRE_t$	0	0	0	0	0	0
$GD2CRIT_t$	0	0	0	0	0	0
$GD2CRITRE_t$	0	0	0	0	0	0
$GD2NOITRE_t$	0	0	0	0	0	0
$GD2CAP_t$	0	0	0	0	0	0
$GD2OTC_t$	0	0	0	0	0	0
$GD2STUB_t$	0	0	0	0	0	0
$GD2MOBS_t$	0	0	0	0	0	0
$GD2GHRR_t$	0	0	0	0	0	0
$GD2PWF_t$ [Cadent only]	0	0	0	0	0	0
$GD2IPR_t$ [SGN Scotland only]	0	0	0	0	0	0
$GD2RPM_t$ [SGN Southern only]	0	0	0	0	0	0
$GD2BMI_t$ [SGN only]	0	0	0	0	0	0
$GD2GER_t$ [SGN only]	0	0	0	0	0	0
$GD2RDF_t$	0	0	0	0	0	0
$GD2NZ_t$	0	0	0	0	0	0
$GD2NZP_t$	0	0	0	0	0	0

## Appendix 2: Outputs - NGN

<b>Output</b>	<b>Delivery date</b>	<b>GD2/GD3 Crossover adjustment</b>	<b>RIO-3 allowance provided</b>
N/A	N/A	N/A	N/A

## Chapter 4: Output delivery incentives

### Special Condition 4.1 Total output delivery incentive performance

#### Introduction

- 4.1.1 The purpose of this condition is to calculate  $ODI_t$  (the output delivery incentives term). This contributes to the calculation of Calculated Revenue in Special Condition 2.1 (Revenue restriction).

#### Part A: Formula for calculating total output delivery incentive performance

- 4.1.2 The value of  $ODI_t$  is derived in accordance with the following formula:

$$ODI_t = CS_t + CM_t + UIP_t + CSW_t + STED_t$$

where:

- $CS_t$  is derived in accordance with Special Condition 4.2 (Customer Satisfaction Survey output delivery incentive);
- $CM_t$  is derived in accordance with Special Condition 4.3 (Complaints metric output delivery incentive);
- $UIP_t$  is derived in accordance with Special Condition 4.4 (Unplanned Interruption Mean Duration output delivery incentive);
- $CSW_t$  is derived in accordance with Special Condition 4.5 (Collaborative streetworks output delivery incentive); and
- $STED_t$  is derived in accordance with Special Condition 4.6 (7 and 28 day repair standards output delivery incentive).

### Special Condition 4.2 Customer Satisfaction Survey output delivery incentive ( $CS_t$ )

#### Introduction

- 4.2.1 The purpose of this condition is to calculate the term  $CS_t$  (the Customer Satisfaction Survey output delivery incentive term). This contributes to the calculation of the term  $ODI_t$  (the output delivery incentives term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 4.2.2 The effect of this incentive is to reward or to penalise the licensee in relation to its customer service performance under three contributing survey elements.

#### Part A: Adjustments arising from the Customer Satisfaction Survey ( $CS_t$ )

- 4.2.3 The value of the  $CS_t$  term is derived in accordance with the following formula:

$$CS_t = CSA_t + CSB_t + CSC_t$$

where:



$CSA_t$	means the adjustment in respect of performance for the Planned Supply Interruptions Element of the Customer Satisfaction Survey and is derived in accordance with Part B;
$CSB_t$	means the adjustment in respect of performance for the Unplanned Supply Interruptions Element of the Customer Satisfaction Survey and is derived in accordance with Part C; and
$CSC_t$	means the adjustment in respect of performance for the Connections Element of the Customer Satisfaction Survey and is derived in accordance with Part D.

## **Part B: Planned Supply Interruptions Element of the Customer Satisfaction Survey**

4.2.4 The  $CSA_t$  term is derived in accordance with the following formulae:

If  $CSAT_t \leq CSAS_t \leq CSATU_t$  then:

$$CSA_t = 0$$

If  $CSAS_t > CSATU_t$  then:

$$CSA_t = \min(CAMR_t, ((CSAS_t - CSATU_t) \times ARIR_t))$$

If  $CSAS_t < CSAT_t$  then:

$$CSA_t = \max(-CAMP_t, ((CSAS_t - CSAT_t) \times APIR_t))$$

where:

$CSAS_t$	means the performance score for the Planned Supply Interruptions Element of the Customer Satisfaction Survey;
$CSAT_t$	means the Planned Supply Interruptions Element score at which the penalty will be applied, fixed at 8.79;
$CSATU_t$	means the Planned Supply Interruptions Element score at which the reward will be applied, fixed at 9.13;
$CAMR_t$	means the maximum reward in respect of the Planned Supply Interruption Element of the Customer Satisfaction Survey for the licensee, as specified in Appendix 1;
$ARIR_t$	means the licensee's reward incentive rate for the Planned Supply Interruption Element of the Customer Satisfaction Survey, as specified in Appendix 2;
$CAMP_t$	means the maximum penalty in respect of the Planned Supply Interruption Element of the Customer Satisfaction Survey for the licensee, as specified in Appendix 3; and

$APIR_t$  means the licensee's penalty incentive rate for the Planned Supply Interruption Element of the Customer Satisfaction Survey, as specified in Appendix 4.

### **Part C: Unplanned Supply Interruptions Element of the Customer Satisfaction Survey**

4.2.5 The  $CSB_t$  term is derived in accordance with the following formulae:

If  $CSBT_t \leq CSBS_t \leq CSBTU_t$  then:

$$CSB_t = 0$$

If  $CSBS_t > CSBTU_t$  then:

$$CSB_t = \min(CBMR_t, ((CSBS_t - CSBTU_t) \times BRIR_t))$$

If  $CSBS_t < CSBT_t$  then:

$$CSB_t = -CBMP_t$$

where:

$CSBS_t$  means the performance score for the Unplanned Supply Interruptions Element of the Customer Satisfaction Survey;

$CSBT_t$  means the Unplanned Supply Interruptions Element score at which the penalty will be applied, fixed at 9.00;

$CSBTU_t$  means the Unplanned Supply Interruptions Element score at which the reward will be applied, fixed at 9.69;

$CBMR_t$  means the maximum reward in respect of the Unplanned Supply Interruptions Element of the Customer Satisfaction Survey for the licensee, as specified in Appendix 5;

$BRIR_t$  means the licensee's reward incentive rate for the Unplanned Supply Interruptions Element of the Customer Satisfaction Survey, as specified in Appendix 6; and

$CBMP_t$  means the maximum penalty in respect of the Unplanned Supply Interruption Element of the Customer Satisfaction Survey for the licensee, as specified in Appendix 7.

### **Part D: Connections Element of the Customer Satisfaction Survey**

4.2.6 The  $CSC_t$  term is derived in accordance with the following formulae:

If  $CSR_t < 200$  then:

$$CSC_t = 0$$

If  $1500 \leq CSCJ_t$  then:

$$CSCMT = \min 1, (CSCJ_t/1500)$$

If  $CSCJ_t \leq CSCS_t \leq CSCTU_t$  then:

$$CSC_t = 0$$

If  $CSCS_t > CSCTU_t$  then:

$$CSC_t = (\min(CCMR_t, ((CSCS_t - CSCTU_t) \times CRIR_t))) \times CSCMT$$

If  $CSCS_t < CSCT_t$  then:

$$CSC_t = (\max(-CCMP_t, ((CSCS_t - CSCT_t) \times CPIR_t))) \times CSCMT$$

where:

$CSCS_t$	means the performance score for the Connections Element of the Customer Satisfaction Survey;
$CSCT_t$	means the Connections Element score at which the penalty will be applied, fixed at 8.88;
$CSCTU_t$	means the Connections Element score at which the reward will be applied, fixed at 9.29;
$CSR_t$	means the number of responses received for the Connections Element of the Customer Satisfaction Survey in the Regulatory Year.
$CSCJ_t$	means the number of eligible jobs completed in the relevant Regulatory Year;
$CCMR_t$	means the maximum reward in respect of the Connections Element of the Customer Satisfaction Survey for the licensee, as specified in Appendix 8;
$CRIR_t$	means the licensee's reward incentive rate for the Connections Element of the Customer Satisfaction Survey, as specified in Appendix 9;
$CCMP_t$	means the maximum penalty in respect of the Connections Element of the Customer Satisfaction Survey for the licensee, as specified in Appendix 10;
$CPIR_t$	means the licensee's penalty incentive rate for the Connections Element of the Customer Satisfaction Survey, as specified in Appendix 11; and
$CSCMT$	means the multiplier applied to the reward or penalty if the number of eligible jobs is 1500 or lower.

- 4.2.7 Where the licensee receives fewer than 200 customer responses to the Connections Element of the Customer Satisfaction Survey in the relevant Regulatory Year, the value of  $CSC_t$  will be 0.

## **Appendix 1**

### **Maximum reward in respect of the Planned Supply Interruptions Element of the Customer Satisfaction Survey (CAMR<sub>t</sub>) (£m)**

<b>Distribution Network</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>	<b>2030/31</b>
EoE	1.48	1.48	1.48	1.48	1.48
Lon	1.07	1.07	1.07	1.07	1.07
NW	1.01	1.01	1.01	1.01	1.01
WM	0.77	0.77	0.77	0.77	0.77
Northern Gas Networks Ltd	1.00	1.00	1.00	1.00	1.00
Scotland Gas Networks plc	0.78	0.78	0.78	0.78	0.78
Southern Gas Networks plc	1.66	1.66	1.66	1.66	1.66
Wales & West Utilities Ltd	1.06	1.06	1.06	1.06	1.06

## **Appendix 2**

### **Reward incentive rate for the Planned Supply Interruptions Element of the Customer Satisfaction Survey (ARIR<sub>t</sub>) (£m)**

<b>Distribution Network</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>	<b>2030/31</b>
EoE	18.52	18.52	18.52	18.52	18.52
Lon	13.35	13.35	13.35	13.35	13.35
NW	12.68	12.68	12.68	12.68	12.68
WM	9.60	9.60	9.60	9.60	9.60
Northern Gas Networks Ltd	12.52	12.52	12.52	12.52	12.52
Scotland Gas Networks plc	9.77	9.77	9.77	9.77	9.77
Southern Gas Networks plc	20.80	20.80	20.80	20.80	20.80
Wales & West Utilities Ltd	13.20	13.20	13.20	13.20	13.20

### Appendix 3

#### Maximum penalty in respect of the Planned Supply Interruptions Element of the Customer Satisfaction Survey (CAMP<sub>t</sub>) (£m)

Distribution Network	2026/27	2027/28	2028/29	2029/30	2030/31
EoE	1.48	1.48	1.48	1.48	1.48
Lon	1.07	1.07	1.07	1.07	1.07
NW	1.01	1.01	1.01	1.01	1.01
WM	0.77	0.77	0.77	0.77	0.77
Northern Gas Networks Ltd	1.00	1.00	1.00	1.00	1.00
Scotland Gas Networks plc	0.78	0.78	0.78	0.78	0.78
Southern Gas Networks plc	1.66	1.66	1.66	1.66	1.66
Wales & West Utilities Ltd	1.06	1.06	1.06	1.06	1.06

### Appendix 4

#### Penalty incentive rate for the Planned Supply Interruptions Element of the Customer Satisfaction Survey (APIR<sub>t</sub>) (£m)

Distribution Network	2026/27	2027/28	2028/29	2029/30	2030/31
EoE	11.40	11.40	11.40	11.40	11.40
Lon	8.22	8.22	8.22	8.22	8.22
NW	7.81	7.81	7.81	7.81	7.81
WM	5.91	5.91	5.91	5.91	5.91
Northern Gas Networks Ltd	7.70	7.70	7.70	7.70	7.70
Scotland Gas Networks plc	6.01	6.01	6.01	6.01	6.01
Southern Gas Networks plc	12.80	12.80	12.80	12.80	12.80
Wales & West Utilities Ltd	8.12	8.12	8.12	8.12	8.12

## Appendix 5

### Maximum reward in respect of the Unplanned Supply Interruptions Element of the Customer Satisfaction Survey (CBMR<sub>t</sub>) (£m)

Distribution Network	2026/27	2027/28	2028/29	2029/30	2030/31
EoE	1.48	1.48	1.48	1.48	1.48
Lon	1.07	1.07	1.07	1.07	1.07
NW	1.01	1.01	1.01	1.01	1.01
WM	0.77	0.77	0.77	0.77	0.77
Northern Gas Networks Ltd	1.00	1.00	1.00	1.00	1.00
Scotland Gas Networks plc	0.78	0.78	0.78	0.78	0.78
Southern Gas Networks plc	1.66	1.66	1.66	1.66	1.66
Wales & West Utilities Ltd	1.06	1.06	1.06	1.06	1.06

## Appendix 6

### Reward incentive rate for the Unplanned Supply Interruptions Element of the Customer Satisfaction Survey (BRIR<sub>t</sub>) (£m)

Distribution Network	2026/27	2027/28	2028/29	2029/30	2030/31
EoE	24.69	24.69	24.69	24.69	24.69
Lon	17.81	17.81	17.81	17.81	17.81
NW	16.91	16.91	16.91	16.91	16.91
WM	12.79	12.79	12.79	12.79	12.79
Northern Gas Networks Ltd	16.69	16.69	16.69	16.69	16.69
Scotland Gas Networks plc	13.03	13.03	13.03	13.03	13.03
Southern Gas Networks plc	27.74	27.74	27.74	27.74	27.74
Wales & West Utilities Ltd	17.59	17.59	17.59	17.59	17.59

## **Appendix 7**

### **Maximum penalty in respect of the Unplanned Supply Interruptions Element of the Customer Satisfaction Survey (CBMP<sub>t</sub>) (£m)**

<b>Distribution Network</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>	<b>2030/31</b>
EoE	1.48	1.48	1.48	1.48	1.48
Lon	1.07	1.07	1.07	1.07	1.07
NW	1.01	1.01	1.01	1.01	1.01
WM	0.77	0.77	0.77	0.77	0.77
Northern Gas Networks Ltd	1.00	1.00	1.00	1.00	1.00
Scotland Gas Networks plc	0.78	0.78	0.78	0.78	0.78
Southern Gas Networks plc	1.66	1.66	1.66	1.66	1.66
Wales & West Utilities Ltd	1.06	1.06	1.06	1.06	1.06

## **Appendix 8**

### **Maximum reward in respect of the Connections Element of the Customer Satisfaction Survey (CCMR<sub>t</sub>) (£m)**

<b>Distribution Network</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>	<b>2030/31</b>
EoE	1.48	1.48	1.48	1.48	1.48
Lon	1.07	1.07	1.07	1.07	1.07
NW	1.01	1.01	1.01	1.01	1.01
WM	0.77	0.77	0.77	0.77	0.77
Northern Gas Networks Ltd	1.00	1.00	1.00	1.00	1.00
Scotland Gas Networks plc	0.78	0.78	0.78	0.78	0.78
Southern Gas Networks plc	1.66	1.66	1.66	1.66	1.66
Wales & West Utilities Ltd	1.06	1.06	1.06	1.06	1.06

