

**Southern Gas Networks plc**

**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 ~~2021~~. 2026.
- 1.1.12 Any monetary values in these special conditions are in sterling in a ~~2018/19~~2023/24 price base unless otherwise indicated.
- 1.1.13 The price base for each PCFM Variable Value is denoted in the ~~GD2GD3~~ Price Control Financial Model "Input LicenseeSelectInput" sheet. Where a PCFM Variable Value is listed as a "£m nominal" value, the ~~GD2GD3~~ Price Control Financial Model will convert these values in accordance with Special Condition Part ~~EE~~ of Special Condition 2.1 (Revenue restriction), so that the component terms of Calculated Revenue are in a ~~2018/19~~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 ~~GD2GD3~~ 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 more ~~less than 3,500kg~~ 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- <u>, after removing the impact of any group or consortium relief.</u>
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.
Additional Welfare Provisions <del>Actual Totex</del>	<p>means the following provisions made in the event of a supply interruption:</p> <p><del>(a) for Domestic Customers registered on the priority services register, additional welfare provisions beyond those required under regulation 9 of The Gas (Standards of Performance) Regulations 2005, such as hot meals (provided by means of vouchers or e-cards), showering facilities, temporary accommodation, electric blankets and thermal socks as determined by the licensee on a needs basis;</del></p> <p><del>(b) for Domestic Customers not on the priority services register but who are assessed by the licensee as being in a Vulnerable Situation;</del></p> <p><del>(c) the additional welfare provisions set out under regulation 9 of The Gas (Standards of Performance) Regulations 2005, to which customers not on the priority services register would not normally be entitled; and</del></p> <p>additional welfare provisions beyond that required under regulation 9 of The Gas (Standards of Performance) Regulations 2005, such as hot meals (provided by means of vouchers or e-cards), showering facilities, temporary accommodation, electric blankets and thermal socks as determined by the licensee on a needs basis.<u>is derived in accordance with the RIGs Chapter 3 of the GD3 Price Control Financial Handbook.</u></p>
Affiliate	<del>has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).</del>
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.
<del>Allowed Unit Cost Of Tier 1 Services Repex</del> <u>Annual Iteration Process</u>	<del>means the allowed unit cost per Tier 1 Service Intervention in each of the Tier 1 Services Repex Workload Activities.</del> <u>Has the meaning given to that term in the annex "PCFM Guidance" to the RIGs.</u>
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).
<del>Annual Iteration Process</del>	<del>means in relation to the GD2 Price Control Financial Model, the process set out in Special Condition 8.2 (Annual Iteration Process for the GD2 Price Control Financial Model), which is to be read and given effect subject to any further explanation or elaboration within the GD2 Price Control Financial Handbook that may be applicable to it.</del>
Appropriate Auditor	has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).
Appropriately Qualified Independent Examiner	means a <del>qualified tax chartered accountant, chartered tax adviser, or equivalent,</del> from a <u>specialist corporation tax function of a top-tier</u> 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'.
<del>Approved MOB Safety Works Programme</del>	<del>means a programme of safety related works, including maintenance, repairs and surveys in Multiple Occupancy Buildings between 3-5 floors developed in agreement with the HSE.</del>
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.
<u>Asset Management Systems</u>	<u>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.</u>
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 <del>expense</del> <u>cost</u> 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.
<del>Base Distribution Network Transportation Activity Revenue</del>	<del>means the revenue calculated in accordance with the formula set out in Part C of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) of this licence as in force on 31 March 2021.</del>
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 of <del>Network Risk Outputs</del> for all items allocated to 'NARM Funding Category A1' for a given <del>Risk Sub-Category</del> <u>Risk Ssub-Category</u> in the licensee's Network Asset Risk Workbook.
Baseline Target Workload Of Tier 1 Mains Decommissioned	means the total volume of Tier 1 Mains <del>decommissioning</del> <u>Decommissioning</u> 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.
<u>Biomethane</u>	<u>means a gas defined in the technical standard IGEN/TD/16.</u>
<u>Biomethane Connection</u>	<u>means the connection of a Biomethane plant onto <u>either</u> the NTS <u>or GDN</u> to inject Biomethane.</u>
<u>Biomethane Distributed Entry Reinforcement</u>	<u>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.</u>
<u>Biomethane UIOLI Governance Document</u>	<u>means the document of that name issued by the Authority in accordance with Special Condition 3.21 (Biomethane Distributed Entry Reinforcement (BDER<sub>r</sub>) use it or lose it allowance).</u>

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) <u>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</u></p> <p>(b) <u>the average price of gas consisting principally of methane supplied to large industrial customers in Great Britain.</u></p>
Bulk Supply Point	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.
Business Plan	means a plan of the sort that the licensee was invited to submit by paragraph 2.253.6 of the document titled ‘RIIO-23 Sector Specific Methodology – <del>Core document</del> <u>Decision Overview document</u> ’, published by the Authority on <del>24 May 2019</del> <u>18 July 2024</u> .
<u>CAF Outcomes</u>	<u>means the outcomes set out under the cyber security and resilience principles set out in the document titled “NIS Supplementary Guidance and CAF Guidance”, version 3.0, Overlay for DGE Sector”, published by the National Cyber Security Centre Authority on 30 September 2019</u> <u>1 August 2023 as amended from time to time.</u>
Calculated Revenue	has the value <del>given to it</del> <u>derived in accordance with</u> Part <del>ED</del> of Special Condition 2.1 (Revenue Restriction).
Calculated Tax Allowance	means the value of the TAX <sub>t</sub> term as set out in the “Revenue” sheet of the <del>GD2</del> <u>GD3</u> Price Control Financial Model.
CAM Activity	means an output, activity or deliverable that the licensee is applying to reallocate under Special Condition 3.8 (Coordinated adjustment mechanism Re-opener).
<u>Car</u>	<u>means a vehicle constructed for passenger carrying with up to eight seats (excluding the driver).</u>
Carry-over Network Innovation Allowance	means the allowance provided by Special Condition 5.3 (Carry-over Network Innovation Allowance) to extend the <del>RIIO-1 Network2</del> <u>NIANetwork Innovation Allowance</u> for an

additional Regulatory Year, and the first half of the following Regulatory Year.

CDSP Costs

means costs incurred, or expected to be incurred, by the licensee for the purposes of meeting its obligations under Standard Special Condition A15 (Central Data Services Provider).

~~Central Price of Carbon~~

~~means the current carbon value (Central Series) that is published by the Department for Business, Energy and Industrial Strategy (or any other government department from time to time).~~

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).

~~CO2e~~Collaborative Streetworks Governance Document

~~means carbon dioxide equivalent.~~means the document of that name issued by the Authority in accordance with Special Condition 4.5 (Collaborative streetworks output delivery incentive).

Collaborative Streetworks Project Minimum Projects

means streetworks undertaken which meet the following minimum criteria:

- (a) 0.2km minimum length, except in cases where the project is deemed of strategic importance by the Greater London Authority central coordinator;
- (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;
- (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
- ~~(d) project must represent a permanent solution, not a temporary repair; and~~
- ~~(e)~~(d) works must be completed by end of the Price Control Period.

Collaborative Streetworks Projects

means streetworks which are either Collaborative Streetworks Minimum Projects or Collaborative Streetworks Strategic Projects.

Collaborative  
Streetworks Strategic  
Projects

means streetworks undertaken ~~which do not meet the Collaborative Streetworks minimum criteria but 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:

- (a) locations with historic leakage and/or bursts;
- (b) works undertaken in advance of planned public spaces and infrastructure schemes;
- (c) activities affecting cross borough boundaries where coordination is required (e.g. traffic management);
- (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 decision-making, joint traffic management strategies and use of innovative materials or methods; and
- (e) works in or near sensitive or high-impact locations such as schools, hospitals, emergency services (fire, ambulance), transport hubs, or major stations.

Collaborative Compan  
y Specific 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.

Company Specific  
VCMA Project Tax  
Return

~~means a VCMA Project which is funded by one person.~~ 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~~ ~~practically possible~~ to the main which includes excavation in the public highway.

Complex Distribution  
System

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><u>(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;</u></p> <p><u>(b) The system supplies three or more meter-metre points.</u></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- <u>as defined in the RIGs.</u>
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	means: <p><u>(a) <del>(a)</del> the expected benefits to existing and future consumers in terms of maintenance of existing levels of, or improvements in the Distribution Network's Networks' s capability or resilience; or</u></p> <p><u>(b) <del>(b)</del> 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.</u></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	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:  (a) <u>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</u> (b) <u>significant impact on national security, national defence, or the functioning of the state.</u>
<u>Cross-Utilities Collaborative VCMA Project</u>	<u>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 &amp; West Utilities Ltd) collaborate with one or more other utilities across energy, water and telecoms.</u>
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.
<u>CVP Cyber Resilience Plan</u>	<del>means a plan of the consumer value propositions which were submitted by</del> <u>sort that the licensee in its 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 accepted Requirement", published by the Authority in its RIIO-2 Final Determinations on 30 September 2024.</u>
CVP Full Delivery	<del>means the delivery as a minimum of the CVP Outputs for each CVP set out in Appendix 1 to Special Condition 4.7 (Consumer value proposition) by 31 March 2026.</del>
CVP Output	<del>means the outputs set out in Appendix 1 to Special Condition 4.7 (Consumer value proposition).</del>