## Appendix 9

### Reward incentive rate for the Connections Element of the Customer Satisfaction Survey (CRIR<sub>t</sub>) (£m)

Distribution Network	2026/27	2027/28	2028/29	2029/30	2030/31
EoE	14.82	14.82	14.82	14.82	14.82
Lon	10.68	10.68	10.68	10.68	10.68
NW	10.15	10.15	10.15	10.15	10.15
WM	7.68	7.68	7.68	7.68	7.68
Northern Gas Networks Ltd	10.01	10.01	10.01	10.01	10.01
Scotland Gas Networks plc	7.82	7.82	7.82	7.82	7.82
Southern Gas Networks plc	16.64	16.64	16.64	16.64	16.64
Wales & West Utilities Ltd	10.56	10.56	10.56	10.56	10.56

## Appendix 10

### Maximum penalty in respect of the Connections Element of the Customer Satisfaction Survey (CCMP<sub>t</sub>) (£m)

Distribution Network	2026/27	2027/28	2028/29	2029/30	2030/31
EoE	1.48	1.48	1.48	1.48	1.48
Lon	1.07	1.07	1.07	1.07	1.07
NW	1.01	1.01	1.01	1.01	1.01
WM	0.77	0.77	0.77	0.77	0.77
Northern Gas Networks Ltd	1.00	1.00	1.00	1.00	1.00
Scotland Gas Networks plc	0.78	0.78	0.78	0.78	0.78
Southern Gas Networks plc	1.66	1.66	1.66	1.66	1.66
Wales & West Utilities Ltd	1.06	1.06	1.06	1.06	1.06



## Appendix 11

### Penalty incentive rate for the Connections Element of the Customer Satisfaction Survey (CPIR<sub>t</sub>) (£m)

Distribution Network	2026/27	2027/28	2028/29	2029/30	2030/31
EoE	9.88	9.88	9.88	9.88	9.88
Lon	7.12	7.12	7.12	7.12	7.12
NW	6.76	6.76	6.76	6.76	6.76
WM	5.12	5.12	5.12	5.12	5.12
Northern Gas Networks Ltd	6.68	6.68	6.68	6.68	6.68
Scotland Gas Networks plc	5.21	5.21	5.21	5.21	5.21
Southern Gas Networks plc	11.10	11.10	11.10	11.10	11.10
Wales & West Utilities Ltd	7.04	7.04	7.04	7.04	7.04

### Special Condition 4.3 Complaints metric output delivery incentive (CM<sub>t</sub>)

#### Introduction

- 4.3.1 The purpose of this condition is to calculate the term CM<sub>t</sub> (the complaints metric output delivery incentive term). This contributes to the calculation of the term ODI<sub>t</sub> (the output delivery incentives term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 4.3.2 The effect of this incentive is to penalise the licensee where it has performed poorly in relation to its handling of customer Complaints.
- 4.3.3 For the purposes of calculating the complaints metric only, Complaints received between the time of the licensee's customer service centre closing and 23:59 of the same day will be considered as having been received on the next Working Day.

#### Part A: Adjustments arising from complaints metric (CM<sub>t</sub>)

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

*If  $CMAS_t \leq CMT_t$ , then:*

$$CM_t = 0$$

*If  $CMAS_t > CMT_t$  then:*

$$CM_t = \max(-CMMP_t, (CMT_t - CMAS_t) IRCM_t)$$

where:

- $CMAS_t$  means the licensee's actual performance in relation to the complaints metric and is derived in accordance with Part B;
- $CMT_t$  means the minimum acceptable performance score for the complaints metric and equals 3.5;
- $CMMP_t$  means the maximum penalty in respect of the complaints metric for the licensee, as specified in Appendix 1; and
- $IRCM_t$  means the licensee's incentive rate for the complaints metric, as specified in Appendix 2.

## Part B: Complaints metric performance score

- 4.3.5 The value of the  $CMAS_t$  term is derived in accordance with the following formula:

$$CMAS_t = 10PCUDPO_t + 30PCUDPT_t + 50PRC_t + 10POF_t$$

where:

- $PCUDPO_t$  means the percentage of Complaints which are not Resolved Complaints by the end of the first Working Day after the day on which the Complaint was first received by the licensee as reported to the Authority for that year.;
- $PCUDPT_t$  means the percentage of Complaints which are not Resolved Complaints after the end of the period of 31 Working Days beginning with the first Working Day after the day on which the Complaint was first received by the licensee, as reported to the Authority for that year;
- $PRC_t$  means the percentage of Repeat Complaints, as reported to the Authority for that year; and
- $POF_t$  means the percentage of total Complaints where an Ombudsman Finding Against The Licensee is made, as reported to the Authority for that year.

## Appendix 1

### Maximum penalty in respect of the complaints metric ( $CMMP_t$ ) (£m)

Distribution Network	2026/27	2027/28	2028/29	2029/30	2030/31
EoE	4.45	4.45	4.45	4.45	4.45
Lon	3.21	3.21	3.21	3.21	3.21
NW	3.04	3.04	3.04	3.04	3.04

WM	2.30	2.30	2.30	2.30	2.30
Northern Gas Networks Ltd	3.00	3.00	3.00	3.00	3.00
Scotland Gas Networks plc	2.35	2.35	2.35	2.35	2.35
Southern Gas Networks plc	4.99	4.99	4.99	4.99	4.99
Wales & West Utilities Ltd	3.17	3.17	3.17	3.17	3.17

## Appendix 2

### Incentive rate for the Complaints Metric (IRCM<sub>t</sub>) (£m)

Distribution Network	2026/27	2027/28	2028/29	2029/30	2030/31
EoE	2.96	2.96	2.96	2.96	2.96
Lon	2.14	2.14	2.14	2.14	2.14
NW	2.03	2.03	2.03	2.03	2.03
WM	1.54	1.54	1.54	1.54	1.54
Northern Gas Networks Ltd	2.00	2.00	2.00	2.00	2.00
Scotland Gas Networks plc	1.56	1.56	1.56	1.56	1.56
Southern Gas Networks plc	3.33	3.33	3.33	3.33	3.33
Wales & West Utilities Ltd	2.11	2.11	2.11	2.11	2.11

## Special Condition 4.4 Unplanned Interruption Mean Duration output delivery incentive (UIP<sub>t</sub>)

### Introduction

- 4.4.1 The purpose of this condition is to calculate the term UIP<sub>t</sub> (the Unplanned Interruptions output delivery incentive term). This contributes to the calculation of the term ODIt (the output delivery incentives term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).

- 4.4.2 The effect of this incentive is to penalise the licensee if it fails to meet minimum standards in relation to the average duration of its Unplanned Interruptions, excluding those that occurred as part of a Major Incident.
- 4.4.3 This includes two separate penalty mechanisms, one relating to MOB Riser Interruptions and another relating to all other types of Unplanned Interruptions.
- 4.4.4 This condition also:
- (a) requires the licensee to submit an explanatory report should its performance breach the Unplanned Interruption Excessive Deterioration Level; and
  - (b) makes provision for the licensee to apply for a reduction in the Unplanned Interruption Mean Duration Penalty in certain circumstances.

**Part A: Formula for calculating the Unplanned Interruption Mean Duration Penalty (UIP<sub>t</sub>)**

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

$$UIP_t = \begin{cases} 0, & UIMMD_t \leq UIMMS \\ \max \left( \frac{UIMMD_t - UIMMS}{UIMMS - UIMED}, -1 \right) [UIMPM], & UIMMD_t > UIMMS \end{cases}$$

$$+ \begin{cases} 0, & UINMD_t \leq UINMS \\ \max \left( \frac{UINMD_t - UINMS}{UINMS - UINED}, -1 \right) [UIMP_N], & UINMD_t > UINMS \end{cases}$$

where:

<i>UIMMD<sub>t</sub></i>	means the Unplanned Interruption Mean Duration relating to MOB Riser Interruptions, expressed in minutes;
<i>UIMMS</i>	means the Unplanned Interruption Minimum Performance Level relating to MOB Riser Interruptions set out in Appendix 2;
<i>UIMED</i>	means the Unplanned Interruptions Excessive Deterioration level relating to MOB Riser Interruptions set out in Appendix 2;
<i>UINMD<sub>t</sub></i>	means the Unplanned Interruption Mean Duration relating to all Unplanned Interruptions other than MOB Riser Interruptions, expressed in minutes;
<i>UINMS</i>	means the common Unplanned Interruption Minimum Performance Level relating to all Unplanned Interruptions other than those relating to MOB Riser Interruptions set out in Appendix 1;
<i>UINED</i>	means the common Unplanned Interruptions Excessive Deterioration level relating to all Unplanned Interruptions other

than those relating to MOB Riser Interruptions set out in Appendix 1;

*UIMPM* means the maximum penalty relating to MOB Riser Interruptions set out in Appendix 3; and

*UIMPN* means the maximum penalty relating to all Unplanned Interruption other than MOB Riser Interruptions set out in Appendix 4.

#### **Part B: Notification where the Unplanned Interruption Excessive Deterioration Level is breached**

4.4.6 If  $UIMMD_t$  exceeds  $UIMED$ , or  $UINMD_t$  exceeds  $UINED$ , for any Regulatory Year, the licensee must submit to the Authority a report setting out:

- (a) an explanation of all relevant factors that have contributed to the breach of the Unplanned Interruption Excessive Deterioration level; and
- (b) details of the actions undertaken to date, or planned within specified timescales, in order to improve the licensee's performance in relation to Unplanned Interruptions.

4.4.7 The licensee must submit the report during the period of 30 days beginning with the date of its submission of the Regulatory Reporting Pack for the Regulatory Year in question.

#### **Part C: Application for waiver or reduction in the penalty**

4.4.8 The licensee may apply to the Authority for a direction, waiving or reducing any Unplanned Interruption Mean Duration Penalty, where a change to the RIGs on the reporting of Unplanned Interruptions results in a higher Unplanned Interruption Mean Duration Penalty than would have applied had the RIGs for the Regulatory Year 2025/26 remained in effect.

4.4.9 The licensee must submit its application for a direction, waiving or reducing the Unplanned Interruption Mean Duration Penalty, together with detailed supporting evidence, to the Authority during the period of 30 days beginning with the date of its submission of the Regulatory Reporting Pack for the Regulatory Year in question.

### **Appendix 1**

#### **Common Unplanned Interruption Mean Duration Penalty level for all Unplanned Interruptions other than MOB Riser Interruptions (hours)**

<b>Distribution Network</b>	<b>Unplanned Interruptions Minimum Performance Level (UINMS)</b>	<b>Unplanned Interruptions Excessive Deterioration Level (UINED)</b>

EoE, NW, WM, NGN, Sc, WWU	13	18
Lon, So	15	20

## Appendix 2

### Unplanned Interruption Mean Duration Penalty levels for all Unplanned MOB Riser Interruptions (hours)

Licensee	Distribution Network	Unplanned Interruptions Minimum Performance Level (UIMMS)	Unplanned Interruptions Excessive Deterioration Level (UIMED)
Cadent	EoE	410	601
Cadent	Lon	593	793
Cadent	NW	342	542
Cadent	WM	388	588
NGN		212	412
SGN	Sc	549	749
SGN	So	212	412
WWU		212	412

## Appendix 3

### Unplanned Interruptions Maximum Penalty for all Unplanned MOB Riser Interruptions (UIMPM) (£m)

Licensee	Distribution Network	2026/27	2027/28	2028/29	2029/30	2030/31
Cadent	EoE	2.22	2.22	2.22	2.22	2.22
Cadent	Lon	1.60	1.60	1.60	1.60	1.60
Cadent	NW	1.52	1.52	1.52	1.52	1.52
Cadent	WM	1.15	1.15	1.15	1.15	1.15
NGN		1.50	1.50	1.50	1.50	1.50
SGN	Sc	1.17	1.17	1.17	1.17	1.17
SGN	So	2.50	2.50	2.50	2.50	2.50
WWU		1.58	1.58	1.58	1.58	1.58

## Appendix 4

### Unplanned Interruptions Maximum Penalty for all common Unplanned Interruptions other than MOB Risers (UIMPN) (£m)

Licensee	Distribution Network	2026/27	2027/28	2028/29	2029/30	2030/31
Cadent	EoE	2.22	2.22	2.22	2.22	2.22

Cadent	Lon	1.60	1.60	1.60	1.60	1.60
Cadent	NW	1.52	1.52	1.52	1.52	1.52
Cadent	WM	1.15	1.15	1.15	1.15	1.15
NGN		1.50	1.50	1.50	1.50	1.50
SGN	Sc	1.17	1.17	1.17	1.17	1.17
SGN	So	2.50	2.50	2.50	2.50	2.50
WWU		1.58	1.58	1.58	1.58	1.58

## **Special Condition 4.5 Collaborative streetworks output delivery incentive (CSW<sub>t</sub>)**

### **Introduction**

- 4.5.1 The purpose of this condition is to calculate the term CSW<sub>t</sub> (the collaborative streetworks output delivery incentive term). This contributes to the calculation of the term ODIt (the output delivery incentives term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 4.5.2 The effect of this incentive is to reward the licensee where it delivers a Collaborative Streetworks Project by 31st March 2031 and meets the eligibility criteria outlined in this condition and in the Collaborative Streetworks Governance Document.
- 4.5.3 This condition also requires the licensee to keep a central information source on the FEN Innovation Portal.

### **Part A: Licence status**

- 4.5.4 This condition will come into effect once a central coordinator has been formally approved using the criteria outlined in the associated document and approved by the Authority as set out in paragraph 4.5.8.
- 4.5.5 The Cadent London and SGN Southern Distribution Networks are required to meet a minimum threshold of 5 Collaborative Streetworks Projects in the relevant Regulatory Year to be eligible for the incentive reward.

### **Part B: Eligibility criteria**

- 4.5.6 The licensee must comply with the Collaborative Streetworks Governance Document to be eligible for the incentive.
- 4.5.7 Once the Authority has approved a local authority as coordinator, it will issue a direction formally appointing a central coordinator for the relevant regions.
- 4.5.8 The central coordinator is responsible for overseeing the Collaborative Streetworks Project and ensuring compliance with the requirements of this condition. The roles and responsibilities of the central coordinator and of the licensee are set out in the Associated Document.

## **Part C: Formula for calculating the collaborative streetworks incentive (CSW<sub>t</sub>)**

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

$$\text{If } X_t \leq CSWPT, CSW_t = 0$$

$$\text{If } X_t > CSWPT, CSW_t = \min [(CSWMP \cdot MCSWP) + (CSWSP \cdot SCSWP), CSWC_t] \cdot TIS$$

where:

$X_t$	means the total number of Collaborative Streetworks Projects completed;
$CSWMP$	means the number of completed streetworks projects which meet the criteria for a Collaborative Streetworks Minimum Project;
$CSWSP$	means the number of completed streetworks projects which meet the criteria for a Collaborative Streetworks Strategic Project;
$CSWPT$	means the minimum number of Collaborative Streetworks Projects a licensee must complete to be eligible to receive a reward for subsequent completed Collaborative Streetworks Projects. The minimum project threshold is 5 for Cadent London and SGN Southern. For all other Distribution Networks the minimum project threshold is 0;
$MCSWP$	means a reward of £0.095m for each minimum Collaborative Streetworks Project completed;
$SCSWP$	means a reward of £0.160m for each strategic Collaborative Streetworks Project completed;
$TIS$	means the Totex Incentive Strength; and
$CSWC_t$	means the maximum incentive cap as set out in Appendix 1.

## **Part D: Knowledge sharing requirement**

4.5.10 The licensee must keep a central information source on the FEN Innovation Portal in relation to the Collaborative Streetworks Projects which may take the form of links to the relevant central coordinator information.

## **Part E: Collaborative Streetworks Governance Document**

4.5.11 The licensee must comply with the Collaborative Streetworks Governance Document.

4.5.12 The Authority will issue and amend the Collaborative Streetworks Governance Document by direction.

4.5.13 The Authority will publish the Collaborative Streetworks Governance Document on the Authority's Website.



- 4.5.14 The Collaborative Streetworks Governance Document will make provision about:
- (a) the eligibility criteria that the licensee must meet to access the Collaborative Streetworks incentive;
  - (b) the roles and responsibilities of the central coordinator;
  - (c) the nature of the reporting obligations for Collaborative Streetworks Projects.
- 4.5.15 Before issuing the Collaborative Streetworks Governance Document the Authority will publish on the Authority's Website:
- (a) the text of the proposed Collaborative Streetworks Governance Document;
  - (b) the date on which the Authority intends the Collaborative Streetworks Governance Document to come into effect;
  - (c) a period during which representations may be made on the content of the Collaborative Streetworks Governance Document, which will be no less than 28 days.
- 4.5.16 Before directing an amendment to the Collaborative Streetworks Governance Document, the Authority will publish on the Authority's Website:
- (a) the text of the proposed amendments to the Collaborative Streetworks Governance Document;
  - (b) the date on which the Authority intends the amended Collaborative Streetworks Governance Document to come into effect;
  - (c) the reasons for the proposed amendments to the Collaborative Streetworks Governance Document; and
  - (d) a period during which representations may be made on the amendment to the Collaborative Streetworks Governance Document, which will not be less than 28 days.

## **Appendix 1**

### **Maximum reward available of the Collaborative Streetworks Projects (£m)**

<b>Licensee</b>	<b>Distribution Network</b>	<b>Maximum Reward</b>
Cadent	EoE	22.23
Cadent	Lon	16.03
Cadent	NW	15.22
Cadent	WM	11.52
NGN		15.02
SGN	Sc	11.73
SGN	So	24.97
WWU		15.84

## Special Condition 4.6 7 and 28 day repair standards output delivery incentive (STED<sub>t</sub>)

### Introduction

- 4.6.1 The purpose of this condition is to calculate the term STED<sub>t</sub> (the 7 and 28 day repair standards output delivery incentive term). This contributes to the calculation of the term ODIt (the output delivery incentives term), which in turn feeds into Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 4.6.2 The effect of this incentive is to increase performance or penalise the licensee if it fails to meet minimum standards set in Table 1 for the 7 and 28 day repair standards.
- 4.6.3 This condition also requires the licensees to submit their 7 and 28 day repair standards data in the Regulatory Reporting Packs.

**Table 1: Minimum standards for percentage of outstanding repairs completed within specified time frame**

Timeframe	Minimum percentage of outstanding repairs completed
7 days	75%
28 days	90%

### Part A: Formula for calculating the 7 and 28 day repair standards output delivery incentive (STED<sub>t</sub>).

$$STED_t = -SDR_t + -TDR_t$$

#### 7 day repair standard

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

If  $SDRS_t \geq SDRT_t$ , then:

$$SDR_t = 0$$

If  $SDRS_t < SDRT_t$  then:

$$SDR_t = \max(-SDRMP_t, (SDRT_t - SDRS_t) \times SDRIR_t)$$

where:

$SDRS_t$  means the licensee's actual performance in percentage in relation to the Seven Day Repair Metric;

$SDRT_t$  means the minimum standard for 7 days, as set out in Table 1, and equals 75% of outstanding repairs completed within 7 days;

$SDRMP_t$  means the maximum penalty in respect of the 7 day minimum standard for the licensee, as specified in Appendix 1; and

$SDRIR_t$  means the licensee's incentive rate for the 7 day minimum standard, as specified in Appendix 2.

#### 28 day repair standard

4.6.5 The value of the  $TDR_t$  term is derived in accordance with the following formula:

If  $TDRS_t \geq TDRT_t$ , then:

$$TDR_t = 0$$

If  $TDRS_t < TDRT_t$  then:

$$TDR_t = \max(-TDRMP_t, (TDRT_t - TDRS_t) \times TDRIR_t)$$

where:

$TDRS_t$  means the licensee's actual performance in percentage in relation to the Twenty-Eight Day Repair Metric;

$TDRT_t$  means the minimum standard for 28 days, as set out in Table 1, and equals 90% of outstanding repairs completed within 28 days;

$TDRMP_t$  means the maximum penalty in respect of the 28 day minimum standard for the licensee, as specified in Appendix 3;

$TDRIR_t$  means the licensee's incentive rate for the 28 day minimum standard, as specified in Appendix 4.

### **Appendix 1**

#### **Maximum penalty in respect of the 7 day repair standard ( $SDR_t$ ) (£m)**

<b>Distribution Network</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>	<b>2030/31</b>
EoE	2.22	2.22	2.22	2.22	2.22
Lon	1.60	1.60	1.60	1.60	1.60
NW	1.52	1.52	1.52	1.52	1.52
WM	1.15	1.15	1.15	1.15	1.15
Northern Gas Networks Ltd	1.50	1.50	1.50	1.50	1.50
Scotland Gas Networks plc	1.17	1.17	1.17	1.17	1.17
Southern Gas	2.50	2.50	2.50	2.50	2.50

<b>Distribution Network</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>	<b>2030/31</b>
Networks plc					
Wales & West Utilities Ltd	1.58	1.58	1.58	1.58	1.58

## **Appendix 2**

### **Incentive rate for the 7 day repair standard (SDRIR<sub>t</sub>) (£m)**

<b>Distribution Network</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>	<b>2030/31</b>
EoE	22.23	22.23	22.23	22.23	22.23
Lon	16.03	16.03	16.03	16.03	16.03
NW	15.22	15.22	15.22	15.22	15.22
WM	11.52	11.52	11.52	11.52	11.52
Northern Gas Networks Ltd	15.02	15.02	15.02	15.02	15.02
Scotland Gas Networks plc	11.73	11.73	11.73	11.73	11.73
Southern Gas Networks plc	24.97	24.97	24.97	24.97	24.97
Wales & West Utilities Ltd	15.84	15.84	15.84	15.84	15.84

## **Appendix 3**

### **Maximum penalty in respect of the 28 day repair standard (TDR<sub>t</sub>) (£m)**

<b>Distribution Network</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>	<b>2030/31</b>
EoE	2.22	2.22	2.22	2.22	2.22
Lon	1.60	1.60	1.60	1.60	1.60
NW	1.52	1.52	1.52	1.52	1.52
WM	1.15	1.15	1.15	1.15	1.15
Northern Gas Networks Ltd	1.50	1.50	1.50	1.50	1.50
Scotland Gas Networks plc	1.17	1.17	1.17	1.17	1.17

<b>Distribution Network</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>	<b>2030/31</b>
Southern Gas Networks plc	2.50	2.50	2.50	2.50	2.50
Wales & West Utilities Ltd	1.58	1.58	1.58	1.58	1.58

#### **Appendix 4**

##### **Incentive rate for the 28 day repair standard (TDRIR<sub>t</sub>) (£m)**

<b>Distribution Network</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>	<b>2030/31</b>
EoE	37.04	37.04	37.04	37.04	37.04
Lon	26.71	26.71	26.71	26.71	26.71
NW	25.37	25.37	25.37	25.37	25.37
WM	19.19	19.19	19.19	19.19	19.19
Northern Gas Networks Ltd	25.03	25.03	25.03	25.03	25.03
Scotland Gas Networks plc	19.54	19.54	19.54	19.54	19.54
Southern Gas Networks plc	41.61	41.61	41.61	41.61	41.61
Wales & West Utilities Ltd	26.39	26.39	26.39	26.39	26.39

## Chapter 5: Other revenue allowances

### Special Condition 5.1 Total other revenue allowances ( $ORA_t$ )

#### Introduction

- 5.1.1 The purpose of this condition is to calculate the term  $ORA_t$  (the other revenue allowance term). This contributes to the calculation of Calculated Revenue in Special Condition 2.1 (Revenue restriction).

#### Part A: Formula for calculating total other revenue allowance ( $ORA_t$ )

- 5.1.2 The value of  $ORA_t$  is derived in accordance with the following formula:

$$ORA_t = NIA_t + CNIA_t + VCM_t$$

where:

- $NIA_t$  is derived in accordance with Special Condition 5.2 (RIIO-3 Network Innovation Allowance);
- $CNIA_t$  is derived in accordance with Special Condition 5.3 (Carry-over Network Innovation Allowance); and
- $VCM_t$  is derived in accordance with Special Condition 5.4 (Vulnerability and carbon monoxide allowance).

### Special Condition 5.2 RIIO-3 Network Innovation Allowance ( $NIA_t$ )

#### Introduction

- 5.2.1 The purpose of this condition is to calculate term  $NIA_t$  (the Network Innovation Allowance term). This contributes to the calculation of the term  $ORA_t$  (the other revenue allowance term), which in turn feeds into the calculation of Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 5.2.2 The effect of this condition is to fund investment in innovation by means of the NIA.
- 5.2.3 This condition also establishes a framework for the governance and administration of the NIA.

#### Part A: Formula for calculating the Network Innovation Allowance term ( $NIA_t$ )

- 5.2.4 Subject to paragraph 5.2.5, the value of the  $NIA_t$  term is derived in accordance with the following formula:

$$NIA_t = 90\% \times NIAE_t$$

where:

- $NIAE_t$  means the Total NIA Expenditure.

- 5.2.5 The total value of the NIA over the RIIIO-3 Price Control Period is subject to the following cap:

$$\sum_{t=2026/27}^{2030/31} (NIA_t) \leq (TNIA)$$

where:

$NIA_t$  is derived in accordance with paragraph 5.2.4;

$TNIA$  means the value of the licensee's Network Innovation Allowance as set out in Appendix 1 of this condition.

- 5.2.6 The licensee must not spend more than 25% of Total NIA Expenditure on internal resources over the Price Control Period.

**Part B: The RIIIO-3 NIA Governance Document**

- 5.2.7 The licensee must comply with the RIIIO-3 NIA Governance Document.
- 5.2.8 The Authority will issue and amend the RIIIO-3 NIA Governance Document by direction.
- 5.2.9 The Authority will publish the RIIIO-3 NIA Governance Document on the Authority's Website.
- 5.2.10 The RIIIO-3 NIA Governance Document will make provision about the governance and administration of the NIA, including:
- (a) the definition of "unrecoverable NIA expenditure";
  - (b) the eligibility criteria, which RIIIO-3 NIA Projects must meet;
  - (c) the information that is to be published by the licensee before RIIIO-3 NIA Projects can begin;
  - (d) the circumstances in which the licensee will require approval from the Authority before beginning a RIIIO-3 NIA Project, and the processes and procedures for that approval;
  - (e) arrangements for ensuring that learning from RIIIO-3 NIA Projects is captured and disseminated by the licensee to other Gas Transporter Licensees;
  - (f) the reporting obligations in respect of RIIIO-3 NIA Projects (which may include reporting in respect of the funding and the completion of such projects; and
  - (g) arrangements relating to the treatment of intellectual property rights in respect of RIIIO-3 NIA Projects.
- 5.2.11 Before directing that the RIIIO-3 NIA Governance Document comes into effect, the Authority will publish on the Authority's Website:

- (a) the text of the proposed RIIO-3 NIA Governance Document;
  - (b) the date on which the Authority intends the RIIO-3 NIA Governance Document to come into effect; and
  - (c) a period during which representations may be made on the content of the RIIO-3 NIA Governance Document, which will be up to 28 days unless the Authority determines that a longer period is appropriate.
- 5.2.12 Before directing an amendment to the RIIO-3 NIA Governance Document, the Authority will publish on the Authority's Website:
- (a) the text of the proposed amendments to the RIIO-3 NIA Governance Document;
  - (b) the date on which the Authority intends the amended RIIO-3 NIA Governance Document to come into effect;
  - (c) the reasons for the proposed amendments to the RIIO-3 NIA Governance Document; and
  - (d) a period during which representations may be made on the proposed amendments to the RIIO-3 NIA Governance Document, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

## **Appendix 1**

### **Value of the licensee's Network Innovation Allowance**

<b>Licensee</b>	<b>Value of TNIA (£m)</b>
Cadent	18.4
NGN	11.9
SGN Group	24.3
WWU	18.48

## **Special Condition 5.3 Carry-over Network Innovation Allowance (CNIA<sub>t</sub>)**

### **Introduction**

- 5.3.1 The purpose of this condition is to calculate the term CNIA<sub>t</sub> (the Carry-over Network Innovation Allowance term). This contributes to the calculation of the term ORA<sub>t</sub> (the other revenue allowance term), which in turn feeds into the calculation of Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 5.3.2 The effect of this condition is to extend RIIO-2 NIA funding.
- 5.3.3 This condition also sets out the arrangements relating to the regulation, administration and governance of the Carry-over Network Innovation Allowance.



## Part A: Formula for calculating the Carry-over Network Innovation Allowance term (CNIA<sub>t</sub>)

5.3.4 For the period commencing on 1 April 2026, and ending on 30 September 2027, the value of CNIA<sub>t</sub> is derived in accordance with the following formula:

$$CNIA_t = \min (0.9 \times ECNIA_t, CTNIA - CNIA_{t-1}) - CNIAR_t$$

where:

ECNIA<sub>t</sub> means the expenditure incurred by the licensee in respect of Eligible CNIA Projects as calculated by the licensee in accordance with the RIIO-2 NIA Governance Document and reported to the Authority in accordance with Standard Condition B15 (Regulatory Instructions and Guidance);

CTNIA means the value of CTNIA calculated in accordance with the formula in 5.3.7;

CNIA<sub>t-1</sub> means the CNIA allowance in relation to a Regulatory Year. For the Regulatory Year 2026/27 the value of CNIA<sub>t-1</sub> is zero; and

CNIAR<sub>t</sub> means an amount recovered by the licensee in relation to the Regulatory Year 2026/27 under the RIIO-2 NIA which the Authority has directed is unrecoverable in accordance with the RIIO-2 NIA Governance Document.

5.3.5 In respect of any time after 30 September 2027, the value of CNIA<sub>t</sub> is equal to zero.

5.3.6 Eligible CNIA Internal Expenditure may not exceed 25% of the total Eligible CNIA, unless the Authority otherwise consents.