CVP Reward	means the values set out in Appendix 1 to Special Condition 4.7 (Consumer value proposition).
Cyber Resilience IT <del>Baseline</del> Allowances Table	means the table of that name in the document identified in Appendix 1, to Special Condition 3.32 (Cyber Resilience <del>information technology Re-opener and Price Control Deliverable</del> <u>Allowances Table</u> ) by its title and publication date.
Cyber Resilience IT PCD Table	means the table of that name in the document identified in Appendix 2 to Special Condition 3.32 (Cyber Resilience <del>information technology Re-opener and Price Control Deliverable</del> <u>PCD table</u> ) by its title and publication date.
Cyber Resilience IT Plan	means a plan of the sort that the licensee was invited to submit at bullet point 1 of paragraph 6.99 of the document titled 'RHO-2 Sector Specific Methodology – Core document', published by the Authority on 24 May 2019.
<u>Cyber Resilience OT Baseline Re-opener Allowances Table</u>	<u>means the table of that name in the document identified in Appendix 13 to Special Condition 3.2 (Cyber Resilience operational technology Re-opener, Price Control Deliverable and use it or lose it allowance Allowances Table) by its title and publication date.</u>
Cyber Resilience OT <del>PCD</del> <u>UIOLI</u> Allowances Table	means the table of that name in the document identified in <u>Appendix 24</u> to Special Condition 3.32 (Cyber Resilience <del>operational technology Re-opener, Price Control Deliverable and use it or lose it allowance</del> <u>Use It Or Lose It Allowances Table</u> ) by its title and publication date.
Cyber Resilience OT Plan	means a plan of the sort that the licensee was invited to submit at bullet point 2 of para. 6.99 of the document titled 'RHO-2 Sector Specific Methodology – Core document' (published by the Authority on 24 May 2019).
Daily Metered Supply Meter Points	means a supply meter point which is read on a daily basis in accordance with paragraph 1.3.1 of section M (Supply Point Metering) or paragraphs 1.5.1(b) or 1.5.3 of section G (Supply Points) of the Network Code having effect on 1 April 2002.
Data Best Practice Guidance	means the guidance document issued by the Authority in accordance with Part D of Special Condition 9.5 (Digitalisation).
<u>Data Sharing Infrastructure (DSI)</u>	<u>means a digital infrastructure that comprises of the technologies and common data standards to facilitate seamless and secure data sharing between multiple entities.</u>
<u>Decarbonisation Project Development Use It Or Lose It</u>	<u>means the use it or lose it allowance provided by Special Condition 3.5 (Decarbonisation Project Development use it or lose it allowance).</u>



<u>Decarbonisation Project Development UIOLI Governance Document</u>	means the document of that name issued by the Authority in accordance with <b>Part B of Special Condition 3.5</b> (Decarbonisation Project Development use it or lose it allowance).
<u>Decommissioning</u>	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>
<u>Defaulting Gas Shippers</u>	means a Gas Shipper, which has failed to make payments to the licensee in accordance with the Uniform Network Code.
<u>Delayed</u>	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.
<u>De Minimis Business</u>	has the meaning given to that term in Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing).
<u>Decommissioning Digital Platform for Leakage Analytics</u>	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> </ul> any other means of rendering the existing non-polyethylene main safe as agreed with HSE. means the digital system developed by Cadent Gas Limited, <b>with Guidehouse Europe Ltd acting as technology delivery partner</b> , under Ofgem's Strategic Innovation Fund (SIF) programme <b>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.</b>
<u>Defaulting Gas Shippers</u>	means a Gas Shipper, which has failed to make payments to the licensee in accordance with the Uniform Network Code.

Delivered FPNES Connection	means a connection made through the FPNES to achieve the RHIO-GD2 FPNES Connection Target by 31 March 2026.
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).
<u>Digitalisation Re-opener</u>	<u>means the Re-opener established by 3.7.1 of Special Condition 3.7.</u>
Digitalisation Strategy	means a document prepared and published by the licensee in accordance with Part A of Special Condition 9.5 (Digitalisation).
<u>Directly Attributable Costs</u>	<u>means costs relating to the maintenance and management of intellectual property, generated through Eligible NIC Projects (whether undertaken by the licensee or any other Gas Transporter Licensees) that have not been otherwise funded as services under Special Condition 4C (Services treated as Excluded Services) of this licence as in force on 31 March 2021 or the NIC Funding Mechanism.</u>
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.
<u>Disallowed Expenditure</u>	<u>means revenue received (whether by the licensee or any other Gas Transporter Licensee) under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.</u>
Disapplication Date	means the date proposed by the licensee under a Disapplication Request on and after which the specified Relevant Special Conditions and Relevant Metering Special Condition (or any part or parts of them <u>if it</u> ) would cease to have effect.
Disapplication Notice	means the notice under Special Condition 9.6 (Disapplication of Relevant Special Conditions and Relevant Metering Special Condition) 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 ~~and Relevant Metering Special Condition~~) 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).

~~**Distribution Network** has the meaning given to that term in the RIGs.~~

~~**Pension Deficit Charge**~~

~~**District Governor**~~

~~means a pressure reduction installation to reduce or control gas pressures.~~

**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:

- (a) to accommodate third-party works for mains and associated services, other than costs which are recoverable directly from the customer or supplier; or
- (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.

**DN Operator** has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).

~~**Domestic Connection** means workload associated with connecting a new gas service to Domestic Premises.~~

~~**Domestic Credit Meter Installation** means a Domestic Sized Meter and associated equipment and installations (excluding housing) which is within the definition of a Supply Meter Installation and is not a Prepayment Meter Installation.~~

~~**Domestic Customer** 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	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: <ul style="list-style-type: none"> <li>(a) <del>(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</del></li> <li>(b) <del>(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.</del></li> </ul>
Economic Test	<del>is</del> <u>means</u> a financial assessment tool operated by the DN Operators that is designed to identify new connections <del>wherein respect of which</del> 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-1 Network <del>2</del> <u>NIA Network Innovation Allowance</u> projects on which work commenced prior to 31 March <del>2021</del> <u>2026</u> , pursuant to the requirements of the RIIO- <del>4</del> <u>2</u> NIA Governance Document.
<del>Eligible NIC Project</del>	<del>means a project undertaken by the licensee or any other Gas Transporter Licensee that appears to the Authority to satisfy such requirements of the NIC Governance Document as are necessary to enable the project to be funded under the NIC Funding Mechanism.</del>
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.

~~Emergency And Repair Costs~~

~~means the net cost of workforce, materials, equipment and plant and associated overhead costs including line management and support staff, in order to: maintain 24/7 emergency cover and appropriately repair a pipe or other gas carrying asset following an emergency response.~~

~~ENA Smarter Networks Portal~~

~~means <https://www.smarternetworks.org/>.~~

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 Developments

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: £545m888.3875.4m

Lon: £395m640.8630.7m

NW: £381m601.9603.6m

WM: £291m460.0453.0 m

Northern Gas Networks Ltd: £384m609.7592.5m

Scotland Gas Networks plc: £293m480.2464.1m

Southern Gas Networks plc: £611m1,011.6988.4m

Wales & West Utilities Ltd: £385m632.2632.6m

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.

~~FPNES~~  
~~FPNES Connection~~ means the Fuel Poor Network Extension Scheme.  
~~FPNES Governance Document~~ means a connection made through the Fuel Poor Network Extension Scheme.  
~~Fuel Poor Individual Connection Cost~~ means the document of that name published by the Authority in accordance with Part C of Special Condition 3.14 (Fuel Poor Network Extension Scheme volume driver).  
~~Fuel Poor Network Extension Scheme~~ means the forecast average cost for the licensee to undertake a single connection through the Fuel Poor Network Extension Scheme, as stated in Appendix 3 to Special condition 3.14 (Fuel Poor Network Extension Scheme volume driver).  
means the scheme that incentivises the licensee to extend the relevant Distribution Network to premises not previously connected to that network that are occupied by individuals eligible to receive a fuel poor voucher in accordance with the guidance set out in the connection charging methodology statement issued under Standard Condition 4B (Connection Charging Methodology) and is open on 1 April 2021.

Full PCD Report	has the meaning given to that term in the PCD Reporting Requirements and Methodology Document.
Full <b>DPLA</b> Rollout	<p><u>means a full implementation of the Digital Platform for Leakage Analytics across all applicable network pressure tiers, comprising:</u></p> <p><u>(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</u></p> <p><u>(b) the probabilistic modelling component, which involves the application of probabilistic hydraulic modelling techniques for intermediate pressure and high pressure networks.</u></p>
Fully Delivered	means where the output specified in the relevant licence condition has been delivered <del>in full</del> to the <b>fully</b> 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 <b>competition Consumer Outcome</b> 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.
<del>Fully Demolish</del>	<del>means, in relation to any Gas Holder, to take actions that result in a state in which the tank structure and framework have been dismantled, and the resulting holes in the ground (if any) have been filled in, subject to local authority, planning, safety and environmental constraints.</del>
Fully Structural Lining Solution	<del>is a means of</del> 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.
<del>Funded Volume Multiplier</del>	<del>means the calculation used to determine the proportion of volume funded by Special Condition 3.11 (Tier 1 Services Repex Price Control Deliverable) and the proportion that will be entered into the Network Asset Risk Matrix, as set out in paragraph 3.11.14.</del>
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) <u>Halted Project Revenues;</u></li> <li>(b) <u>Disallowed Expenditure;</u></li> <li>(c) <u>Returned Royalty Income; and</u></li> <li>(d) <u>Returned Project Revenues.</u></li> </ul>
<del>Gas Conditioning</del>	<del>has the meaning given to that term in the RIGs.</del>
<del>Gas Conditioning Baseline Volume</del>	<del>means the Leakage volume derived from the Shrinkage And Leakage Model by replacing actual gas conditioning treated %s and saturation levels for the year in question with the mean average of the values recorded in the years 2017-18 to 2019-20, expressed in gigawatt hours.</del>
<del>Gas Holder</del>	<del>means a gas-tight receptacle or container in which gas is stored for future use at approximately constant pressure, such that the volume of the container changes in response to the amount of gas that is being stored.</del>
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.
<u>GD2/GD3 Crossover Item</u>	<u>means an output, Price Control Deliverable or activity:</u> <ul style="list-style-type: none"> <li><u>(a) that is funded in part or in full by a mechanism specified in the licence as in force on 31 March 2026; and</u></li> <li><u>(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.</u></li> </ul>
<u>GD2/GD3 Crossover Submission Requirements and Guidance Document</u>	<u>means the document issued by the Authority in accordance with Part D of Special Condition 3.32 GD2/GD3 crossover adjustment (GD2ACAt)</u>
<del>GD1GD2 Legacy Price Control Financial Model</del>	<del>has means a modified version of the meaning given to GD2 Price Control Financial Model as that term is defined in Special Condition 1A (Definitions and 1.1 (Interpretation and definitions) of this licence as in force on 31 March 2021-2026.</del>
<del>GD2GD3 Price Control Financial Handbook</del>	<del>means the document of that name that was first published by the Authority to come into effect on 1 April 2021-2026 and that includes specific information and advice about the operation of the Annual Iteration Process and the GD2GD3</del>



	Price Control Financial Model, <del>as modified from time to time in accordance with the provisions of Special Condition 8.1 (Governance of the GD2 Price Control Financial Instruments).</del>
<u>GD3 Price Control Financial Model</u>	<u>means the model of that name that was first published by the Authority to come into effect on 1 April 2026.</u>
<del>GD2</del> <u>GD3</u> Price Control Financial Instruments	means the <del>GD2</del> <u>GD3</u> Price Control Financial Handbook and the <del>GD2</del> <u>GD3</u> Price Control Financial Model.
<del>GD2</del> <u>GD3</u> Price Control Financial Model Working Group	means the <del>model of that name that was first published by the Authority to come into effect on 1 April 2021;</del> (e) <del>that is represented by a workbook</del> <u>working group identified in Microsoft Excel® format maintained under that name on the Authority's Website; and</u> that the Authority will use to determine the value <del>whose terms of reference are set out in Chapter 2 of the term AR,</del> through the application of the Annual Iteration Process in accordance with the provisions of Special Condition 8.2 (Annual Iteration Process for the <del>GD2</del> <u>GD3</u> Price Control Financial Model) and <del>as modified from time to time in accordance with the provisions of Special Condition 8.1 (Governance of the GD2 Price Control Financial Instruments).</del> <u>Handbook.</u>
<u>GDN Collaborative VCMA Project</u>	<u>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 &amp; West Utilities Ltd.</u>
<del>GD2 Price Control Financial Model Working Group</del> <u>General Reinforcement</u>	<del>means the working group identified in and whose terms of reference are set out in Chapter 2 of the GD2 Price Control Financial Handbook.</del> <u>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. These activities are not customer-driven and are not subject to the Economic Test.</u>

Great Britain

means the landmass of England, Wales and Scotland, including internal waters.