5.3.7 The value of CTNIA is derived from the following formula:

$$CTNIA = (R2TNIA - \sum_{t=2021/22}^{2025/26} NIA_t)$$

where:

R2TNIA means the total RIIO-2 NIA cap for the licensee, including hydrogen innovation funding where applicable, set out in Appendix 1 of this condition;

NIA<sub>t</sub> means value of NIA in year 't'.

## Part B: The RIIO-2 NIA Governance Document

5.3.8 The licensee must comply with the RIIO-2 NIA Governance Document.

5.3.9 The Authority will amend the RIIO-2 NIA Governance Document by direction.

- 5.3.10 The RIIO-2 NIA Governance Document makes and will continue to make additional provision in respect of:
- (a) arrangements for ensuring that relevant learning from Eligible CNIA Projects is captured and disseminated by the licensee to other Gas Transporter Licensees whose licences contain a condition of equivalent effect to this condition;
  - (b) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the RIIO-2 NIA Governance Document);
  - (c) arrangements relating to the treatment of intellectual property rights in respect of Eligible CNIA Projects; and
  - (d) any other matters relating to the regulation, governance or administration of the Carry-over Network Innovation Allowance.

**Part C: Procedure for amending the RIIO-2 NIA Governance Document**

- 5.3.11 Before amending the RIIO-2 NIA Governance Document by direction, the Authority will publish on the Authority's Website:
- (a) the text of the proposed amendments to the RIIO-2 NIA Governance Document;
  - (b) the date on which the Authority intends the amended RIIO-2 NIA Governance Document to come into effect;
  - (c) the reasons for the proposed amendments to the RIIO-2 NIA Governance Document; and
  - (d) a period during which representations may be made on the proposed amendments to the RIIO-2 NIA Governance Document, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

**Appendix 1**

**Value of the licensee's RIIO-2 Network Innovation Allowance**

<b>Licensee</b>	<b>Value of R2TNIA (£m)</b>
Cadent	40.71
NGN	14.33
SGN Group	44.34
WWU	16.57

## Special Condition 5.4 Vulnerability and carbon monoxide allowance (VCM<sub>t</sub>)

### Introduction

- 5.4.1 The purpose of this condition is to calculate the term VCM<sub>t</sub> (the vulnerability and carbon monoxide term). This contributes to the calculation of the term ORA<sub>t</sub> (the other revenue allowance), which in turn feeds into the calculation of Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 5.4.2 This condition also sets out the regulation, administration and governance of the vulnerability and carbon monoxide allowance (VCMA).

### Part A: Formula for calculating the vulnerability and carbon monoxide allowance

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

$$VCM_t = VCMCS_t + VCMCL_t + VCMCU_t$$

where:

- VCMCS<sub>t</sub>* means the Company Specific VCMA Project capped expenditure allowance that relates to the licensee;
- VCMCL<sub>t</sub>* means the GDN Collaborative VCMA Project ring-fenced expenditure allowance that relates to the licensee; and
- VCMCU<sub>t</sub>* means the Cross-Utilities Collaborative VCMA Project ring-fenced expenditure allowance that relates to the licensee.

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

$$VCMCS_t = \max \left[ \min \left( VCMCSE_t, VCMCSC - \sum_{k=2026/27}^{t-1} VCMCSE_k \right), 0 \right]$$

where:

- VCMCSE<sub>t</sub>* means the total expenditure on Company Specific VCMA Projects;
- VCMCSC* means the value of the licensee's capped expenditure allowance for Company Specific VCMA Projects for the Price Control Period as set out in Appendix 1; and
- $\sum_{k=2026/27}^{t-1} VCMCSE_k$  means the total expenditure on Company Specific VCMA Projects prior to Regulatory Year t.

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

$$VCMCL_t = \max \left[ \min \left( VCMCLE_t, VCMCLC + VCMCSC - \sum_{t=2026/27}^{2030/31} VCMCS_t - \sum_{k=2026/27}^{t-1} VCMCLE_k \right), 0 \right]$$

where:

$VCMCLE_t$	means the total expenditure on GDN Collaborative VCMA Projects;
$VCMCLC$	means the value of the licensee's ring-fenced expenditure allowance for GDN Collaborative VCMA Projects for the Price Control Period as set out in Appendix 1;
$VCMCSC$	means the value of the licensee's capped expenditure allowance for Company Specific VCMA Projects for the Price Control Period as set out in Appendix 1;
$\sum_{t=2026/27}^{2030/31} VCMCS_t$	means the total Company Specific VCMA Project allowance for RIIO-3 that relates to the licensee; and
$\sum_{k=2026/27}^{t-1} VCMCLE_k$	means the total expenditure on GDN Collaborative VCMA Projects prior to Regulatory Year t.

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

$$VCMCU_t = \max \left[ \min \left( VCMCUE_t, VCMCUC + VCMCSC - \sum_{t=2026/27}^{2030/31} VCMCS_t - \sum_{k=2026/27}^{t-1} VCMCUE_k \right), 0 \right]$$

where:

$VCMCUE_t$	means the total expenditure on Cross-Utilities Collaborative VCMA Projects;
$VCMCUC$	means the value of the licensee's ring-fenced expenditure allowance for Cross-Utilities Collaborative VCMA Projects for the Price Control Period as set out in Appendix 1;
$VCMCSC$	means the value of the licensee's capped expenditure allowance for Company Specific VCMA Projects for the Price Control Period as set out in Appendix 1;
$\sum_{t=2026/27}^{2030/31} VCMCS_t$	means the total Company Specific VCMA Project allowance for RIIO-3 that relates to the licensee; and
$\sum_{k=2026/27}^{t-1} VCMCUE_k$	means the total expenditure on Cross-Utilities Collaborative VCMA Projects prior to Regulatory Year t.

## **Part B: The VCMi Governance Document**

- 5.4.7 The licensee must comply with the VCMi Governance Document in its administration and delivery of the VCMA Projects, associated learning dissemination requirements and reporting requirements.
- 5.4.8 The Authority will issue and amend the VCMi Governance Document by direction.
- 5.4.9 The Authority will publish the VCMi Governance Document on the Authority's Website.
- 5.4.10 The VCMi Governance Document will make provision about:
- (a) the eligibility criteria that VCMA Projects must meet;
  - (b) the information that is to be published by the licensee prior to starting any VCMA Project;
  - (c) arrangements for ensuring that relevant learning from VCMA Projects can be captured and disseminated to all other DN Operators; and
  - (d) the nature of the reporting obligations in respect of VCMA Projects.
- 5.4.11 Before issuing the VCMi Governance Document the Authority will publish on the Authority's Website:
- (a) the proposed text of the VCMi Governance Document;
  - (b) the date on which the Authority intends the VCMi Governance Document to come into effect; and
  - (c) a period during which representations may be made on the content of the VCMi Governance Document, which will be up to 28 days unless the Authority determines that a longer period is appropriate.
- 5.4.12 Before directing an amendment to the VCMi Governance Document, the Authority will publish on the Authority's Website:
- (a) the text of the proposed amendments to the VCMi Governance Document;
  - (b) the date on which the Authority intends the amended VCMi Governance Document to come into effect;
  - (c) the reasons for the proposed amendment to the VCMi Governance Document; and
  - (d) a period during which proposed representations may be made on the amendment to the VCMi Governance Document, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

## **Appendix 1**

### **VCMA Expenditure Allowances (£m)**

<b>Distribution Network</b>	<b>Allowance</b>	<b>Total</b>
EoE	Company Specific VCMA Project capped allowance	21.70

<b>Distribution Network</b>	<b>Allowance</b>	<b>Total</b>
EoE	GDN Collaborative VCMA Project ring-fenced allowance	7.53
EoE	Cross-Utilities Collaborative VCMA Project ring-fenced allowance	0.90
Lon	Company Specific VCMA Project capped allowance	12.20
Lon	GDN Collaborative VCMA Project ring-fenced allowance	4.24
Lon	Cross-Utilities Collaborative VCMA Project ring-fenced allowance	0.51
NW	Company Specific VCMA Project capped allowance	14.46
NW	GDN Collaborative VCMA Project ring-fenced allowance	5.02
NW	Cross-Utilities Collaborative VCMA Project ring-fenced allowance	0.60
WM	Company Specific VCMA Project capped allowance	10.57
WM	GDN Collaborative VCMA Project ring-fenced allowance	3.67
WM	Cross-Utilities Collaborative VCMA Project ring-fenced allowance	0.44
Northern Gas Networks Ltd	Company Specific VCMA Project capped allowance	13.78
Northern Gas Networks Ltd	GDN Collaborative VCMA Project ring-fenced allowance	4.78
Northern Gas Networks Ltd	Cross-Utilities Collaborative VCMA Project ring-fenced allowance	0.57
Scotland Gas Networks plc	Company Specific VCMA Project capped allowance	9.96
Scotland Gas Networks plc	GDN Collaborative VCMA Project ring-fenced allowance	3.46
Scotland Gas Networks plc	Cross-Utilities Collaborative VCMA Project ring-fenced allowance	0.41
Southern Gas Networks plc	Company Specific VCMA Project capped allowance	22.29
Southern Gas Networks plc	GDN Collaborative VCMA Project ring-fenced allowance	7.74
Southern Gas Networks plc	Cross-Utilities Collaborative VCMA Project ring-fenced allowance	0.93
Wales & West Utilities Ltd	Company Specific VCMA Project capped allowance	13.85
Wales & West Utilities Ltd	GDN Collaborative VCMA Project ring-fenced allowance	4.81
Wales & West Utilities Ltd	Cross-Utilities Collaborative VCMA Project ring-fenced allowance	0.58

# Chapter 6: Pass-through expenditure

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

### Introduction

- 6.1.1 The purpose of this condition is to calculate the term PT<sub>t</sub> (the allowed pass-through term). This feeds into the calculation of Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 6.1.2 The effect of this condition is to ensure that the licensee's Allowed Revenue reflects the fact that certain costs can be passed through to customers.

### 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:

$$PT_t = RB_t + LF_t + EDE_t + TPWI_t + TG_t + MP_t + CDSP_t + SL_t + EC_t + SLR_t$$

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 Licensed 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, as set in the triennial review of Pension Scheme Established Deficit provided for in the GD3 Price Control Financial Handbook;
$TPWI_t$	means the Third Party Damage And Water Ingress Costs pass-through term and is derived in accordance with Part C;
$TG_t$	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);
$MP_t$	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;
$CDSP_t$	means CDSP Costs;
$SL_t$	means the Shrinkage costs pass-through term and is derived in accordance with Part D;
$EC_t$	means the sum of NTS Exit Flat Capacity Costs and NTS Exit Flex Capacity Costs;

$SLR_t$  means the aggregate Specified Amount of the Valid Claims requiring payment in accordance with the licensee's obligation under Standard Special Condition A48 (Last Resort Supply: Payment Claims); and

**Part B: Review of Prescribed Rates pass-through term ( $RB_t$ )**

6.1.4 As part of any periodic revaluation, the licensee must:

- (a) engage with the Relevant Valuation Agency; and
- (b) use reasonable endeavours to minimise the amount of the Prescribed Rates to which it is liable.

6.1.5 The Authority may review the licensee's engagement with the Relevant Valuation Agency with respect to a revaluation.

6.1.6 If, after reviewing the licensee's engagement with the Relevant Valuation Agency and requesting any further information required from the licensee with respect to a particular revaluation, the Authority considers that the licensee has not complied with paragraph 6.1.5, the Authority may adjust the value of  $RB_t$  by direction.

6.1.7 Before making a direction under paragraph 6.1.7 the Authority must publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction, which must be up to 28 days unless the Authority determines that a longer period is appropriate from the date the proposed direction is published.

6.1.8 A direction under paragraph 6.1.7:

- (a) may only specify a different value for  $RB_t$  for the Regulatory Years following the Regulatory Year in which the revaluation took place; and
- (b) may not specify a different value for  $RB_t$  that is less than zero.

**Part C: Formula for calculating the Third Party Damage And Water Ingress Costs pass-through term ( $TPWI_t$ )**

6.1.9 Subject to paragraph 6.1.13, the  $TPWI_t$  term is derived in accordance with the following formula:

$$TPWI_t = \max[(0.95 \times TPWR_t) - (0.005 \times EABR_t), 0]$$

where:

$TPWR_t$  means Third Party Damage And Water Ingress Costs; and

$EABR_t$  means Ex-Ante Base Revenue.



- 6.1.10 The licensee must use its reasonable endeavours to recoup Third Party Damage And Water Ingress Costs via any related insurance policies or from the person responsible for the Third Party Damage And Water Ingress Costs.
- 6.1.11 The licensee may recover costs reasonably incurred as a direct result of complying with GSoP1 and GSoP3.
- 6.1.12 The Authority will review the action taken by the licensee to recoup Third Party Damage And Water Ingress Costs.
- 6.1.13 If, after reviewing the licensee's actions, the Authority considers that the licensee has not complied with paragraph 6.1.11, the Authority will adjust the value of  $TPWI_t$  by direction.

**Part D: Formula for calculating the Shrinkage costs pass-through term ( $SL_t$ )**

- 6.1.14 The value of  $SL_t$  is derived in accordance with the following formula:

$$SL_t = ASV_t \cdot GPRC_t$$

where:

$ASV_t$  means the Actual Shrinkage Volume; and

$GPRC_t$  means the gas price reference cost, and is derived in accordance with Part E.

**Part E: Formula for calculating the gas price reference cost ( $GPRC_t$ )**

- 6.1.15 The value of the  $GPRC_t$  term is derived in accordance with the following formula:

$$GPRC_t = CF \left( \frac{\sum_{d=1}^n GP_{d,t}}{n_t} \right)$$

where:

$CF$  means the conversion factor and is used to convert the average price from pence per therm to pounds sterling per gigawatt hour, and is equal to 341.2;

$d$  means a calendar day, where d1 means 1 April and all other days are numbered consecutively thereafter;

$n_t$  means the total number of calendar days in Regulatory Year t; and

$GP_{d,t}$  means the closing day ahead offer price of gas for calendar day d, as published in an Approved Market Price Report for delivery at the National Balancing Point. The price is typically published at close-of-business the day before calendar day d, and is otherwise the most recently published day ahead price before the day (eg published on Friday for a Sunday)

## Chapter 7: Legacy adjustments

### Special Condition 7.1 Legacy adjustments to revenue ( $LAR_t$ )

#### Introduction

- 7.1.1 The purpose of this condition is to calculate the term  $LAR_t$  (the legacy adjustments term), which in turn feeds into the calculation of Allowed Revenue in Special Condition 2.1 (Revenue restriction).
- 7.1.2 The value of  $LAR_t$  and its components are in nominal prices.

#### Part A: Formula for calculating total legacy adjustments ( $LAR_t$ )

- 7.1.3 The value of the  $LAR_t$  term is derived in accordance with the following formula:

$$LAR_t = LADJ_t + LK_t$$

where:

- $LADJ_t$  is derived in accordance with Special Condition 7.2 (Legacy AIP Adjustment term);
- $LK_t$  is derived in accordance with Special Condition 7.3 (Legacy K correction).