GS(IU)RSafety  
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.  
means a disconnection carried out under obligations set out in the Gas Safety (Installation and Use) Regulations 1998.

Halted Project  
Revenues

means revenues received (whether by the licensee or any other Gas Transporter Licensee) under the NIC Funding Mechanism in respect of an Eligible NIC 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 NIC Governance Document or the terms of the relevant Project Direction.

Heat Policy Area

means any of the following:

- (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;
- (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);
- (c) the connection charging arrangements for domestic premises seeking connection to the Distribution Network, as set out in Standard Licence Condition 4B; and
- (d) the promotion of energy efficiency amongst gas customers as required by section 33BC (promotion of reductions in carbon emissions: gas transporters and gas suppliers) of the Act.  
the associated costs from the a government's 2026 decision on hydrogen for heating or other government heat policy decision.

High Volume Gas  
Escape Toolkit HGV

means a toolkit allowing for one of a number of solutions to be used in various situations where gas is escaping, as described in the HVGE Engineering Justification Paper submitted by Scotland Gas Networks plc and Southern Gas Networks plc to the Authority on 9th December

	<u>2019 means a heavy goods vehicle with a gross vehicle weight of no less than 7,000kg.</u>
HP	means high gas pressure operating above 7 barg.
HSE	means the Health and Safety Executive or any public body acquiring its functions.
HSE Review	means a review undertaken by the HSE during the Price Control Period on licensee's proposals for classification and risk allocation of Tier 1 Stubs.
HyNet FEED Study	means the Front End Engineering Design study for the hydrogen project of that name described on page 11 of the licensee's Business Plan.
IGEM/TD/1	means the Institute of Gas Engineers & Managers standard for steel pipelines and associated installations for high pressure gas transmission.
Improvement Plan	<del>means a plan of the sort that the licensee was invited to submit at bullet point 2 on page 7 of the document titled 'Ofgem Competent Authority Guidance for Downstream Gas and Electricity in Great Britain' published by the Authority on 30 November 2018.</del> <u>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)</u>
<u>Included Mains</u>	<u>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).</u>
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.
<u>Industrial Decarbonisation Challenge Information Gathering Plan</u>	<del>means the UK government's innovation funding competition of the same name administered by UK Research and Innovation.</del> <u>means a plan required to be</u>

	<u>prepared by Part E of Special Condition 9.2 (Network Asset Risk Metric methodology).</u>
Inline Inspection	An inspection of a pipeline from the interior of the pipe.
Innovation	means: <p>(a) <del>(a)</del> solutions that have been trialled by any Network Licensee as part of a <u>RIIO-1 and RIIO-2 Network Innovation Allowance project pursuant to the requirements of the RIIO-1 and RIIO-2 NIA Governance Document</u> Documents or a RIIO-23 NIA Project; or</p> <p>(b) <del>(b)</del> involves the application of technology, systems or processes that were not proven as at the time of submission of the Business Plan.</p>
IP	means intermediate gas pressure in the range from 2 to 7 barg.
IP Service Reconfiguration	means the reconfiguration of a service connected to an intermediate pressure supply to meet current safety standards, including the installation and/or replacement of Small PRIs, Service Governors and gas mains.
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).
<u>Large Van</u>	<u>means a van with a gross vehicle weight of no more than 3,500kg.</u> <del>less</del>
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.
<u>Legacy SafetyGS(IU)R Disconnections</u>	<u>means Safety Disconnections undertaken by licensees before the start of RIIO-GD3 as Simple Disconnections.</u> <del>undertaken by licensees before the start of RIIO-GD3 under regulation 16(3)(b) of the Gas Safety (Use and Installation) Regulations 1998.</del>
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 that is the product of a process: through and on which a range of stakeholders ~~which including the other~~ Network Licensees and local authorities agree and have been invited to comment on the optimal long term energy solutions for an area; and;

(c) that has been conducted in the context of enabling energy systems with net zero carbon emissions.

**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:

- (a) loss of land development;
- (b) sterilised minerals;
- (c) landfill and tipping; and
- (d) power generation

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.

~~**Mains Commissioned Mains Risk** means commissioning of a new pipeline for operation.~~  
**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.
<u>Material Classification Protocol</u>	<u>Means a document published by Streetworks UK and coming into effect on 1<sup>st</sup> October 2025</u>
Materiality Threshold	for the relevant distribution network, has the value: EoE: <del>£5.45m</del> <u>8.8m</u> Lon: <del>£3.95m</del> <u>6.43m</u> NW: <del>£3.81m</del> <u>6.0m</u> WM: <del>£2.91m</del> <u>4.65m</u> Northern Gas Networks Ltd: <del>£3.92m</del> <u>6.05.9m</u> Scotland Gas Networks plc: <del>£2.99m</del> <u>4.86m</u> Southern Gas Networks plc: <del>£6.11m</del> <u>10.09.9m</u> Wales & West Utilities Ltd: <del>£3.85m</del> <u>6.23m</u>
<u>Mature Innovation</u>	<u>in relation to the Digitalisation Re-opener means a product or service that has:</u> <u>(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;</u> <u>or</u> <u>(b) is the result of industry-wide activities relating to the modernisation of regulatory reporting</u>
<u>Medium Van</u>	<u>means a van with a gross vehicle weight of no more greater than 2,100kg and less than 3,300kg</u> <u>500kg.</u>
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> <p>(a) <u>is the difference between without intervention and with intervention Monetised Risk;</u></p> <p>(b) <u>can be measured over one year or over a longer period of time; and</u></p> <p>(c) <u>includes both direct (i.e. on the asset itself) and indirect (i.e. on adjacent assets or on the wider system) risk benefits.</u></p>
<del>MP</del>	<del>means medium gas pressure in the range from above 75 mbarg to 2 barg.</del>
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	means an asset specified within the NARM Methodology where its associated Monetised Risk can be estimated by applying the NARM Methodology.
NARM Asset Category	means a group of assets with similar functions and design as specified in the NARM Methodology.
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> <p>(a) <u>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</u></p> <p>(b) <u>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'.</u></p>
NARM Methodology	means the methodology established pursuant to Special Condition 9.2 (Network Asset Risk Metric methodology).

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.
<del>Net Zero Advisory Group</del> <u>National Risk Register</u>	<del>means a group set up by the Authority with the objective to strengthen strategic coordination among key government departments and public sector organisations involved in the energy system transition, including around the heat, power, and transport sectors.</del> <u>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="https://www.gov.uk/national-risk-register">National Risk Register 2025 - GOV.UK</a></u>
<del>Net Zero</del> <u>Natural And Re-opener Development Fund</u> <u>Environmental Hazards</u>	<del>means the use it or lose it allowance provided by Special Condition 3.5 (Net Zero And Re-opener Development Fund use it or lose it allowance).</del> <u>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.</u>
<u>National Underground Asset Register</u>	<u>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.</u>
<del>Net Zero And Re-opener Development Fund Governance Document</del> <u>NCSC Cyber Assessment Framework</u>	<del>means the document of that name issued by the Authority in accordance with Special Condition 3.5 (Net Zero And Re-opener Development Fund use it or lose it allowance).</del> <u>means the <b>Cyber Assessment Framework</b> <b>cyber assessment framework (CAF)</b>, issued by the <b>UK NCSC</b>, <b>which</b> provides a structured methodology for evaluating and enhancing organisational cyber resilience. It comprises <b>14</b> <b>16</b> 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.</u>
<u>NCSC CAF Contributing Outcomes</u>	<u>means <b>the</b> 39 specific cybersecurity objectives within the <b>UK's NCSC</b> Cyber Assessment Framework (CAF), each aligned to one of <b>14</b> <b>16</b> CAF principles and designed to help organisations demonstrate and improve their cyber</u>



Net Zero Carbon  
Targets

resilience through measurable progress ratings such as "Not Achieved", "Partially Achieved", or "Achieved".

means the targets set out in:

- (a) section 1 of the Climate Change Act 2008;
- (b) section A1 of the Climate Change (Scotland) Act 2009;  
and
- (c) section 29 of the Environment (Wales) Act 2016.

Net Zero  
Development

means a change in circumstances related to the achievement of the Net Zero Carbon Targets that is:

- (a) a change in national government policy (including policies of the devolved national parliaments);
- (b) a change in local government policy;
- (c) the successful trial of new technologies or other technological advances;
- (d) a change in the pace or nature of the uptake of low carbon technologies; or
- (e) a new obligation arising from the agreement of a Local Area Energy Plan or an equivalent arrangement.

~~Net Zero Innovation  
Board~~

~~means the board established by the government to ensure a co-ordinated approach to innovation funding across public sector bodies in the United Kingdom.~~

~~Net Zero Pre-  
construction Work~~

~~means:~~

- ~~(f) surveys, assessments and studies;~~
- ~~(g) project design;~~
- ~~(h) engineering development;~~
- ~~(i) stakeholder engagement and consultation;~~
- ~~(j) tasks associated with wayleaves;~~
- ~~(k) planning applications; and~~
- ~~(l) any other relevant necessary activities to progress to final investment decision.~~

~~Net Zero Pre-  
construction Work  
and Small Net Zero  
Projects Re-opener  
Governance  
Document~~  
Network Asset

~~means the document issued by the Authority in accordance with Part B of Special Condition 3.9 (Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZP+)).~~

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 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:

- (a) Baseline Network Risk Outputs;
- (b) Disaggregated Network Risk Outputs;
- (c) the baseline funding associated with the Disaggregated Network Risk Outputs;
- (d) Asset Intervention underlying the Disaggregated Network Risk Outputs; and
- (e) records of results from Rebasing exercise.

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 means:

- (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
- (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.

**NIA Network Innovation Allowance (NIA)** means the Network Innovation Allowance provided by Special Condition 5.2 (RIIO-23 Network Innovation Allowance).

<u>NIC</u>	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 Funding	means the total amount of funding authorised by the Authority for the licensee and other Gas Transporter Licensees, in accordance with the provisions of the NIC Governance Document, for the purpose of funding Eligible NIC Projects.
NIC Funding Mechanism	means the mechanism by which the licensee receives the amount of NIC Funding from the NTS Operator, less any Funding Return.
<u>NIC Governance Document</u>	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.
<u>NIS-R</u>	<u>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.</u>
NOMs Incentive Methodology <u>NRO</u>	means the document entitled "Network Output Measures (NOMs) Incentive Methodology" published by the Authority on 6 December 2018, as amended in accordance with Part B of Special Condition 7.6 (Close out of the RIIO-1 Network Outputs). <u>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. for compliance with the UK Network and Information Systems (NIS) Regulations. This role is mandated under the UK's implementation of the NIS Directive (2018) and its updates.</u>
NOMs Methodology	means the methodology approved under Special Condition 4G (Methodology for Network Output Measures) of this licence as in force on 31 March 2021.
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.
Non-operational Capex IT	has the meaning given to that term in the RIGs.
Non-recoverable	when referring to new Domestic Connections means costs borne by the licensee net of customer contributions.

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	means a decision by the Energy Ombudsman where the licensee is required to: <ul style="list-style-type: none"> <li>(a) <u>make a payment in respect of the relevant Distribution Network over and above which is greater than that previously offered to the complainant;</u></li> <li>(b) <u>change its processes beyond what it had previously indicated to the complainant that it would; or</u></li> <li>(c) <u>both (a) and (b)</u></li> </ul> as clarified in the RIGs.
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.
OT	<del>means a licensee's operational technology and information systems that monitor and control physical devices and processes of operations which relate to gas distribution.</del>
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 Mains means the volume of ~~decommissioning~~ 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:

- 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
- b) an alternative form of implementation that is not the Full DPLA Rollout.

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 means the document of that name issued by the Authority in accordance with Part B of Special Condition 9.3 (Price

Methodology Document	<del>Control Deliverable</del> <u>Reporting Requirements</u> <del>assessment principles and Methodology Document</del> <u>reporting requirements</u> ).
PCFM Guidance	<del>means the guidance document issued by the Authority in accordance with Part E of Special Condition 8.2 (Annual Iteration Process for the GD2 Price Control Financial Model).</del>
PCFM Variable Values	means the values in the table of that name in the <del>GD2</del> <u>GD3</u> Price Control Financial Handbook.
PE	<del>means polyethylene, which is a form of plastic used for manufacturing gas distribution mains and services.</del>
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.
<u>Physical Security Upgrade Programme</u>	<u>means the programme of physical security investment at Critical National Infrastructure sites as mandated by government</u> <u>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.</u>
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.
<del>Prepayment Meter Installation</del>	<del>means a Domestic Sized Meter and associated equipment and installations (excluding housing) comprised in a Supply Meter Installation through which gas, which is charged for as it is used, is supplied.</del>
Prescribed Rates	means: <ul style="list-style-type: none"> <li>(a) <u>business rates in England and Wales;</u></li> <li>(b) <u>non-domestic rates in Scotland; or</u></li> <li>(c) <u>any equivalent tax or duty replacing those rates that is levied on the licensee in respect of its Licensed Activity.</u></li> </ul>
Pressure Impact Volume	<del>means the Leakage volume reflecting the licensee's performance in managing average system pressure, calculated as set out in paragraph 4.4.3.</del>

Pressure Lower Deadband Volume	means the Leakage volume derived from the Shrinkage And Leakage Model by replacing actual pressure levels for the year in question with values 0.3 mbar lower than the mean average of the values recorded in the years 2017-18 to 2019-20, and setting PE leakage rates to 0, expressed in gigawatt hours.
Pressure Management	has the meaning given to that term in the RIGs.
Pressure Upper Deadband Volume	means the Leakage volume derived from the Shrinkage And Leakage Model by replacing actual pressure levels for the year in question with values 0.6 mbar higher than the mean average of the values recorded in the years 2017-18 to 2019-20, and setting PE leakage rates to 0, expressed in gigawatt hours.
Price Control Average Pressure	means the Leakage volume derived from the Shrinkage And Leakage Model by replacing actual pressure levels for the year in question with the mean value for all years in the Price Control Period to date and setting PE leakage rates to 0, expressed in gigawatt hours.
Price Control Deliverable	means the outputs, delivery dates and associated allowances in Special Conditions 3.2 to, 3.4, 3.6, 3.79, 3.10 to, 3.1311, 3.19, 3.23, 3.24, 3.25 to, 3.3127, 3.28, 3.29, 3.30 and 9.123.31.
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 20212026.
Project Direction	means a direction issued by the Authority pursuant to the NIC Governance Document setting out the terms to be followed in relation to an Eligible NIC Project as a condition of its funding under the NIC Funding Mechanism.
PRS	means pressure reduction stations that are installed on gas networks to reduce and control gas pressures.
PSUP Solution	means the site physical security upgrade specified by the government.
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) pending the Authority's approval. 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).

~~Recovered Revenue Billed Basis~~ ~~has the meaning given to that term in Part B of Special Condition 2.1 (Revenue restriction) inclusive of Bad Debt as defined Part I of Special Condition 2.1 (Revenue restriction).~~

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.

~~Related Undertaking~~ ~~has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).~~

~~Relevant Metering Special Condition~~ ~~means Special Condition 9.10 (Restriction of prices in respect of Tariff Capped Metering Activities).~~

Relevant Premises means:

(a) any premises connected to a system to which this licence relates which was an Independent System on the 31st March 2021/2026 and which remains an Independent System; and

(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 2021/2026 and which remains an Independent System.

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 9.67 (Disapplication of Relevant Special Conditions) relates.
Relevant Valuation Agency	means: <ul style="list-style-type: none"> <li>(a) <u>the Valuation Office Agency in England and Wales; and</u></li> <li>(b) <u>the Scottish Assessors Association in Scotland.</u></li> </ul>
Remote Pressure Management Equipment	means equipment that includes: <ul style="list-style-type: none"> <li><del>(c) a remote pressure management system or equivalent, with associated equipment; and</del></li> <li><del>(d) a pressure logger or equivalent.</del></li> </ul>
Re-opener	means the mechanisms created by: <ul style="list-style-type: none"> <li>(a) <u>Special Conditions 3.3, 3.4, 3.6, 3.7, 3.8, 3.913, 3.14, 3.15, 3.16, 3.17 to, 3.24;20, 3.22 and 3.26;</u></li> <li>(b) <u>Parts C and D of Special Condition 3.2 (Cyber resilience operational technology Re-opener, Price Control Deliverable, cyber resilience Re-opener, and use it or lose it adjustment), Parts C and D of Special Condition 3.3 (Cyber resilience information technology Re-opener (CYt CYREt, CYUt)); and</u></li> <li>(c) <u>Price Control Deliverable), Parts C and D of Special Condition 3.4 (Physical security Re-opener and Price Control Deliverable), Part C of Special Condition 3.6 (Net zero Re-opener and 30 (Mandated category 3 security Price Control Deliverable), Part C of Special Condition 3.7 (Non-operational IT Capex Re-opener and Price Control Deliverable), and Re-opener (MDSi)).</u></li> </ul>
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 <del>with plastic pipes.</del>
Repex Related HSE Policy Area	means <del>a change in:</del> <ul style="list-style-type: none"> <li>(a) <u>government policy related to Repex including under any of the following pieces of legislation:</u></li> </ul>

- (i) the Pipeline Safety Regulations 1996 Regulation 13A;
- (ii) the Gas Safety Management Regulations 1996;
- (iii) the Pressure System Safety Regulations 2000;  
and
- (iv) the Health and Safety at Work etc Act 1974, or
- (b) an established HSE enforcement policy related to Repex.

Resilience Activity

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:

(a) recommendations made by the ISOP and endorsed by UK Government ; or

(b) actions arising from the National Risk Register that impact the licensee's network and relate to:

(i) System Failures; or

(ii) Natural and Environmental Hazards, and other risks requiring resilience measures, where mandated by the UK Government to 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.

Retail Prices Index

means the monthly values of the "RPI All Items Index", series ID "CHAW", published by the Office for National Statistics (or any other public body acquiring its functions).

Returned Project Revenues

means:

(a) revenues received (whether by the licensee or any other Gas Transporter Licensee) under the NIC Funding Mechanism in respect of an Eligible NIC Project that the Authority determines have not been spent, where that Eligible NIC Project has been carried out in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction;  
or

(b) revenues earned from Eligible NIC Projects (whether undertaken by the licensee or any other Gas Transporter Licensee) other than Returned Royalty Income that the Authority determines are payable to customers.

Returned Royalty Income	means revenue earned from intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any other Gas Transporter Licensee) less Directly Attributable Costs, that is payable to customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.
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-1 Justified Material Over-delivery	means the delivery of a higher level of risk mitigation than a RIIO-1 Network Output or a RIIO-1 Materially Equivalent Output, where that higher level of risk mitigation delivery is justified in accordance with the RIIO-1 NOMs Principles.
RIIO-1 Justified Material Under-delivery	means the delivery of a lower level of risk mitigation than a RIIO-1 Network Output or a RIIO-1 Materially Equivalent Output, where that lower level of risk mitigation delivery is justified in accordance with the RIIO-1 NOMs Principles.
RIIO-1 Materially Equivalent Output	means an equivalent level of risk mitigation to a RIIO-1 Network Output.
RIIO-1 Network Innovation Allowance	means the arrangements established by Special Condition 4H (The 5.2 (RIIO-2 Network Innovation Allowance) of this licence as in force on 31 March 2021).
RIIO-1 Network Output	means the network replacement outputs as set out in Table 1 of Special Condition 4H (Specification of Network Replacement Outputs) of this licence as in effect on 31 March 2021.
RIIO-12 NIA Governance Document	means the document issued by the Authority in accordance with Part EC of Special Condition 4H (The 5.2 (RIIO-2 Network Innovation Allowance) as in force on 31 March 2021).
RIIO-1 NOMs Principles	means the principles set out in Chapter 2 of the document titled 'Network Output Measures (NOMs) Incentive Methodology' published by the Authority on 6 December 2018.
RIIO-23 Final Determinations	means the documents published by the Authority on 84 December 2020 (and subsequently updated on 3 February 2021) setting out the Authority's decisions in relation to the Price Control Period.