### Special Condition 7.2 Legacy AIP Adjustment term ( $LADJ_t$ )

#### Introduction

- 7.2.1 The purpose of this condition is to set out the process that the Authority will follow when directing values for the term  $LADJ_t$  (the legacy AIP Adjustment term). This contributes to the calculation of the legacy adjustments term in Special Condition 7.1 (Legacy adjustments to revenue), which in turn feeds into the calculation of Allowed Revenue in Special Condition 2.1 (Revenue restriction).
- 7.2.2 The effect of this condition is to reflect the close out of the GD2 Legacy Price Control Financial Model.

#### Part A: Authority assessment and direction

- 7.2.3 The value of  $LADJ_t$  is derived in accordance with the following formula:

$$LADJ_t = ADJ_t$$

where:

- $ADJ_t$  has the value determined by the Authority in accordance with Chapter 8 (Legacy) of the GD3 Price Control Financial Handbook and directed by the Authority in accordance with this condition.
- 7.2.4 Before making a direction under this condition the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

## **Special Condition 7.3 Legacy K correction ( $LK_t$ )**

### **Introduction**

7.3.1 The purpose of this condition is to calculate the term  $LK_t$  (the legacy correction term). This contributes to the calculation of the legacy adjustments term in Special Condition 7.1 (Legacy adjustments to revenue), which in turn feeds into the calculation of Allowed Revenue in Special Condition 2.1 (Revenue restriction).

7.3.2 The effect of this condition is to close out the RIIO-GD2 correction term.

### **Part A: Formula for calculating the legacy correction term ( $LK_t$ )**

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

$$LK_t = K_t$$

where:

$K_t$  has the value determined by the Authority in accordance with Chapter 8 (Legacy) of the GD3 Price Control Financial Handbook and directed by the Authority in accordance with this condition.

7.3.4 Before making a direction under this condition the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

## **Special Condition 7.4 Legacy net RAV additions ( $LRAV_t$ ) and tax balances**

### **Introduction**

7.4.1 The purpose of this condition is to explain the process that the Authority will follow when directing opening balances for the legacy net RAV additions and tax pool and tax loss balances.

7.4.2 The effect is to reflect the close out of the GD2 Legacy Price Control Financial Model in respect of legacy net RAV additions and tax pool and tax loss balances.

### **Part A: The legacy net RAV additions term ( $LRAV_t$ )**

- 7.4.3 The Authority will determine the value of  $LRAV_t$  in accordance with the general financial adjustment methodology in Chapter 8 of the GD3 Price Control Financial Handbook and will direct the value in accordance with this condition.

### **Part B: Carry over of tax balances**

- 7.4.4 The Authority will determine the value of the terms  $OGP_t$ ,  $OSRP_t$ ,  $OSBP_t$ ,  $ODRP_t$ ,  $LOSBP_t$ ,  $LODRP_t$  and  $OTL_t$  in accordance with the general financial adjustment methodology in Chapter 8 of the GD3 Price Control Financial Handbook and will direct the values in accordance with this condition.

### **Part C: Procedure for making a direction**

- 7.4.5 Before making a direction under this condition the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction;
  - (b) the reasons for the proposed direction; and
  - (c) a period during which representations may be made on the proposed direction, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

# **Chapter 8: Governance**

## **Special Condition 8.1 Governance of the GD3 Price Control Financial Instruments**

### **Introduction**

8.1.1 The purpose of this condition is to establish:

- (a) the GD3 Price Control Financial Instruments; and
- (b) a robust and transparent change control framework for the GD3 Price Control Financial Instruments.

### **Part A: The GD3 Price Control Financial Instruments**

8.1.2 Each of the following GD3 Price Control Financial Instruments forms part of this condition:

- (a) the GD3 Price Control Financial Handbook; and
- (b) the GD3 Price Control Financial Model.

### **Part B: Modification of the GD3 Price Control Financial Instruments**

8.1.3 The Authority may by direction make modifications to the GD3 Price Control Financial Instruments under this Part at any time during the Price Control Period where:

- (a) it becomes aware of a modification that will improve the functionality or clarity of the GD3 Price Control Financial Instruments; and
- (b) the modification will have no impact on the licensee's Allowed Revenue.

8.1.4 For the purposes of paragraph 8.1.3(b), it is to be presumed that a modification which serves to correct a manifest error will have no impact on the licensee's Allowed Revenue. This is without prejudice to the licensee's right to make representations to the Authority that a particular modification will have an impact on the licensee's Allowed Revenue.

8.1.5 The following categories of modification may be made under this Part:

- (a) formatting changes such as re-numbering of paragraphs, capitalising defined terms, cell labelling, renaming or re-ordering of sections or worksheets;
- (b) deleting irrelevant material such as transitional provisions that have expired;
- (c) updates such as to dates, version numbers of documents, titles of re-enacted legislation and re-named bodies;
- (d) consequential changes required to reflect modifications made to the special conditions such as the addition or removal of PCFM Variable Values; and

- (e) correction of manifest errors such as discrepancies between the GD3 Price Control Financial Instruments and between the GD3 Price Control Financial Instruments and the other special conditions.
- 8.1.6 The following do not constitute a modification of the GD3 Price Control Financial Model:
  - (a) entering a PCFM Variable Value into the GD3 Price Control Financial Model;
  - (b) changing the filename of the spreadsheet containing the GD3 Price Control Financial Model;
  - (c) changing the publication date on the Cover sheet of the GD3 Price Control Financial Model; and
  - (d) reducing the PCFM by removing sheets that relate to other licensees.

### **Part C: Procedure for making a direction**

- 8.1.7 Before making a direction under paragraph 8.1.3, the Authority will:
  - (a) consider representations made by the GD3 Price Control Financial Model Working Group in relation to modifications of the type set out in paragraph 8.1.5; and
  - (b) publish on the Authority's Website:
    - i. the text of the proposed direction;
    - ii. the reasons for the proposed direction, including why the Authority believes that the modification meets the requirements of paragraphs 8.1.3 and 8.1.5; and
    - iii. a period during which representations may be made on the proposed direction, which will be up to 28 days unless the Authority determines that a longer period is appropriate.
- 8.1.8 A direction under paragraph 8.1.3 will set out:
  - (a) the modifications to the GD3 Price Control Finance Instruments; and
  - (b) the date from which it is to have effect or the mechanism by which that date is to be determined.

### **Part D: Availability and updating of GD3 Price Control Financial Instruments**

- 8.1.9 The Authority will maintain on the Authority's Website an up-to-date copy of the GD3 Price Control Financial Instruments throughout the Price Control Period.
- 8.1.10 The Authority will ensure that any modifications of the GD3 Price Control Financial Instruments, whether under Part B of this condition or otherwise, are promptly incorporated into a consolidated version maintained on the Authority's Website.
- 8.1.11 The Authority will publish on the Authority's Website a consolidated version of the GD3 Price Control Financial Model containing the updated value of ART

following the licensee's annual publication of the GD3 Price Control Financial Model under paragraph 2.1.5 of Special Condition 2.1 (Revenue restriction).

# **Chapter 9: General obligations**

## **Special Condition 9.1 Annual Environmental Report**

### **Introduction**

- 9.1.1 This condition requires the licensee to prepare and publish an Annual Environmental Report.
- 9.1.2 The purpose of an Annual Environmental Report is to increase the public transparency and accountability of the licensee in relation to the impacts of its business and network activities on the environment, and in relation to the licensee's progress against its Environmental Action Plan Commitments.
- 9.1.3 This condition also explains the process that the Authority will follow in issuing and amending the Environmental Reporting Guidance.
- 9.1.4 The licensee must comply with the Environmental Reporting Guidance when preparing its Annual Environmental Report.

### **Part A: Requirement to prepare and publish an Annual Environmental Report**

- 9.1.5 The licensee must prepare an Annual Environmental Report in accordance with the Environmental Reporting Guidance.
- 9.1.6 The licensee must publish an Annual Environmental Report for the preceding Regulatory Year on, or before, the date specified in the Environmental Reporting Guidance.
- 9.1.7 The licensee must ensure its Annual Environmental Report is readily accessible to the public from the licensee's website.
- 9.1.8 The Annual Environmental Report must consist of two sections as per the Environmental Reporting Guidance: a quantitative key performance indicator section and a predominantly qualitative commentary section.
- 9.1.9 The licensee must submit all the data presented in the Annual Environmental Report to the Authority in a format prescribed in the Environmental Reporting Guidance. The submission date should align with the publication of the Annual Environmental Report.

### **Part B: Environmental Reporting Guidance**

- 9.1.10 The Authority will issue and amend the Environmental Reporting Guidance by direction.
- 9.1.11 The Authority will publish the Environmental Reporting Guidance on the Authority's Website.
- 9.1.12 The Environmental Reporting Guidance will set out how the licensee must prepare its Annual Environmental Report, including the following:



- (a) the engagement the licensee is required to undertake with stakeholders to help inform the development of its Annual Environmental Report;
  - (b) the requirements for the structure and level of detail to be included in the Annual Environmental Report, including some of the data metrics to be used, as well as expectations about the level of explanatory text to be included;
  - (c) the format for submitting information to the Authority; and
  - (d) the environmental impacts, relevant Environmental Action Plan Commitments, business practices, existing obligations and activities that must be covered in the Annual Environmental Report.
- 9.1.13 Before issuing the Environmental Reporting Guidance by direction, the Authority will publish on the Authority's Website:
- (a) the text of the proposed Environmental Reporting Guidance;
  - (b) the date on which the Authority intends the Environmental Reporting Guidance to come into effect; and
  - (c) a period during which representations may be made on the content of the Environmental Reporting Guidance, which will be up to 28 days unless the Authority determines that a longer period is appropriate.
- 9.1.14 Before amending the Environmental Reporting Guidance by direction, the Authority will publish on the Authority's Website:
- (a) the text of the proposed amendments to the Environmental Reporting Guidance;
  - (b) the date on which the Authority intends the amended Environmental Reporting Guidance to come into effect, which, unless agreed with the licensee, will not be before three months from the date of publication or the commencement of the subsequent Regulatory Year following publication, whichever is later;
  - (c) the reasons for the proposed amendments to the Environmental Reporting Guidance;
  - (d) how the proposed reporting requirements provide an appropriate balance between the costs of reporting and benefit of the information created; and
  - (e) a period during which representations may be made on the proposed amendments to the Environmental Reporting Guidance, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

## **Special Condition 9.2 Network Asset Risk Metric Methodology**

### **Introduction**

- 9.2.1 This condition sets out:
- (a) the requirements on the licensee in respect of the NARM Methodology;
  - (b) the NARM Objectives;

- (c) the process for modifying the NARM Methodology where the proposed modifications have a material impact on the Baseline Network Risk Outputs;
- (d) the process for modifying the NARM Methodology where the proposed modifications do not have a material impact on the Baseline Network Risk Outputs;
- (e) the requirements on the licensee in respect of the Information Gathering Plan; and
- (f) the requirements on the licensee to work in co-operation with all DN Operators, and with the NTS Operator where the licensee has similar assets, to produce an Engineering Guidance Document.

## **Part A: Requirement to have a NARM Methodology**

- 9.2.2 The licensee must have in place and act in accordance with a NARM Methodology that facilitates the achievement of the NARM Objectives, which is comprised of:
  - (a) a NARM Methodology which is common to all DN Operators (“the GD NARM Methodology”) that complies with the requirements of paragraph 9.2.4; and
  - (b) the licensee’s own methodology for implementing the GD NARM Methodology using the licensee’s own asset information, which complies with the requirements of paragraph 9.2.6.
- 9.2.3 The NARM Methodology approved by the Authority and effective from 1 April 2026 is deemed to be the NARM Methodology until superseded.
- 9.2.4 The licensee must cooperate with all other DN Operators to develop and maintain the GD NARM Methodology that facilitates the achievement of the NARM Objectives.
- 9.2.5 The licensee must keep the GD NARM Methodology under review in accordance with 9.2.9 and modify it as necessary to ensure that it continues to facilitate the achievement of the NARM Objectives.
- 9.2.6 The licensee’s own methodology for implementing the GD NARM Methodology must:
  - (a) enable the licensee to:
    - i. assess its NARM assets against the Network Asset Risk Metric;
    - ii. report in accordance with the RIGs; and
    - iii. assess its performance against the Baseline Network Risk Output;
  - (b) be consistent with the GD NARM Methodology.
- 9.2.7 The licensee must, at least once every year, review its own methodology for implementing the GD NARM Methodology and modify it as necessary to ensure it complies with the requirements of paragraph 9.2.6.

## Part B: The NARM objectives

### 9.2.8 The NARM objectives are:

- (a) to provide transparent, logical links between:
  - i. the Asset Data that the licensee collects through inspections, maintenance, and other asset management activities;
  - ii. the data that the licensee inputs into its Asset Management Systems;
  - iii. the licensee's asset management decisions; and
  - iv. where relevant, the licensee's whole system investment decisions;
- (b) to enable the Authority to establish the licensee's Baseline Network Risk Outputs and to undertake an objective assessment of the licensee's Baseline Network Risk Output delivery;
- (c) to enable the robust estimation of Current Monetised Risk, Forecast Monetised Risk, Single-year Monetised Risk, and Long-term Monetised Risk of asset failure for:
  - i. each NARM Asset Category;
  - ii. individual NARM Assets within each NARM Asset Category; and
  - iii. the licensee's Distribution Network;
- (d) to enable the robust estimation of the Current Monetised Risk and Long-term Monetised Risk benefits delivered, or expected to be delivered, through interventions on specific assets or groups of assets;
- (e) to provide inputs to help explain and justify, through Cost-Benefit Analysis:
  - i. the licensee's investment plans for managing and renewing its NARM Assets; and
  - ii. the licensee's outturn delivery of investment options;
- (f) to enable the identification and quantification of drivers leading to changes in Monetised Risk over time;
- (g) to enable the comparative analysis of Monetised Risk between:
  - i. different NARM Asset Categories and between individual NARM Assets on the licensee's Distribution Network;
  - ii. geographic areas of, and NARM Assets within, the licensee's Distribution Network;
  - iii. the licensee's Distribution Network and other networks within the same sector;
  - iv. the licensee's Distribution Network and networks outside and inside Great Britain with similar assets should similar approaches as set out in the NARM Methodology be applied to estimate Monetised Risk for those networks;
  - v. the NTS and Distribution Networks within Great Britain; and
- (h) to enable the communication to the Authority and other interested parties of relevant information about the licensee's Distribution Network in an accessible and transparent manner.