RIIO-23 NIA Governance Document	means the document issued by the Authority in accordance with Part <del>GB</del> of Special Condition 5.2 ( <del>The</del> RIIO-23 Network Innovation Allowance).
RIIO-23 NIA Projects	means those projects undertaken by the licensee that appear to the Authority to satisfy such requirements of the RIIO-23 NIA Governance Document as are necessary to enable the projects to be funded under the provisions of Special Condition 5.2 (RIIO-23 Network Innovation Allowance).
<del>RIIO-GD1</del>	<del>means the price control that applied to the licensee for the period of eight years beginning on 1 April 2013.</del>
<del>RIIO-GD1 Broad Measure of Customer Satisfaction Incentive</del>	<del>means the RIIO-GD1 incentive of that name.</del>
<del>RIIO-GD1 Discretionary Reward Scheme</del>	<del>means the RIIO-GD1 scheme of that name.</del>
<del>RIIO-GD1 Environmental Emissions Incentive</del>	<del>means the RIIO-GD1 incentive of that name.</del>
<del>RIIO-GD1 Exit Capacity Cost Adjustment</del>	<del>means the RIIO-GD1 scheme of that name.</del>
<del>RIIO-GD1 FPNES Connection Targets</del>	<del>means the connection targets set out in Appendix 1 to Special Condition 7.12 (Close out of the RIIO-GD1 Fuel Poor Network Extension Scheme Incentive).</del>
<del>RIIO-GD1 Fuel Poor Network Extension Scheme Incentive</del>	<del>means the RIIO-GD1 incentive of that name.</del>
<del>RIIO-GD1 Shrinkage Allowance Revenue Adjustment</del>	<del>means the RIIO-GD1 scheme of that name.</del>
<del>RIIO-GD2 FPNES Connection Target</del>	<del>means that number of connections that the licensee is required to provide through the FPNES during the Price Control Period, as stated in Appendix 1 to Special Condition 3.14 (Fuel Poor Network Extension Scheme volume driver).</del>
<del>RIIO-GD2GD3</del> Outputs and Mechanisms	means the licence obligations <u>and</u> outputs <u>and</u> mechanisms that the licensee is funded <u>and</u> , incentivised <u>and</u> 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 <u>Appendix 1 to the GD2GD3 Price Control Financial Handbook.</u>
<u>Senior Accounting Officer</u>	<u>has the meaning given to that term in Schedule 46 to the Finance Act 2009, as amended from time to time.</u>
<u>Safety Requirements Relating To Multiple Occupancy Buildings</u> <u>Senior Accounting Officer Certificate (SAO2)</u>	<del>means primary and secondary legislation; and guidance issued by the HSE or any other body with responsibility for safety in Multiple Occupancy Buildings.</del> <u>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.</u>
<u>Service Governor</u> <u>Seven Day Repair Metric</u>	<del>means Apparatus for automatic regulation of pressure or of volume at a selected point on a service or gas connection.</del> <u>means the percentage of outstanding gas repair jobs that are fully resolved within seven calendar days from the date they were reported or identified.</u>
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: <u>low pressure mains and services, medium pressure mains,</u> metallic mains replacement, system pressure data, mono-ethylene glycol treatment, numbers of governors and other above ground installations, <u>venting related to above ground installation operation, interference damages,</u> theft of gas and own use gas.
<u>SIF Directly Attributable Costs</u>	<u>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.</u>
<u>SIF Disallowed Expenditure</u>	<u>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.</u>

<u>SIF Funding</u>	<u>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</u>
<u>SIF Funding Mechanism</u>	<u>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.</u>
<u>SIF Funding Return</u>	<u>means the total amount, in respect of the licensee, of any amounts arising under the SIF Funding Return Mechanism.</u>
<u>SIF Funding Return Mechanism</u>	<u>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:</u> <u>(a) SIF Halted Project Revenues;</u> <u>(b) SIF Disallowed Expenditure;</u> <u>(c) SIF Returned Royalty Income; and</u> <u>(d) SIF Returned Project Revenues.</u>
<u>SIF Governance Document</u>	<u>means the document issued by the Authority under Part C of Special Condition 9.11 (The strategic innovation fund)</u>
<u>SIF Halted Project Revenues</u>	<u>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.</u>
<u>SIF Project Direction</u>	<u>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.</u>

Shrinkage  
Management

means Pressure Management and Gas Conditioning carried out by a DN Operator for the purposes of reducing Shrinkage volumes.

SIF Directly  
Attributable Costs

means:

~~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~~

SIF Disallowed  
Expenditure

~~Mechanism 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~~

SIF Funding

~~Project Direction 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 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 means the total amount, in respect of the licensee, of any amounts arising under the SIF Funding Return Mechanism 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:~~

SIF Funding  
Mechanism

- a) ~~\_\_\_\_\_ SIF Halted Project Revenues;~~
- b) ~~\_\_\_\_\_ SIF Disallowed Expenditure;~~
- c) ~~\_\_\_\_\_ SIF Returned Royalty Income; and~~
- d) ~~\_\_\_\_\_ SIF Returned Project Revenues.~~

SIF Funding Return

means the document issued by the Authority under Part C of Special Condition 9.13 (The strategic innovation fund)

SIF Funding Return  
Mechanism

~~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 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.~~

means:

SIF Governance  
Document

(a) ~~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~~

SIF Halted Project  
Revenues

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:

SIF Project Direction

(b) ~~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.~~

SIF Returned Project  
Revenues



~~SIF Returned Royalty  
Income~~

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 Net  
Zero~~Decarbonisation  
Projects means a project that: (a) is within the scope of paragraph 3.6.6.4 (a) to (d) of Special Condition 3.6 (Net zero4 (Small Decarbonisation Projects Re-opener); and Price Control Deliverable) but for failing to meet the Materiality Threshold; and (b) ~~!~~

(c) the cost of which is less than exceeds £1m but does not exceed £100m.

~~Small PR~~Small  
Decarbonisation  
Projects Re-opener  
Governance  
Document means a residential pressure reduction installation to control gas pressure. 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 2,300kg100kg.

Smart Metering Roll-out Costs  
Specified Amount means costs directly incurred, or expected to be so incurred by the licensee as a result of the installation of smart meters, other than costs which are recoverable directly from the customer or gas supplier. has the meaning given to that term in Standard Special Condition A48 (Last Resort Supply: Payment Claims).

SONIA means the daily values of the sterling overnight index average, series ID "IUDSOIA", published by the Bank of England (or any other public body acquiring its functions).

Specified Streetworks Costs  
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;
- (h) costs arising from changes to the requirements imposed on the licensee in respect of highway reinstatement;
- (i) costs arising from the introduction of new congestion charging schemes or changes to existing ones; and
- (j) costs arising from changes to the requirements imposed on the licensee in respect of the disposal of streetworks excavation waste material **new Street Works UK (SWUK) Material Classification Protocol.**

Stakeholder Engagement Incentive Guidance means the document of that name maintained by the Authority in accordance with Part B of Special Condition 7.9 (Close out of the RIIO-GD1 Broad Measure of Customer Satisfaction Incentive).

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.

Stent Bag means ~~a device that in the event of a gas escape allows the remote insertion of a sealing stent system into a gas main in safe environment away from the gas escape in order to stop the release of gas.~~

Strategic Innovation Fund (SIF) means the strategic innovation fund established by Special Condition 9.1311 (The strategic innovation fund).

).

Successful Delivery Reward has the meaning given to that term in the NIC Governance Document.

Supply Meter Installation has the meaning given to that term in the Network Code.

Supply Of Distribution Network Services means the undertaking and performance for gain or reward of engagements:

(a) in connection with the conveyance of gas through the Transportation System;

(b) for the prevention of the escape of gas which has been taken off the Transportation System;  
and

(c) relating to the acquisition of capacity rights, gas or gas derivatives for the purpose of:

(i) the balancing of the Transportation System through the acquisition or disposal of gas to replace gas lost from the Transportation System; and

(ii) facilitating constraint management.

Support Van means a van with a gross vehicle weight of no more than 3,500kg.

Tariff Capped Metering ActivitiesSystem Failures means those activities provided by the licensee listed in paragraph 3 of Special Condition 9.10 (Restriction of prices in respect of Tariff Capped Metering Activities).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 <del>GD2</del> <u>GD3</u> 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. <u>This may be the Tax Strategy of the wider UK corporate group, of which the licensee is a member.</u>
Third Party Damage And Water Ingress Costs	means payments made by the licensee in respect of: (a) <u>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.</u> (b) <u>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.</u>
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 <del>decommissioning</del> <u>Decommissioning</u> 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 <del>decommissioning</del> <u>Decommissioning</u> 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.
<u>Tier 1 Stubs Decommissioned</u>	<p><u>means Tier 1 Stubs which have been physically removed or made safe by one of the following replacement designs:</u></p> <p><u>(c) Insertion;</u></p> <p><u>(d) Replacement by open cut;</u></p> <p><u>(e) Remote foam bagging;</u></p> <p><u>(f) Parent main cut-out; or</u></p> <p><u>(g) Other approved replacement design.</u></p>
<u>Time Value of Money Adjustment Tier 1 Stubs Investigated But Not Decommissioned</u>	<p><del>has the meaning given to that term in the glossary of the GD2 Price Control Financial Handbook.</del> <u>means instances where a Tier 1 Stub has either:</u></p> <p><u>(h) Been identified in off-site processes, but upon on-site investigation (e.g. digging) has not been found, or</u></p> <p><u>(e)(i) Has been found on-site, but has been determined to be suitable, in alignment with HSE criteria, to be left in-situ.</u></p>
Total NIA Expenditure	means expenditure that satisfies the requirements of the RIIO-23 NIA Governance Document and is partly recovered by the licensee under <del>the</del> <u>Part A of</u> Special Condition 5.2 (RIIO-23 Network Innovation Allowance).
Totex Allowance	means the sum of values under the heading "Totex allowance" <del>headings</del> <u>"Variant Totex allowances" and "Non-variant allowances"</u> in the <del>"Input" Licensee Select Input</del> sheet of the <del>GD2</del> <u>GD3</u> Price Control Financial Model.
Totex Incentive Mechanism	<p>means the mechanism within the <del>GD2</del> <u>GD3</u> 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> <p>(a) <u>the licensee's Totex Allowance; and</u></p> <p>(b) <u>the licensee's Actual Totex expenditure.</u></p>

Totex Incentive Strength has the value for the relevant Distribution Network set out below:

EoE: 50%

Lon: 50%

NW: 50%

WM: 50%

Northern Gas Networks Ltd: ~~49~~50%

Scotland Gas Networks plc: ~~49~~50%

Southern Gas Networks plc: 50%

Wales & West Utilities Ltd: 50%

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 4.54 (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 4.54 (Unplanned Interruption Overall Mean Duration output delivery incentive).
Unplanned Interruption Minimum Performance Level	has the value set out in Appendix 1 to Special Condition 4.54 (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	means an adjustment to allowances where they have not been spent, or have not been spent in a way that is efficient to:
	<p>(a) <u>improving cyber resilience in relation to IT or OT, including risk reduction or improved status of the licensee's network and information systems with respect to CAF Outcomes and NIS Regulation 10 (1), (2), (3), and (4) 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 (Cyber resilience operational technology Re-opener, Price Control Deliverable and; (use it or lose it adjustment); and(CYUt)):</u></p> <p><u>(b) developing develop projects in preparation for Re-openers in relation to in line with Special Condition 3.5 (Net Zero And Re-openerDecarbonisation Project Development FundUse it eOr Lose it allowance) and the Decarbonisation Project Development UIOLI Governance Document which will not exceed the allowance provided; and</u></p> <p><u>(b)(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.</u></p>
VCMA Governance DocumentValid Claim	means <u>has the document of meaning given to that name issued by the Authorityterm in accordance with Part B ofStandard Special Condition 5.4 (Vulnerability and carbon monoxide allowance)-A48 (Last Resort Supply: Payment Claims).</u>

VCMA Project	means a project that meets the eligibility criteria set out in the <del>VCMA</del> <u>VCMI</u> Governance Document.
<u>Vulnerable SituationsVCMI Governance Document</u>	<del>has</del> <u>means</u> the <del>meaning given to</del> <u>document of</u> that <del>term</del> <u>name</u> <u>issued by the Authority in Standard</u> <del>accordance with Part B of Special Condition A3 (Definitions</del> <u>5.4 (Vulnerability and Interpretation</u> <del>carbon monoxide allowance)</del> .
<u>WACC</u>	<u>means the vanilla-weighted average cost of capital for the licensee as derived by the Authority in accordance with the GD2GD3 Price Control Financial Handbook.</u>
Working Day	has the meaning given to that term in Standard Special Condition A3 (Definitions and Interpretation).
<u>Zero Emission Vehicle (ZEV)</u>	<u>means a vehicle that emits no carbon dioxide or other targeted greenhouse gases at the exhaust.</u>



## Chapter 2: Revenue restriction

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

#### Introduction

- 2.1.1 The purpose of this condition is to ~~ensure that~~place obligations on the licensee ~~sets in relation to the setting of~~ Network Charges ~~to aim to recover no more than~~ Allowed Revenue.
- 2.1.2 This condition also establishes the definition of Recovered Revenue ( $RR_t$ ) and provides the formulae for the calculation of the term  $AR_t$  ~~(the for Allowed Revenue term).~~ ( $AR_t$ ).

#### 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 ~~does not exceed~~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 ( $RR_t$ )

- 2.1.4—Recovered Revenue ( $RR_t$ ) means the revenue ~~derived~~received by the licensee, ~~net of Bad Debt, as derived in accordance with Part I from~~ from Network Charges, for the Supply of Distribution Network Services to gas shippers, in respect of its Licensed Activity ~~and means the undertaking and performance for gain or reward, net of engagements:~~
- 2.1.52.1.7 Bad Debt as derived in connection~~accordance with the conveyance~~Part H of gas through the Transportation System;~~this condition.~~
- (a) for the prevention of the escape of gas which has been taken off the Transportation System; and
- (b) relating to the acquisition of capacity rights, gas or gas derivatives for the purpose of:

- ~~(c) the balancing of the Transportation System through the acquisition or disposal of gas to replace gas lost from the Transportation System; and~~  
~~(d) facilitating constraint management~~

### **Part C: Formula for calculating the Allowed Revenue term (AR<sub>t</sub>)**

~~2.1.6~~2.1.8 The value of AR<sub>t</sub> is derived in accordance with the following formula:

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

where:

$R_t$	<u>means Calculated Revenue and is derived in accordance with Part D of this condition;</u>
$PI_t$	<u>means the price index term and is derived in accordance with Part E of this condition;</u>
$\cancel{ADJR_t^*}PI_{2023/24}$	<del>means adjusted revenue as issued to the licensee by the Authority pursuant to paragraph 8.2.10 of Special Condition 8.2 (Annual Iteration Process price index term for the GD2 Price Control Financial Model) prior to the start of Regulatory Year t; commencing on 1 April 2023 and is derived in accordance with Part E of this condition</del>
$FP_t$	<u>means the forecasting penalty and is derived in accordance with Part G of this condition;</u>
$K_t$	means the <u>K</u> Correction term and is derived in accordance with Part <u>H</u> of this condition; and
$LAR_t$	<u>means the legacy adjustments term and</u> is derived in accordance with Special Condition 7.1 (Legacy adjustments to revenue).

### **~~Part D: Formula for calculating Adjusted Revenue (ADJR<sub>t</sub>)~~**

~~2.1.7~~ The value of ADJR<sub>t</sub> is derived in accordance with the following formula:

$$\cancel{ADJR_t} = R_t \frac{PI_t}{PI_{2018/19}} + \cancel{ADJ_t}$$

~~where:~~

$R_t$	<del>means Calculated Revenue derived in accordance with Part E;</del>
$PI_t$	<del>means the price index derived in accordance with Part F; and</del>
$\cancel{ADJ_t}$	<del>means the AIP adjustment term derived in accordance with Part G.</del>

### **~~Part E:~~Part D: Formula for calculating the Calculated Revenue term (R<sub>t</sub>)**

~~2.1.8~~2.1.9 The value of R<sub>t</sub> 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:

<del>FM<sub>t</sub></del> $FM_t$	means fast money and has the value <del>calculated</del> <u>set out</u> in the “Revenue” sheet of the <del>GD2</del> <u>GD3</u> Price Control Financial Model;
$PT_t$	<u>means the pass-through items term and</u> is derived in accordance with Special Condition 6.1 (Pass-through items);
$DPN_t$	means <u>RAV</u> depreciation and has the value <del>calculated</del> <u>set out</u> in the “Revenue” sheet of the <del>GD2</del> <u>GD3</u> Price Control Financial Model;
$RTN_t$	means return and has the value <del>calculated</del> <u>set out</u> in the “Revenue” sheet of the <del>GD2</del> <u>GD3</u> Price Control Financial Model;
$RTNA_t$	means return adjustment and is derived in accordance with Special Condition 2.3 (Return Adjustment);
$EIC_t$	means <u>the allowance for</u> equity issuance costs and has the value <del>calculated</del> <u>set out</u> in the “Revenue” sheet of the <del>GD2</del> <u>GD3</u> Price Control Financial Model;
<del>DRS<sub>t</sub></del> $DRS_t$	means Directly Remunerated Services and has the value calculated in the “Revenue” sheet of the <del>GD2</del> <u>GD3</u> Price Control Financial Model;
<del>CSUB<sub>t</sub></del> $CSUB_t$	means the cross-subsidy adjustment and has the value <del>calculated</del> <u>set out</u> in the “Revenue” sheet of the <del>GD2</del> <u>GD3</u> Price Control Financial Model;
$ODI_t$	<u>means the total output delivery incentive term and</u> is derived in accordance with Special Condition 4.1 (Total output delivery incentive performance);
<del>BPI<sub>t</sub></del> $BPI_t$	means the business plan incentive term and has the value <u>set out</u> in the “Revenue” sheet of the <del>GD2</del> <u>GD3</u> Price Control Financial Model;
$ORA_t$	<u>means total other revenue allowances and</u> is derived in accordance with Special Condition 5.1 (Total other revenue allowances);
$TAX_t$	<u>means the tax allowance and</u> has the value <del>calculated</del> <u>set out</u> in the “Revenue” sheet of the <del>GD2</del> <u>GD3</u> 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 <del>under</del> <u>in accordance with</u> Special Condition 2.2 (Tax allowance adjustment).
$RPA_t$	<u>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.</u>

## **~~Part F:~~Part E: Formula for calculating the price index term (PI<sub>t</sub>)**

~~2.1.9~~2.1.10 The value of PI<sub>t</sub> is the arithmetic average ~~value~~ of each of the twelve monthly values of PI<sub>m</sub> from 1 April to 31 March within Regulatory Year <sub>t</sub>, derived in accordance with the following formula:

$$PI_m = \begin{cases} RPI_m, & \text{if } m < \text{April 2021} \\ PI_{m-1} \left( 0.5 \frac{CPIH_m}{CPIH_{m-1}} + 0.5 \frac{RPI_m}{RPI_{m-1}} \right), & \text{if } m = \text{April 2021} \\ PI_{m-1} \cdot \frac{CPIH_m}{CPIH_{m-1}}, & \text{if } m > \text{April 2021} \end{cases}$$

where:

$m$  refers to a year and month; and

$RPI_m$  means the Retail Prices Index for the year and month  $m$ ; and

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

## **Part G: AIP adjustment term ( $ADJ_t$ )**

2.1.10—For the Regulatory Year commencing on 1 April 2021, the value of  $ADJ$  is zero.