## **Part C: Modifications to the NARM Methodology that have a material impact on the Baseline Network Risk Output**

- 9.2.9 The licensee must, at least once every year, review the NARM Methodology to identify scope for modifications that would better facilitate the achievement of the NARM Objectives.
- 9.2.10 Where the licensee has identified scope for modifications that better facilitate the achievement of the NARM Objectives which would have a material impact on the licensee's Baseline Network Risk Output, it must notify the Authority of the timeframes within which it will propose the relevant modifications to the NARM Methodology.
- 9.2.11 Where the licensee proposes a modification to the NARM Methodology under this Part, it must:
- (a) consult other Network Licensees to which a condition of equivalent effect to this condition applies and with any other interested parties, allowing them a period of at least 28 days within which to make any representations on the proposed modification;
  - (b) submit to the Authority a report containing:
    - i. a statement explaining the proposed modification to the NARM Methodology; and
    - ii. an explanation of how, in the licensee's opinion, the proposed modification, if made, would better facilitate the achievement of the NARM Objectives;
  - (c) submit to the Authority a draft NARM Methodology that incorporates the proposed modification;
  - (d) submit to the Authority any relevant subsidiary or supporting documents, data files, or quantitative models;
  - (e) submit to the Authority a full and fair summary of any representations that were made to the licensee pursuant to sub-paragraph (a) above and not withdrawn;
  - (f) submit to the Authority an explanation of any changes to the modification proposal that the licensee has made as a consequence of the representations received;
  - (g) submit to the Authority a presentation of the data and any other relevant information (including historical data, which should be provided, where reasonably practicable and relevant, for a period of at least ten years prior to the date of the modification proposal) the licensee has used for the purpose of developing the proposed modification;
  - (h) submit to the Authority a plan setting out how the licensee intends to rebase its Baseline Network Risk Outputs, if Rebasing is a necessary consequence of implementing the proposed modification; and
  - (i) submit to the Authority a timetable for the implementation of the proposed modification, including a date for submission of Rebased Baseline Network Risk Outputs, if necessary.

- 9.2.12 The Authority will by direction:
- (a) approve the proposed modification;
  - (b) approve the proposed modification with amendments; or
  - (c) reject the proposed modification.
- 9.2.13 In the case of paragraph 9.2.12(a) or (b) the Authority may also direct the date by which the licensee must submit Rebased Baseline Network Risk Outputs in accordance with Special Condition 3.1 (Baseline Network Risk Outputs).
- 9.2.14 The licensee must implement the modification directed under paragraph 9.2.12(a) or (b) by such date as may be set out in that direction.
- 9.2.15 Before issuing a direction under paragraph 9.2.12, the Authority will publish on its website:
- (a) the text of the proposed direction;
  - (b) the date on which the Authority intends the proposed direction to come into effect;
  - (c) the reasons why it proposes to issue the direction; and
  - (d) a period during which representations may be made on the proposed direction, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

**Part D: Modifications to the NARM Methodology that do not have a material impact on the Baseline Network Risk Output**

- 9.2.16 The licensee may propose modifications under this Part of the type set out in paragraph 9.2.17 where:
- (a) the modification would improve the clarity of the NARM Methodology;
  - (b) it has obtained the agreement of all DN Operators; and
  - (c) the modification will have no material impact on the licensee's or any other DN Operator's:
    - i. Baseline Network Risk Output; or
    - ii. delivery against its Baseline Network Risk Output.
- 9.2.17 The following categories of modifications may be made under this Part:
- (a) formatting changes such as re-numbering of paragraphs, capitalising defined terms, cell labelling, renaming, or re-ordering of sections or appendices;
  - (b) deleting irrelevant material such as transitional provisions that have expired;
  - (c) updates such as to dates, version numbers of documents, titles of re-enacted legislation and re-named bodies;
  - (d) consequential changes required to reflect modifications made to the special conditions such as the addition, removal or modification of defined terms; and

- (e) corrections of manifest errors.
- 9.2.18 Where the licensee proposes a modification under this Part, it must send to the Authority and all other DN Operators a statement that sets out:
  - (a) the proposed modification to the NARM Methodology;
  - (b) how, in the licensee's opinion, the proposed modification, if made, would improve the clarity of the NARM Methodology; and
  - (c) the materiality of the proposed modification on the licensee's Baseline Network Risk Output.
- 9.2.19 The Authority must by direction:
  - (a) approve the proposed modification;
  - (b) approve the proposed modification with amendments;
  - (c) reject the proposed modification; or
  - (d) reject the proposed modification and direct the licensee to make a further submission under this Part or Part C.
- 9.2.20 A direction under paragraph 9.2.19 will likely be insufficiently significant to warrant publication or formal consultation, but the Authority will consider this on a case-by-case basis.

## **Part E: Information Gathering Plan**

- 9.2.21 The licensee must provide the Authority with an Information Gathering Plan by 01 October 2026.
- 9.2.22 The Information Gathering Plan must:
  - (a) set out how the licensee will gather and record the information required for its implementation of the NARM Methodology; and
  - (b) include the scope and form of the data that the licensee collects and the frequency with which data is collected to enable the licensee to report on progress against its Baseline Network Risk Output in accordance with its NARM Methodology annually, in accordance with the RIGs.
- 9.2.23 The licensee must, at least once every year, review the Information Gathering Plan and where necessary modify it, to ensure that it complies with the requirements of paragraph 9.2.22.

## **Part F: Engineering Guidance Document**

- 9.2.24 The licensee must work in co-operation with all other DN Operators and, where the licensee has similar assets to the NTS Operator, with the NTS Operator, to produce a common Engineering Guidance Document ("the GD Engineering Guidance Document") on asset condition data inputs to the NARM Methodology.
- 9.2.25 The licensee and all other DN Operators must submit the GD Engineering Guidance Document to the Authority by 01 April 2028.

- 9.2.26 The objectives of the GD Engineering Guidance Document are to:
- (a) establish common standards for reporting asset condition data for all assets in the NARM Methodology;
  - (b) provide guidance on capturing asset condition data, including the provision of visual and descriptive aids where relevant; and
  - (c) promote best practices for assessing and recording asset condition data.
- 9.2.27 The licensee must, at least once every year, review the GD Engineering Guidance Document to identify scope for modifications and where necessary modify it, to ensure that it continues to meet the objectives set out in paragraph 9.2.26.

## **Special Condition 9.3 Price Control Deliverable assessment principles and reporting requirements**

### **Introduction**

- 9.3.1 The purpose of this condition is to set out the assessment principles the Authority will apply in deciding whether to make a direction where an Evaluative PCD has not been Fully Delivered and in deciding the contents of such a direction.
- 9.3.2 This condition requires the licensee to report to the Authority on the delivery of its Evaluative PCDs and provides for the issuing and amending of the PCD Reporting Requirements and Methodology Document.

### **Part A: Evaluative PCD assessment principles**

- 9.3.3 In deciding whether to make a direction under this condition and in deciding the contents of such a direction, the Authority will apply the following assessment principles:
- (a) where an output is Fully Delivered With An Alternative Specification and the licensee demonstrates that any underspend against the associated allowances is attributable to Efficiency or Innovation, the Authority will not make any adjustment to the associated allowance;
  - (b) where an output is Fully Delivered With An Alternative Specification, and:
    - i. the licensee demonstrates that any overspend against the associated allowances was efficiently incurred; and
    - ii. the Authority is satisfied that the licensee has demonstrated the proportion of increased Consumer Outcome associated with the work delivered,the Authority may direct an upwards adjustment to the associated allowance. The Authority may direct an adjustment of any value between 0 and the Authority's view of efficiently incurred overspend that delivers the increased Consumer Outcome. When making such a direction, the adjustment will be in the form of a negative value inputted into the formula

for the relevant Evaluative PCD term, in order to result in an upwards adjustment;

- (c) where an output is Not Delivered, the Authority may direct a reduction to the associated allowance up to the total amount of the allowance, save that the Authority will allow the licensee the costs of undertaking reasonable and necessary work until the decision to not deliver the output, where the licensee demonstrates that such costs were reasonable, necessary, incurred efficiently and not otherwise funded by the special conditions of this licence;
- (d) where an output is Delayed, the Authority may direct a re-profiling of the associated allowance to match the profile of the actual delivery of work or expenditure, where re-profiling would have a material impact on allowances;
- (e) where the output is Partially Delivered or Partially Delivered With Alternative Specification, and:
  - i. the licensee demonstrates that any underspend against the associated allowances are attributable to Efficiency or Innovation; and
  - ii. the Authority is satisfied that the licensee has demonstrated the proportion of the output or Consumer Outcome associated with the work delivered,

the Authority may direct a downwards adjustment to the associated allowances only in accordance with the following formula:

$$\text{Adjustment to allowances} = ((1 - \text{proportion of output or Consumer Outcome delivered}) * \text{associated allowance})$$

- (f) where none of the circumstances described in sub-paragraphs 9.3.3 (a) to (e) apply, the Authority may direct an adjustment to the associated allowances such as to allow only the efficient costs of any work carried out that contributes to the delivery of the output. When deciding on the value of any such adjustment, the Authority will:
  - i. have due regard to the particular characteristics of the output;
  - ii. have due regard to any factors that are outside of the licensee's control and that may have affected the ability of the licensee to have Fully Delivered the output; and
  - iii. establish efficient costs using the following methods:
    - (A) where these are available, using benchmarking against historical cost data; or
    - (B) where historical cost data is not available, using bespoke engineering and cost assessment, employing qualitative techniques to supplement technical methods;
- (g) the only instance in which the Authority may direct an increase to allowances for an Evaluative PCD is when it is Fully Delivered With An Alternative Specification in accordance with 9.3.3 (b);



- (h) any adjustment to an associated allowance will proportion that allowance to Regulatory Years in accordance with the profile of actual expenditure reported by the licensee; and
- (i) the split between fast money and the RAV for any adjustments will be as set out in the GD3 Price Control Financial Model.

#### **Part B: Reporting requirement**

- 9.3.4 The licensee must by 31 July of each Regulatory Year, or such later date directed by the Authority, send to the Authority a Basic PCD Report on each Evaluative PCD for which the delivery date specified in the relevant licence condition was in the previous Regulatory Year.
- 9.3.5 On receipt of a Basic PCD Report, the Authority will decide whether to direct the licensee to submit to it a Full PCD Report.
- 9.3.6 The Authority will not direct the submission of a Full PCD Report where the Basic PCD Report demonstrates that the output has been Fully Delivered.
- 9.3.7 Where directed to do so by the Authority the licensee must send to the Authority a Full PCD Report.
- 9.3.8 The Authority will use the Basic PCD Report, Full PCD Report, responses to supplementary questions and any other relevant information to decide the delivery status of the outputs for the purposes of Part A in accordance with the definitions of those terms in Special Condition 1.1 (Interpretation and definitions). The Authority may decide to assign more than one delivery status to any output.

#### **Part C: PCD Reporting Requirements and Methodology Document**

- 9.3.9 The licensee must comply with the PCD Reporting Requirements and Methodology Document when preparing a report required by Part B.
- 9.3.10 The Authority will issue and amend the PCD Reporting Requirements and Methodology Document by direction.
- 9.3.11 The Authority will publish the PCD Reporting Requirements and Methodology Document on the Authority's Website.
- 9.3.12 The PCD Reporting Requirements and Methodology Document will set out:
  - (a) how the licensee must prepare the reports required by Part B; and
  - (b) further guidance about, and worked examples of, the methodology the Authority will use when deciding:
    - i. whether to direct a value to reduce allowances for Price Control Deliverables that have not been Fully Delivered; and
    - ii. the value to direct.
- 9.3.13 Before issuing the PCD Reporting Requirements and Methodology Document by direction, the Authority will publish on the Authority's Website:

- (a) the text of the proposed PCD Reporting Requirements and Methodology Document;
  - (b) the date on which the Authority intends the PCD Reporting Requirements and Methodology Document to come into effect; and
  - (c) a period during which representations may be made on the content of the PCD Reporting Requirements and Methodology Document, which will be up to 28 days unless the Authority determines that a longer period is appropriate.
- 9.3.14 Before amending the PCD Reporting Requirements and Methodology Document by direction, the Authority will publish on the Authority's Website:
  - (a) the text of the amended PCD Reporting Requirements and Methodology Document;
  - (b) the date on which the Authority intends the amended PCD Reporting Requirements and Methodology Document to come into effect;
  - (c) the reasons for the amendments to the PCD Reporting Requirements and Methodology Document; and
  - (d) a period during which representations may be made on the amendments to the PCD Reporting Requirements and Methodology Document, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

## **Special Condition 9.4 Re-opener Guidance and Application Requirements Document**

### **Introduction**

- 9.4.1 The purpose of this condition is to require the licensee to prepare any applications for re-openers in accordance with the Re-opener Guidance and Application Requirements Document.
- 9.4.2 This condition also explains the process the Authority will follow in issuing and amending the Re-opener Guidance and Application Requirements Document.

### **Part A: Requirement to comply with the Re-opener Guidance and Application Requirements Document**

- 9.4.3 The licensee must prepare any applications for re-openers in accordance with the applicable provisions of the Re-opener Guidance and Application Requirements Document.

### **Part B: Re-opener Guidance and Application Requirements Document**

- 9.4.4 The Authority will issue and amend the Re-opener Guidance and Application Requirements Document by direction.
- 9.4.5 The Authority will publish the Re-opener Guidance and Application Requirements Document on the Authority's Website.

9.4.6 The Re-opener Guidance and Application Requirements Document:

- (a) may provide guidance on the process to be followed by the licensee and the Authority in relation to:
  - i. establishing a re-opener application pipeline log for prospective applications;
  - ii. pre-application engagement between the licensee and the Authority;
  - iii. pre-acceptance screening of applications;
  - iv. a process for supplementary questions;
  - v. a proportionate approach to using assessment tiers with differing levels of scrutiny for individual applications; and
  - vi. how the Authority would instigate a re-opener; and
- (b) will set out how the licensee must prepare its applications for re-openers, including the following:
  - i. the re-openers to which the document applies;
  - ii. the level of detail required in the application;
  - iii. any requirement to publish the application; and
  - iv. when it is appropriate to make redactions in published applications.

9.4.7 Before issuing the Re-opener Guidance and Application Requirements Document by direction, the Authority will publish on the Authority's Website:

- (a) the text of the proposed Re-opener Guidance and Application Requirements Document;
- (b) the date on which the Authority intends the Re-opener Guidance and Application Requirements Document to come into effect; and
- (c) a period during which representations may be made on the content of the Re-opener Guidance and Application Requirements Document, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

9.4.8 Before amending the Re-opener Guidance and Application Requirements Document by direction, the Authority will publish on the Authority's Website:

- (a) the text of the amended Re-opener Guidance and Application Requirements Document;
- (b) the date on which the Authority intends the amended Re-opener Guidance and Application Requirements Document to come into effect;
- (c) the reasons for the amendments to the Re-opener Guidance and Application Requirements Document; and
- (d) a period during which representations may be made on the amendments to the Re-opener Guidance and Application Requirements Document, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

## **Special Condition 9.5 Digitalisation**

### **Introduction**

- 9.5.1 The purpose of this condition is to set out the licensee's obligations to:
- (a) have a Digitalisation Strategy;
  - (b) have a Digitalisation Action Plan;
  - (c) update its Digitalisation Strategy and its Digitalisation Action Plan;
  - (d) comply with DSAP Guidance; and
  - (e) comply with Data Best Practice Guidance.
- 9.5.2 This condition also sets out the process that the Authority will follow when issuing and amending DSAP Guidance and Data Best Practice Guidance.