2.1.11—For subsequent Regulatory Years, the value of  $ADJ_t$  is derived in accordance with the following formula:

$$ADJ_t = (ADJR_{t-1} - ADJR_{t-1}^*)(1 + TVM_{t-1})$$

—where:

$ADJR_t$  is derived in accordance with Part D;

$ADJR_t^*$  means adjusted revenue most recently published by the Authority pursuant to Part B of Special Condition 8.2 (Annual Iteration Process for the GD2 Price Control Financial Model) prior to the start of Regulatory Year  $t$ ; and

$TVM_t$  means the time value of money term derived in accordance with paragraph 2.1.11.

2.1.12—The value of  $TVM_t$  is derived in accordance with the following formula:

$$TVM_t = (1 + WACC_t) \frac{PI_{t+1}}{PI_t} - 1$$

—where:

$WACC_t$  means the vanilla weighted average cost of capital for the licensee as derived by the Authority in accordance with the GD2 Price Control Financial Handbook; and

$PI_t$  means the price index derived in accordance with Part F.

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

2.1.13 ~~2.1.11~~ For the Regulatory Year ~~Years~~ commencing ~~prior to or on~~ 1 April 2020 ~~2026~~, the value of  $K_t$  is zero.

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

$$K_t = (AR_{t-1} - RR_{t-1})(1 + I_{t-1} + 1.15\% + PRP_{t-1} \cdot PRA_{t-1})(1 + nomWACC_{t-1})$$

where:

<del>AR<sub>t</sub></del> $AR_t$	<del>means Allowed Revenue. For Regulatory Years commencing on or after 1 April 2021</del> <u>2026</u> $AR_t$ is derived in accordance with Part C: <del>For the Regulatory Year commencing on 1 April 2020 the value of <math>AR_t</math> is derived in accordance with Part B of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) of this licence as in force on 31 March 2021</del> <u>condition</u> ;
<del>RR<sub>t</sub></del> $RR_t$	<del>means Recovered Revenue derived in accordance with Part B;</del> <u>and</u>
<del>I<sub>t</sub></del>	<del>means the average value of SONIA;</del>
<del>PRP<sub>t</sub></del> $nomWACC_t$	<del>means the penal rate proportion</del> <u>nominal weighted average cost of capital and has the value of 1, unless set out in the Authority directs otherwise in accordance with paragraph 2.1.15;</u> <u>and “Allowed Revenue <math>AR</math>” sheet of the GD3 Price Control Financial Model.</u>
<del>PRA<sub>t</sub></del>	<del>means the penal rate adjustment, derived in accordance with paragraph 2.1.14.</del>

2.1.13 The value of ~~PRA<sub>t</sub>~~ $K_t$  is in nominal prices.

### **Part G: Forecasting penalty ( $FP_t$ )**

2.1.14 For Regulatory Years commencing prior to 1 April 2028, the value of  $FP_t$  is zero.

2.1.15 For Regulatory Years commencing on or after 1 April 2028, the value of  $FP_t$  is derived in accordance with the following formula:

$$FP_t = BRFP_t + RRFP_t$$

where:

$BRFP_t$	<u>means the base revenue forecasting penalty and is derived in accordance with paragraph 2.1.16; and</u>
$RRFP_t$	<u>means the Recovered Revenue forecasting penalty and is derived in accordance with paragraph 2.1.19.</u>

2.1.16 The value of  $BRFP_t$  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:

$$PRA_t = \begin{cases} 1.15\% & \text{if } RR_t/AR_t \geq 1.06 \\ -1.15\% & \text{if } RR_t/AR_t \leq 0.94 \\ 0, & \text{otherwise} \end{cases}$$

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 RRFPA<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<sub>t</sub> means Recovered Revenue as set out in Part B;

RR<sub>t</sub>AR<sub>t</sub><sup>\*</sup> ~~is derived~~ means the value of Allowed Revenue published by the licensee in accordance with ~~Part B~~ paragraph 2.1.5; and

AR<sub>t</sub>RRFPA<sub>t</sub> ~~is derived~~ means the penalty adjustment and has the value of 1, unless the Authority directs otherwise in accordance with ~~Part C~~ paragraph 2.1.20.

~~2.1.16~~2.1.20 The Authority will, following discussion with the licensee, direct a value for ~~PRP<sub>t</sub>~~RRFPA<sub>t</sub> which is not less than zero and not more than 1, if it is satisfied that differences between ~~Recovered Revenue~~ the values of RR<sub>t</sub> and ~~Allowed Revenue~~AR<sub>t</sub><sup>\*</sup> 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 will use reasonable endeavours to 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 I: ~~Part H:~~ Formula for calculating the Bad Debt term ( $BD_t$ )**

~~2.1.17~~2.1.24 ~~2.1.16~~ The value of the  $BD_t$  term is derived in accordance with the following formula:

$$BD_t = BDA_t - RBD_t$$

where:

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

~~$RBD_t$~~  $RBD_t$  means the aggregate value of Bad Debt previously recovered, inclusive of COVID-19 Bad Debt, by the licensee via the  $BDA_t$  term, where the licensee has ~~received cash~~ through either 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 ( $TAXA_t$ )**

### **Introduction**

2.2.1 The purpose of this condition is to establish a process for setting the value of the term  $TAXA_t$  (the tax allowance adjustment term), which contributes to ~~into~~ Calculated Revenue in Special Condition 2.1 (Revenue restriction).

2.2.2 The effect is to adjust Calculated Revenue, if required ~~following a review of material, unexplained differences between the licensee's Calculated Tax~~

~~Allowance and its Actual Corporation Tax Liability~~, in accordance with Chapter 6 of the ~~GD2GD3~~ 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 ~~of any material, unexplained differences between the licensee's Calculated Tax Allowance and its Actual Corporation Tax Liability~~, in accordance with Chapter 6 of the ~~GD2GD3~~ 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 licensee ~~must~~: 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 ~~RHC~~ 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) procure and~~ 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 send a report to the Authority;
- ~~(b) carry out any reasonable steps specified by the Authority for such a procurement and comply with any requirements reasonably specified by the Authority as to the terms of appointment of the or the Appropriately Qualified Independent Examiner;~~
- ~~(c)(b) ensure that for the purposes of the Appropriately Qualified Independent Examiner carries out the work within the scope, and by the date, reasonably specified by the Authority, after discussing with the examiner; and tax review.~~
- ~~(d) send to the Authority a report from the Appropriately Qualified Independent Examiner in the form, and containing the content, specified by the Authority, following discussion with the examiner.~~

- 2.2.6 — ~~Following receipt completion of the Appropriately Qualified Independent Examiner's report, review~~ the Authority will:

- ~~(a) may direct any an adjustment to the value of the TAXA<sub>t</sub> term that it considers should be made taking account of the report if required, in accordance with Chapter 6 of the GD2GD3 Price Control Financial Handbook; and~~

- ~~2.2.7~~ 2.2.6 ~~specify~~ specifying the Regulatory Years to which that adjustment relates.



## **Part B: WhatThe process will the Authority follow in for making a direction?**

~~2.2.8~~2.2.7 Before making a direction under paragraph 2.2.6, the Authority ~~will~~ 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
- ~~(a) a statement setting out the the text of the proposed direction; the reasons for the proposed direction; and~~
- ~~(b)~~(c) a period during which representations on the proposed direction may be made, which will ~~not be less than~~ up to 28 days unless the Authority determines that a longer period is appropriate.

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

### **Special Condition 2.3**~~Special Condition 1.1~~ **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 ~~GD2~~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:

$$\begin{aligned} RTNA_t &= RTNR \cdot \frac{-RAVL_t \cdot (1-G)}{\sum_{t=2021/22}^{2025/26} RAVL_t \cdot (1-G)} \cdot \frac{\sum_{t=2021/22}^{2025/26} RAVD_t \cdot (1-G)}{\sum_{t=2021/22}^{2025/26} RAVL_t \cdot (1-G)} RTNA_t \\ &= RTNR \cdot \frac{RAVL_t \cdot (1-G)}{\sum_{t=2026/27}^{2030/31} RAVL_t \cdot (1-G)} \cdot \frac{\sum_{t=2026/27}^{2030/31} RAVD_t \cdot (1-G)}{\sum_{t=2026/27}^{2030/31} RAVL_t \cdot (1-G)} \end{aligned}$$

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;
- $RAVD_t$  means the RAV value for the Distribution Network derived in accordance with the ~~GD2GD3~~ Price Control Financial Model;
- $RAVL_t$  means the RAV value for the licensee and has the value derived in accordance with the ~~GD2GD3~~ 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:

$$RTNR = \sum_{t=\frac{2025}{26}}^{\frac{2030}{31}} \frac{RAVL_t \cdot (1-G)}{RAVL_t \cdot (1-G)} \cdot \left[ -MAX(MIN(OPP, T2) - T1, 0) \cdot AR1 - MAX(OPP - T2, 0) \cdot AR2 \right]$$

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

where:

- $RAVL_t$  means the RAV value for the licensee and has the value derived in accordance with the ~~GD2GD3~~ 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 ~~GD2GD3~~ 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:

$$RTNR = \sum_{t=\frac{2025}{26}}^{\frac{2030}{31}} \frac{RAVL_t \cdot (1-G)}{RAVL_t \cdot (1-G)} \cdot \left[ (MAX(MIN(-OPP, T2) - T1, 0) \cdot (MIN(-OPP, T2) - T1, 0) \cdot AR1 + MAX(-OPP - T2, 0) \cdot (-OPP - T2, 0) \cdot AR2) \right]$$

where each term has the meaning given in paragraph 2.3.67 and 2.3.7.

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

**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)(a) the reasons for the proposed direction; and~~

(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 not be less than 28 days 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<sub>t</sub> 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 ~~9.2.132~~ 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 not be less than 28 days 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 ~~On or before 31 October 2026,~~ The licensee must provide to the Authority a report, together with detailed supporting evidence, ~~which sets setting out the following requested information in (a) to (e) below of this condition. The report should be provided on or before 31 October 2026 for RII0-2 and on or before 31 October 2031 for RII0-3. 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~~ 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 ~~amended~~ proposed amendments to the NARM Handbook;
  - (b) the date on which the Authority intends the ~~amended~~ 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 not be less than 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 amended 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 not be less than 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 4

### Appendix 1

#### Southern Gas Networks plc

#### Cumulative total of Baseline Network Risk Outputs (R£m\*) and Baseline Allowed NARM Expenditure (NARM.) for delivering Baseline Network Risk Outputs (£m).