### **Part A: Requirements of the Digitalisation Strategy**

- 9.5.3 The licensee must publish its Digitalisation Strategy on, or before, 31 March 2028.
- 9.5.4 The licensee must review the progress it has made against its Digitalisation Strategy, and update its Digitalisation Strategy at least once every 2 years after 31 March 2028.
- 9.5.5 The licensee must:
- (a) publish its Digitalisation Strategy, and updates to its Digitalisation Strategy, on the licensee's website where they are readily accessible to the public;
  - (b) maintain an archive of all published versions of its Digitalisation Strategy on the licensee's website where they are readily accessible to the public; and
  - (c) notify the Authority of any updates to the Digitalisation Strategy.

### **Part B: Requirements of the Digitalisation Action Plan**

- 9.5.6 The licensee must publish its Digitalisation Action Plan on, or before, 30 June 2026.
- 9.5.7 The licensee must review the progress it has made against and update its Digitalisation Action Plan at least once every 6 months after 30 June 2026.
- 9.5.8 The licensee must:
- (a) publish its Digitalisation Action Plan, and updates to its Digitalisation Action Plan, on the licensee's website where they are readily accessible to the public;
  - (b) maintain an archive of all published versions of its Digitalisation Action Plan on the licensee's website where they are readily accessible to the public; and
  - (c) notify the Authority of any updates to the Digitalisation Action Plan.

## **Part C: DSAP Guidance**

- 9.5.9 The licensee must comply with the DSAP Guidance when:
- (a) preparing and updating its Digitalisation Strategy; and
  - (b) preparing and updating its Digitalisation Action Plan.
- 9.5.10 The Authority will issue and amend the DSAP Guidance by direction.
- 9.5.11 The Authority will publish the DSAP Guidance on the Authority's Website.
- 9.5.12 The DSAP Guidance will make provision about:
- (a) how the licensee should work towards Digitalisation;
  - (b) how the licensee should set out in its Digitalisation Strategy and Digitalisation Action Plan how it intends to use Energy System Data to generate benefits for consumers and stakeholders and the specific actions it will take to achieve that outcome;
  - (c) the form and content of the Digitalisation Strategy and the Digitalisation Action Plan, including:
    - i. the structure, content and level of detail of each;
    - ii. the types of activities that should be covered in each;
    - iii. any required information associated with those activities; and
  - (d) the engagement the licensee is required to undertake with stakeholders to help inform the development of its Digitalisation Strategy and its Digitalisation Action Plan.

## **Part D: Requirement to employ data best practice**

- 9.5.13 The licensee must, when conducting work that involves working with or making decisions about the use of Energy System Data, use its best endeavours to act in accordance with Data Best Practice Guidance.
- 9.5.14 The Authority will issue and amend Data Best Practice Guidance by direction.
- 9.5.15 The Authority will publish Data Best Practice Guidance on the Authority's Website.
- 9.5.16 Data Best Practice Guidance will make provision about how the Authority expects the licensee to comply with data best practice to generate benefits for consumers and stakeholders, including but not limited to ensuring services that involve Energy System Data are designed to meet the needs of consumers and those who directly use the services.

## **Part E: Process for issuing and amending guidance**

- 9.5.17 Before issuing DSAP Guidance or Data Best Practice Guidance by direction, the Authority will publish on the Authority's Website:
- (a) the text of the proposed guidance;

- (b) the date on which the Authority intends the guidance to come into effect; and
  - (c) a period during which representations may be made on the content of the guidance, which will be up to 28 days unless the Authority determines that a longer period is appropriate.
- 9.5.18 Before amending DSAP Guidance or Data Best Practice Guidance by direction, the Authority will publish on the Authority's Website:
  - (a) the text of the amended guidance;
  - (b) the date on which the Authority intends the amended guidance to come into effect;
  - (c) the reasons for the amendments to the guidance; and
  - (d) a period during which representations may be made on the amendments to the guidance, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

## **Special Condition 9.6 Disapplication of Relevant Special Conditions**

### **Introduction**

- 9.6.1 The purpose of this condition is to enable the licensee to make a formal request for the disapplication of the Relevant Special Conditions (in whole or in part) and for such provisions to be disapplied following a request in the circumstances specified.

### **Part A: Procedure for making a Disapplication Request**

- 9.6.2 The licensee may submit a Disapplication Request in writing to the Authority.
- 9.6.3 A Disapplication Request must:
  - (a) specify to which of the Relevant Special Conditions (or any part or parts of them) the request relates;
  - (b) provide a full statement of the licensee's reasons for making the request;
  - (c) contain such other information or analysis as the licensee considers sufficient to enable the Authority to fully assess the Disapplication Request;
  - (d) state the Disapplication Date that the licensee proposes (which must not be earlier than the appropriate date mentioned in Part B); and
  - (e) specify the Distribution Network (or any part or parts of it) to which the request relates.
- 9.6.4 A Disapplication Request may be submitted only in respect of a specified geographical area.
- 9.6.5 The Authority may, during the period of 28 days beginning with the date of receipt of a Disapplication Request, give notice to the licensee:

- (a) specifying further information or analysis that the Authority reasonably considers is required in order to fully assess the Disapplication Request; and
- (b) requesting the licensee to provide that information or analysis.

9.6.6 The licensee may withdraw a Disapplication Request at any time.

**Part B: Date from which a disapplication may take effect**

9.6.7 The Disapplication Date specified in a Disapplication Request must be after the period of 18 months beginning with the date of the submission of the Disapplication Request, unless the Authority consents in writing to an earlier date.

9.6.8 If paragraph 9.6.5 applies, a Disapplication Request will be treated as submitted when that further information or analysis is received by the Authority and, if in consequence the Disapplication Date set out in the Disapplication Request no longer complies with paragraph 9.6.7, the Disapplication Date will be treated as being the earliest date that would comply with that paragraph.

**Part C: Licensee's right to terminate under a Disapplication Request**

9.6.9 If the licensee has submitted to the Authority a Disapplication Request that complies with the requirements of Parts A and B, it may subsequently give the Authority a Disapplication Notice:

- (a) in the circumstances described in Part D; or
- (b) in the circumstances described in Part E.

9.6.10 In either case the Disapplication Notice may not take effect before the Disapplication Date or such earlier date to which the Authority may have consented to under Part B.

**Part D: Termination without involvement of the Competition and Markets Authority**

9.6.11 The circumstances referred to in paragraph 9.6.9(a) are that by the beginning of the period of six months ending with the Disapplication Date, the Authority has not in response to the Disapplication Request published a decision under section 23(7) of the Act to modify:

- (a) the Relevant Special Conditions (or any part or parts of them) to which the Disapplication Request applies; or
- (b) this condition so as to remove the licensee's right to give the Authority a Disapplication Notice in respect of the relevant Disapplication Request.

**Part E: Termination after involvement of the Competition and Markets Authority**

9.6.12 The circumstances referred to in paragraph 9.6.9(b) are that the Authority has published a decision as described in paragraph 9.6.11(a) or 9.6.11(b) and:

- (a) the licensee has exercised its right to appeal to the Competition and Markets Authority against that decision of the Authority as provided for by section 23B of the Act;
- (b) the Competition and Markets Authority, acting under section 23E of the Act, has, in respect of the provision to which the Disapplication Notice relates:
  - i. quashed the Authority's decision, and
  - ii. neither remitted the matter back to the Authority under section 23E(2)(b) or s23E(3)(b) of the Act nor substituted its own decision for that of the Authority's under section 23E(2)(c) of the Act; and
- (c) no more than 30 days have elapsed since the date on which the Competition and Markets Authority quashed the decision in the circumstances described in paragraph 9.6.12(b)(i).

## **Special Condition 9.7 Directly Remunerated Services**

### **Introduction**

- 9.7.1 The purpose of this condition is to set out the basis on which services provided by the licensee will be treated as Directly Remunerated Services under the special conditions of this licence.
- 9.7.2 The effect of this condition is that revenue derived by the licensee from the provision of Directly Remunerated Services is excluded from the calculation of Calculated Revenue.
- 9.7.3 This condition also explains the process that the Authority will follow when directing that services provided by the licensee should be treated, or should not be treated, as Directly Remunerated Services.

### **Part A: Licensee's obligation to exclude Directly Remunerated Services**

- 9.7.4 The licensee must exclude revenue derived from Directly Remunerated Services from Calculated Revenue.
- 9.7.5 Directly Remunerated Services are:
  - (a) services that comply with the general principle set out in Part B; or
  - (b) the services listed in Part C to the extent that they comply with the general principle in Part B; or
  - (c) services that the Authority directs are to be treated as Directly Remunerated Services to the extent that such direction will comply with the general principle in Part B.
- 9.7.6 Services are not to be treated as Directly Remunerated Services if the Authority so directs to the extent that such direction will comply with the general principle in Part B.



## **Part B: Statement of general principle**

- 9.7.7 The general principle is that a service provided by the licensee as part of its Licensed Activity is to be treated as a Directly Remunerated Service if and to the extent that the service is not already remunerated under any of the charges listed in paragraph 9.7.8.
- 9.7.8 The charges referred to in paragraph 9.7.7 are Network Charges.

## **Part C: Categories of Directly Remunerated Service**

- 9.7.9 The descriptions of categories of Directly Remunerated Services set out at paragraph 9.7.10 are to be read and given effect subject to any further explanation or elaboration of any of those descriptions that might be set out in the RIGs.
- 9.7.10 Directly Remunerated Services include the following services:
- (a) DRS1. Connection services: This category consists of the carrying out of entry and exit connection works (including any necessary reinforcement works or diversionary works) to install, operate, repair, or maintain gas pipes, plant, meters or other equipment necessary to provide any new connection or modify any existing connection to the pipeline system to which this licence relates, (but only to the extent that the service is not already remunerated under one of the charges set out at paragraph 9.7.8).
  - (b) DRS2. Diversionary works under an obligation: This category consists of the relocating of any gas pipes or plant (including the carrying out of any associated works) pursuant to any statutory obligation other than one imposed on the licensee under section 9 (Powers and duties of gas transporters) of the Act.
  - (c) DRS3. Works required by any alteration of premises: This category consists of the moving of any gas pipes or plant that forms part of the pipeline system to accommodate the extension, redesign, or redevelopment of any premises on which the asset in question is located or to which it is connected.
  - (d) DRS4. Telecommunications and information technology infrastructure services: (Not applicable)
  - (e) DRS5. Outage Changes: (Not applicable)
  - (f) DRS6. Emergency Services: This category consists of the provision of emergency services under contracts entered into pursuant to the provisions of Standard Special Condition A41 (Emergency Services to or on Behalf of Another Gas Transporter).
  - (g) DRS7. PARCA Activities: (Not applicable)
  - (h) DRS8. Independent System operation: This category consists of the operation of Independent Systems, as provided for by Special Condition 6.2 (Gas conveyed to Independent Systems), of the licence applicable to the NTS Operator, on behalf of the NTS Operator.
  - (i) DRS9. Value Added Services: (Not applicable)

- (j) DRS10. Top-up, standby, and enhanced system security: (Not applicable)
- (k) DRS11. Revenue protection services: (Not applicable)
- (l) DRS12. Metering Services: (Not applicable)
- (m) DRS13. Smart Meter Roll-out rechargeable services: (Not applicable)
- (n) DRS14. Miscellaneous: This category consists of the provision of any other service (including the provision of gas pipes or plant) that:
  - i. is for the specific benefit of any third party who requests it;
  - ii. is not made available by the licensee as a normal part of its Licensed Activities.

## **Part D: Procedure for issuing directions**

- 9.7.11 Before issuing a direction under Part A the Authority will have regard to the general principle in Part B.
- 9.7.12 Any direction that the Authority issues under Part A will set out the date on which the licensee must start or cease treating services as Directly Remunerated Services.
- 9.7.13 Before issuing a direction under Part A, the Authority will publish on the Authority's website:
  - (a) The text of the proposed direction;
  - (b) the reasons why it proposes to issue the direction; and
  - (c) a period during which representations may be made on the proposed direction, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

## **Special Condition 9.8 Tax Reconciliation assurance statement**

### **Introduction**

- 9.8.1 This condition requires the licensee to submit to the Authority an annual Tax Reconciliation assurance statement and sets out the form of that statement.

### **Part A: Assurance Statement**

- 9.8.2 The licensee must by 30 September of each Regulatory Year submit to the Authority a Tax Reconciliation assurance statement relating to Regulatory Year t-2 that:
  - (a) has been approved by resolution of the licensee's board of directors;
  - (b) is signed by a director of the licensee pursuant to the resolution in subparagraph (a); and,
  - (c) is set out in the form prescribed in paragraph 9.8.3 or, where paragraph 9.8.4 applies, in the form prescribed in paragraph 9.8.5.
- 9.8.3 The prescribed form for the Tax Reconciliation assurance statement is as follows:

"In accordance with the requirements of paragraph 9.8.2 of Special Condition 9.8 (Tax Reconciliation assurance statement), the directors of [licensee] ("the licensee") hereby certify that for the Regulatory Year [Regulatory Year t-2]:

- (a) In their opinion, the values reported in the Tax Reconciliation have not resulted in a material, unexplained variance in the reconciliation of the licensee's Actual Corporation Tax Liability (as shown in the licensee's Company Tax Return (CT600)) to the calculated Tax Allowance;
- (b) the Tax Reconciliation will, by 30 September [Regulatory Year t], be submitted to the Authority along with a copy of the following documents:
  - i. the licensee's most recent CT600 as submitted to His Majesty's Revenue and Customs for the Regulatory Year [Regulatory Year t-2];
  - ii. the licensee's most recently submitted Senior Accounting Officer certificate (SAO2), which covers the Regulatory Year [Regulatory Year t-2];
  - iii. the licensee's previously published Tax Strategy which the Regulatory Year [Regulatory Year t-2]; and
  - iv. any notifications of uncertain tax treatments relating to the corporation tax affairs of the licensee arising under Schedule 17 Finance Act 2022 which cover the Regulatory Year [Regulatory Year t-2].
- (c) where appropriate, further information has been provided to support and explain reconciling items in accordance with the RIIIO-3 Regulatory Financial Performance Reporting RIGS;
- (d) all adjustments made have been appropriately explained in the Tax Reconciliation supporting commentary; and
- (e) reconciling differences have been appropriately explained and any remaining, unexplained differences are considered immaterial, in aggregate."

9.8.4 Where the licensee anticipates a material, unexplained variance to arise in the Tax Reconciliation as described in Chapter 6 of the GD3 Price Control Financial Handbook, the prescribed form for the Tax Reconciliation assurance statement is set out in paragraph 9.8.5.

9.8.5 Where this paragraph applies, the prescribed form of the Tax Reconciliation assurance statement is as follows:

"In accordance with the requirements of paragraph 9.8.2 of Special Condition 9.8 (Tax Reconciliation assurance statement), the Directors of [licensee] ("the licensee") hereby certify that for the Regulatory Year [Regulatory Year t-2]:

- (a) In their opinion, the values reported in the Tax Reconciliation have resulted in a material, unexplained variance in the reconciliation of the licensee's Actual Corporation Tax Liability as shown in the Company Tax Return (CT600) to the Calculated Tax Allowance;
- (b) the Tax Reconciliation will, by 30 September [Regulatory Year t], be submitted to the Authority along with a copy of the following documents:

- i. the licensee's most recent CT600 as submitted to His Majesty's Revenue and Customs for the Regulatory Year [Regulatory Year t-2];
  - ii. the licensee's most recently submitted Senior Accounting Officer certificate (SAO2), which covers the Regulatory Year [Regulatory Year t-2];
  - iii. the licensee's previously published Tax Strategy which covers the Regulatory Year [Regulatory Year t-2]; and
  - iv. any notifications of uncertain tax treatments relating to the corporation tax affairs of the licensee arising under Schedule 17 Finance Act 2022 which cover the Regulatory Year [Regulatory Year t-2].
- (c) where appropriate, further information has been provided to support and explain reconciling items in accordance with the RIIIO-3 Regulatory Financial Performance Reporting RIGs;
- (d) all adjustments made have been appropriately explained in the Tax Reconciliation supporting commentary, however there remain unexplained differences, which are considered material; and
- (e) a notification has been given in writing to the Authority under Chapter 6 of the GD3 Price Control Financial Handbook."

## **Special Condition 9.9 Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network**

### **Introduction**

- 9.9.1 This condition sets out how the licensee must allocate revenues and costs for the purposes of calculating its Allowed Revenue in respect of each relevant Distribution Network in accordance with the provisions set out in Special Condition 2.1 (Revenue restriction).
- 9.9.2 The condition also requires the licensee to:
- (a) have in place a methods statement that sets out the methods that the licensee will use in the allocation and attribution of revenues and costs; and
  - (b) prepare and send to the Authority a methods report, which describes the manner in which, and the extent to which the licensee has complied with the provisions of the methods statement.

### **Part A: General principles of allocation and attribution**

- 9.9.3 Unless the Authority otherwise directs, any allocation or attribution of revenues, costs, assets, and liabilities performed by the licensee in order to calculate any of the values referred to in the Allowed Revenue in Special Condition 2.1 must conform to the principles set out in paragraphs 9.9.4, 9.9.5, and 9.9.6.

- 9.9.4 Principle 1 is that the licensee must, so far as is reasonably practicable, allocate or attribute revenues, costs, assets, and liabilities in accordance with the activities which cause the revenues to be earned, the costs to be incurred, the assets to be acquired, or the liabilities to be incurred.
- 9.9.5 Principle 2 is that the licensee must perform its allocations and attributions on an objective basis and in a manner calculated not to unduly benefit itself or any other licensee or entity, affiliated or otherwise.
- 9.9.6 Principle 3 is that, wherever practicable, the licensee must perform all allocations and attributions on a consistent basis from one Regulatory Year to the next.

**Part B: Allocation and attribution as between principal activities**

- 9.9.7 To the extent relevant to its activities, the licensee must in so far as is reasonably practicable allocate or attribute all revenues earned and costs incurred by the Transportation Business to the following activities:
- (a) the Licensed Activity;
  - (b) the Liquefied Natural Gas Import Or Export Facility activity; and
  - (c) any Directly Remunerated Services.

**Part C: Statement of the methods to be used by the licensee**

- 9.9.8 Unless the Authority otherwise directs, the licensee must, by no later than 31 July in each Regulatory Year, prepare and send to the Authority a statement in a form approved by the Authority that sets out the methods that the licensee intends to use in the allocation and attribution of revenues and costs.
- 9.9.9 The methods statement must, as a minimum, clearly distinguish between the allocation or attribution of revenues, costs, assets, and liabilities to each of the activities specified in Part B.
- 9.9.10 Where the basis of such allocations or attributions has changed from one Regulatory Year to the next, the methods statement must also indicate and explain how and why that basis has been changed.
- 9.9.11 The licensee must use reasonable endeavours to comply with the methods statement for the time being in force under this condition.

**Part D: Direction to re-allocate and re-attributed**

- 9.9.12 The licensee must re-allocate revenues earned by the licensee or re-attribute costs incurred by the licensee to the activities specified in Part B in accordance with any direction made by the Authority following receipt of the methods statement, so that the licensee's allocations or attributions (as the case may be) comply with the principles set out in Part A.

## **Part E: Preparation and submission of the methods report**

- 9.9.13 Unless the Authority otherwise consents, the licensee must, by no later than four months after the end of each Regulatory Year, prepare and send to the Authority a methods report that:
- (a) describes the manner in which and the extent to which the licensee complied with the provisions of the methods statement and any direction made by the Authority under Part D in respect of that year; and
  - (b) states whether any modification should be made to the methods statement to reflect more closely the practice of the licensee.
- 9.9.14 The methods report must be accompanied by a report from an Appropriate Auditor that:
- (a) sets out the procedures (which must have been approved by the Authority) that the Appropriate Auditor has carried out for the purposes of demonstrating the extent to which the licensee has properly prepared the methods report in accordance with the methods statement and any direction made under Part D; and
  - (b) gives an opinion as to the extent to which the licensee has properly prepared the methods report.
- 9.9.15 To the extent that the licensee earns revenues or incurs costs in the undertaking of De Minimis Business under Standard Special Condition A36 (Restriction on Activity and Financial Ring-Fencing), the licensee must report on those revenues and costs in accordance with this condition.

## **Special Condition 9.10 Not used**

## **Special Condition 9.11 The strategic innovation fund (SIF<sub>t</sub>)**

### **Introduction**

- 9.11.1 The purpose of this condition is to establish arrangements for the SIF and to provide for the calculation of the term SIF<sub>t</sub>.
- 9.11.2 The effect of this condition is to provide funding for Eligible SIF Projects by means of payments received from the NTS Operator (as adjusted, where appropriate, by the SIF Funding Return Mechanism) in accordance with the determination process in Part A.
- 9.11.3 This condition also makes provision for arrangements relating to the regulation, administration, and governance of the SIF.

### **Part A: Determination of the value of the SIF<sub>t</sub> term**

- 9.11.4 The SIF<sub>t</sub> term is the net amount of SIF Funding less any SIF Funding Return for the Regulatory Year that is to be paid to the licensee by the NTS Operator, or vice versa, in accordance with the direction issued for that purpose by the

Authority under Part A of Special Condition 5.7 (The strategic innovation fund) in the licence held by the NTS Operator.

9.11.5 In each Regulatory Year, in accordance with the SIF Governance Document and appropriate provisions of the NTS Operator's licence, the Authority will calculate and then, by direction given to the licensee, specify:

- (a) the value of the SIF term;
- (b) how the amount of that term has been calculated, taking account of any SIF Funding Return; and
- (c) the manner in which and the timescale over which the NTS Operator is required to transfer that amount to the licensee or vice versa.

#### **Part B: The SIF Funding Return Mechanism**

9.11.6 The Authority may direct how SIF Returned Project Revenues should be paid to customers through the SIF Funding Return Mechanism, or where the Authority considers it to be appropriate, how they should be retained by the licensee.

9.11.7 In each Regulatory Year, in accordance with the appropriate provisions of the SIF Governance Document, the Authority will calculate and then, by direction given to the licensee specify:

- (a) the amount of any SIF Funding Return that the licensee must pay to the NTS Operator; and
- (b) the manner in which and the timescale over which that amount is to be paid.

9.11.8 The licensee must comply with any direction that is issued by the Authority under paragraph 9.11.7.

#### **Part C: The SIF Governance Document**

9.11.9 The licensee must comply with the SIF Governance Document.

9.11.10 The Authority will issue and amend the SIF Governance Document by direction.

9.11.11 The Authority will publish the SIF Governance Document on the Authority's Website.

9.11.12 The SIF Governance Document will make provision about the regulation, governance and administration of the SIF, including but not limited to:

- (a) the eligibility criteria to be applied by, and information to be provided to, the Authority in relation to the assessment and approval of proposed SIF projects;
- (b) the evaluation criteria against which the funding of such proposed SIF projects will be assessed and approved;
- (c) the process and procedures that will be in place for the assessment, approval, and financing of Eligible SIF Projects, including the SIF Funding Mechanism and SIF Funding Return Mechanism;

- (d) arrangements to ensure that relevant matters the licensee learned from the implementation of Eligible SIF Projects can be captured and disseminated by the licensee to other Gas Transporter Licensees and the ISOP;
- (e) the nature of the reporting obligations in respect of such Eligible SIF Projects, which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the SIF Governance Document; and
- (f) arrangements relating to the treatment of intellectual property rights including SIF Returned Royalty Income in respect of Eligible SIF Projects.

#### **Part D: Procedure for issuing and revising the SIF Governance Document**

9.11.13 Before directing that the SIF Governance Document comes into effect the Authority will publish on the Authority's Website:

- (a) the text of the proposed SIF Governance Document;
- (b) the date that the Authority intends the SIF Governance Document to come into effect; and
- (c) the time within which representations may be made on the content of the SIF Governance Document, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

9.11.14 Before directing an amendment to the SIF Governance Document, the Authority will publish on the Authority's Website:

- (a) the text of the amended SIF Governance Document;
- (b) the date on which the Authority intends the amended SIF Governance Document to come into effect;
- (c) the reasons for the amendment to the SIF Governance Document; and
- (d) a period during which representations may be made on the amendment to the SIF Governance Document, which will be up to 28 days unless the Authority determines that a longer period is appropriate.

9.11.15 Where this special condition provides for the Authority to issue or amend a document by direction, the steps required to achieve this may be satisfied by action taken before or after this licence condition comes into effect.

#### **Part E: Governance of NIC legacy projects**

9.11.16 The SIF replaced the NIC which ran during the RII0-ET1 price control period to fund innovative low carbon or environmental projects. Although the NIC no longer runs for the licensee from 1 April 2021, the licensee must, in respect of any legacy NIC projects, comply with the NIC Governance Document which makes provisions about matters relating to the governance of the NIC including reporting obligations, arrangements to ensure project learning dissemination and arrangements relating to the treatment of intellectual property rights.



## **Special Condition 9.12 Shrinkage And Leakage Model Maintenance**

### **Part A: Maintenance of the Shrinkage And Leakage Model**

- 9.12.1 The licensee, together with all other DN Operators, must have in place a Shrinkage And Leakage Model approved by the Authority.
- 9.12.2 The licensee must have in place a methodology to apply the Shrinkage And Leakage Model in a way that is consistent with all other DN Operators, such that the resulting Shrinkage and Leakage volumes are comparable.
- 9.12.3 The Shrinkage And Leakage Model and the licensee's methodology must be designed to facilitate the accurate calculation and reporting of Shrinkage and Leakage.
- 9.12.4 The licensee must, by 31 July in each Regulatory Year, make publicly available and provide to the Authority a report that sets out:
  - (a) Actual Leakage Volumes; and
  - (b) Actual Shrinkage Volumes as calculated in accordance with the Shrinkage And Leakage Model for each Distribution Network for the preceding Regulatory Year.
- 9.12.5 Subject to the provision of at least 28 days' notice by the Authority, the licensee must allow the Authority, or a duly authorised representative of the Authority, such access to the licensee's staff, records and facilities as the Authority may reasonably require, for the purpose of establishing to the Authority's reasonable satisfaction that:
  - (a) the Shrinkage And Leakage Model complies with the requirements of this condition; and
  - (b) the licensee is complying with its methodology for the Shrinkage And Leakage Model.
- 9.12.6 The licensee must not make any modification to the Shrinkage And Leakage Model except where it is directed to do so by the Authority under Part B.
- 9.12.7 The licensee must not make modifications to its methodology for the Shrinkage And Leakage model where the changes would have a material impact on the calculation of Shrinkage volumes under the Shrinkage And Leakage Model, except where it is directed to do so by the Authority under Part B.

### **Part B: Modification of the Shrinkage And Leakage Model and methodology**

- 9.12.8 The licensee must keep the Shrinkage And Leakage Model under review, and propose such revisions to it as may be appropriate in order to ensure that it maintains or improves the accuracy of its calculation of Shrinkage and Leakage.
- 9.12.9 The licensee, together with other DN Operators, must annually review their respective methodologies for the Shrinkage And Leakage Model to verify the

comparability of the Shrinkage and Leakage volumes produced by each DN Operator.

9.12.10 The licensee must, together with the other DN Operators, submit a report to the Authority on or before 31 March in each Regulatory Year, which must include:

- (a) details of how they have complied with paragraphs 9.12.8 and 9.12.9; and
- (b) any representations relating to the workings of the Shrinkage And Leakage Model that have been submitted by Gas Shippers and other interested parties.

9.12.11 Before proposing any revisions to the Shrinkage And Leakage Model or its methodology, the licensee must:

- (a) consult other DN Operators, Gas Shippers and other interested parties for their views on whether the proposed revisions would better achieve the objective set out in paragraph 9.12.3;
- (b) allow them a period of no less than 28 days in which to make representations;
- (c) together with other DN Operators, consider whether the proposed revision requires review by an independent expert, and if so, appoint such an expert to provide a report setting out their opinion on the extent to which the proposed revisions to the Shrinkage And Leakage Model would better achieve the objective set out in paragraph 9.12.3; and
- (d) during the period of 28 days beginning with the date of the close of that consultation, make publicly available and submit to the Authority a report in accordance with paragraph 9.12.12.

9.12.12 The report must set out:

- (a) the revisions proposed, including the original form of those revisions if they changed as a result of the consultation under paragraph 9.12.11;
- (b) any impact on RIIO-GD3 Outputs and Mechanisms;
- (c) the non-confidential representations (if any) that were made to the licensee by other DN Operators, Gas Shippers or other interested parties and not withdrawn;
- (d) either:
  - i. a copy of the independent expert's report required by paragraph 9.12.11(c); or
  - ii. an explanation of why the DN Operators did not consider it appropriate to appoint an independent expert;
- (e) an explanation of how the proposed modifications would better achieve the objective set out in paragraph 9.12.3; and
- (f) a timetable for implementing the proposed modifications, including the proposed date that they would take effect.

9.12.13 If requested by another person, the licensee must provide all the non-confidential information reasonably required to enable that person to propose

a change to the Shrinkage And Leakage Model, even if the licensee does not agree that the modification better meets the objective set out in paragraph 9.12.3.

9.12.14 The Authority will:

- (a) approve the revisions proposed by the licensee;
- (b) reject the proposed revisions; or
- (c) reject the proposed revisions and give recommendations as to alternative revisions that it considers should be made.

**Part C: Review requirements in respect of modifications**

9.12.15 Except where the Authority otherwise consents, the licensee must, together with other DN Operators, and before the end of the period of 12 months beginning with the date of implementation of a modification to the Shrinkage And Leakage Model, appoint an independent expert to review and report on that implementation.

9.12.16 The licensee must, together with other DN Operators, ensure that the independent expert's report prepared under paragraph 9.12.15 is made publicly available, and that a copy of that report is sent to the Authority.

**Special Condition 9.13 Not used**