Southern Gas Networks Cumulative total of Baseline Network Risk Outputs <u>Output (R£m*)</u> and Baseline Allowed NARM Expenditure (NARM.) for delivering Baseline Network Risk Outputs (£m)-	<u>Baseline Allowed NARM Expenditure,</u>	<u>Baseline Allowed NARM Expenditure,</u>	<u>Baseline Allowed NARM Expenditure,</u>	<u>Baseline Allowed NARM Expenditure,</u>	<u>Baseline Allowed NARM Expenditure,</u>	<u>Baseline Allowed NARM Expenditure,</u>
	<u>excluding RPEs (£m)</u>	<u>excluding RPEs (£m)</u>	<u>excluding RPEs (£m)</u>	<u>excluding RPEs (£m)</u>	<u>excluding RPEs (£m)</u>	<u>excluding RPEs (£m)</u>
<b>Baseline Network Risk Output (R£m)-</b>						
24.08						
<u>£</u>						



*R£ is the unit used to denote Monetised Risk values.	2026/27	2027/28	2028/29	2029/30	2030/31	RIIO-3 Total
1,558.3 TBC	84.0-92.3	90.1-93.0	92.6-94.9	87.5-89.8	81.9-86.6	436.1-456.7

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

**Special Condition 3.2 Cyber resilience operational technology Re-opener, Price Control Deliverable, cyber resilience Re-opener, and cyber resilience use it or lose it adjustment ( $CROT_t$  and  $CROTRE_t$ ), ( $CY_t$ ,  $CYRE_t$ ,  $CYU_t$ )**

### Introduction

3.2.1 Introduction The purpose of this condition is to calculate the terms  $CROT_t$  (the cyber resilience OT baseline term) and  $CROTRE_t$  ( $CY_t$  (the cyber resilience OT non-baseline Price Control Deliverable term),  $CYRE_t$  (the cyber resilience Re-opener term) and  $CYU_t$  (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:

3.2.1 ). These contribute to the calculation of the Totex Allowance.

3.2.2.1.1 The effect of this condition is to:

- (a) establish specify in the Cyber Resilience OT Baseline Allowances Table (in Appendix 1) the cyber resilience baseline allowances;
- (b) establish the Cyber Resilience OT PCD Table, which specifies specify the outputs, delivery dates and associated allowances for cyber resilience in relation to OT; the Price Control Deliverables in the Cyber Resilience PCD Table (in Appendix 2); in the instance of  $CY_t$  and  $CYRE_t$ ;
- (c) require the licensee to take all reasonable steps to deliver in accordance with specify the associated allowances for the cyber resilience use it or lose it in the Cyber Resilience OT PCD UIOLI Allowances Table; (in Appendix 4);
- (d) require the licensee to submit establish that the allowances for UIOLI use it or lose it have achieved the intended cyber resilience in terms of needs;
- (d) establish a Cyber Resilience OT Plan at the start of the Price Control Period;
- (e) establish Re-openersopener mechanism for the licensee and the Authority to trigger amendments to the Cyber Resilience OT Baseline Re-opener Allowances Table (in Appendix 3) and the Cyber Resilience OT PCD TablePCD TablePrice Control Deliverables, during the Price Control Period;
- (f)(e) require the licensee to report regularly to the Authority on cyber resilience OT; and

~~(g)(f) \_\_\_\_\_ provide for an assessment of delivery under this condition, including 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 paragraph 3.2.8, paragraphs 3.2.16, or 10, 3.2.11(e), 3.2.12, 3.2.14 and 3.2.15 ~~3.2.11, 3.2.12, 3.2.17 and 3.2.18 Part E and F.~~

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

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

$$CY_t = CYA_t - CYRA_t$$

where:

$$CROT_t = CROTA_t - CROTRA_t$$

~~where:~~

~~$CROTA_t$  means the allowances in the Cyber Resilience OT Baseline Allowances Table as amended as a result of circumstances set out in paragraph 3.2.11(d)(i); and~~

~~$CROTRA_t$  has the value zero unless otherwise directed by the Authority in accordance with Part E.~~

~~$CYA_t$  has the value set out in the Cyber Resilience Allowances Table (Appendix 1); and~~

~~$CYRA_t$  has the value zero unless otherwise directed by the Authority in accordance with paragraph 3.2.16 ~~3.2.17.~~~~

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

$$CYRE_t = CYO_t - CYRO_t$$

where:

$$CROTRE_t = CROTO_t - CROTRO_t$$

~~where:~~

~~$CROTO_t$  means the allowances directed by the Authority as a result of circumstances set out in paragraphs 3.2.11(a) to (c) and (d)(ii); and~~

~~$CROTRO_t$  has the value zero unless otherwise directed by the Authority in accordance with Part E.~~

## **Part B: Cyber resilience OT outputs**

$CYU_t$  means ~~has~~ 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~~ 3.2.10; and

$CYU_t$  has the value zero unless otherwise directed by the Authority in accordance with paragraph ~~3.2.16~~ 3.2.17.

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~~ 3.2.18.

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

~~3.2.6~~3.2.7 The Cyber Resilience OT-PCD Table specifies the outputs that the licensee is funded to deliver, the delivery dates for those outputs and the allowances provided.

~~3.2.7~~3.2.8 The licensee must take all reasonable steps to deliver the outputs in accordance with, and by the delivery dates specified in, the Cyber Resilience OT PCD Table.

## **Part C: Requirement to submit a The Cyber Resilience OT Plan and Re-opener application**

~~3.2.8~~ The licensee must ~~Between 1 April 2021 and 8 April 2021~~ submit to the Authority:

~~(a) a Cyber Resilience OT Plan; and~~

~~(b) an application for a direction by the Authority requesting such amendments to the Cyber Resilience OT PCD UIOLI Allowances Table as it considers are warranted by its Cyber Resilience OT Plan.~~

~~3.2.9~~ A Cyber Resilience OT Plan submitted under paragraph ~~3.2.8(a)~~ must be in writing and give details of any proposed activities that the licensee considers ~~would be capable of improving~~ specifies the allowances for use it or lose it for cyber resilience in relation to OT, including risk reduction and improved status of the licensee's network and information systems with respect to CAF ~~Outcomes~~ projects the licensee is funded to deliver where the associated costs are uncertain.

~~3.2.10~~ An application under paragraph ~~3.2.8(b)~~ must be made in writing and:

~~(a) include statements:~~

- ~~(b) setting out any amendments requested to the outputs, delivery dates or allowances in the Cyber Resilience OT PCD Table;~~
- ~~(c) explaining how any amendments requested would improve cyber resilience in relation to OT, including risk reduction and improved status of the licensee's network and information systems with respect to CAF Outcomes; and~~
- ~~(d) explaining the basis of the calculations for any amendments requested to allowances; and~~
- ~~(e) provide such detailed supporting evidence as is reasonable in the circumstances.~~

#### **Part D: Cyber resilience OT Re-opener**

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

3.2.113.2.10 This part establishes a Re-opener **for CYO** that may be used where there are:

- ~~(a) new activities, including new technology, capable of improving cyber resilience in relation to OT, 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 in relation to OT, 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 relating or guidance to cyber resilience in relation, or which require the licensee to OT; or~~
- ~~(d)(c) errors undertake significant new activities to correct or refinements required to maintain compliance with the requirements;~~
- ~~(e) existing outputs, delivery dates or allowances set as part of RIIO-2 Final Determinations; or~~
- ~~(f) Other existing outputs, delivery dates or allowances in order to improve the licensee's cyber resilience in relation to OT.~~

3.2.123.2.11 The licensee may **only** apply to the Authority for **changes a direction amending allowances in the Cyber Resilience Re-opener Allowances Table and the Cyber Resilience PCD Table under this Part C Re-opener** Between 25 January 2023 ~~Bb~~ **between 1st April 2028 and 31 January 2023** ~~38th April 2028~~, and during such other periods as the Authority may direct.

3.2.133.2.12 The Authority may **instigate direct changes under this RePart CRe-opener at any time during the Price Control Period where it has become aware of circumstances set out in paragraph 3.2.11-10.**

3.2.143.2.13 An application under paragraph 3.2.1210 3.2.11 must be made in writing to the Authority and must:

- (a) give details of the circumstances referred to in paragraph 3.2.11 that the licensee considers exist;
- (b) set out any amendments requested or additions to the outputs, delivery dates or allowances set out in the Cyber Resilience OT Baseline Allowances Table or the Cyber Resilience OT PCD Table;
- (c) explain how any amendments or additions requested would improve cyber resilience in relation to OT, 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 supporting evidence to support (a) to (e) as is reasonable in the circumstances.

3.2.15 3.2.14 An application under paragraph 3.2.12 must:

- (a) relate to circumstances of the type referred to in paragraph 3.2.11 that 3.2.10 which could not have developed since been reasonably provided for on the date the licensee submitted its Cyber Resilience OT Plan under paragraph 3.2.8;
- (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 2021.

3.2.16 The Authority may only make changes under this Re-opener by direction:

- (a) where a circumstance in paragraph 3.2.11 exists;
- (b) if an application was made by the licensee under paragraph 3.2.12, where the requirements in paragraphs 3.2.14 and 3.2.15 have been met;
- (c) if the relevant circumstance is that set out in paragraphs 3.2.11(a) or (b), where the addition of new outputs would improve the licensee's cyber resilience in relation to OT;
- (d) if the relevant circumstance is that set out in paragraph 3.2.11(c), where the addition of new outputs would contribute to the licensee's compliance with the relevant statutory or regulatory requirements relating to cyber resilience in relation to OT;
- (e) if the relevant circumstance is that set out in paragraph 3.2.11(d), where a change to an existing output is justified;
- (f) in order to correct an error; or
- (g) because the licensee has demonstrated that the refinement would improve the licensee's cyber resilience in relation to OT; and

~~(h) where there is sufficient detail to demonstrate that the proposed allowances are efficient and the change would improve the licensee's cyber resilience in relation to OT.~~

3.2.17—A direction under this Part:

- ~~(a) may adjust allowances in the Cyber Resilience OT Baseline Allowances Table as a result of circumstances set out in paragraph 3.2.11(d)(i);~~
- ~~(b) may amend outputs, delivery dates and allowances in the Cyber Resilience OT PCD Table;~~
- ~~(c) may modify the text in Appendices 1 and 2 to amend the date of publication of the documents containing the Cyber Resilience OT Baseline Allowances Table and the Cyber Resilience OT PCD Table;~~
- ~~(d) will set out the value of the CROTA<sub>t</sub> and CROTO<sub>t</sub> terms, where these are being adjusted; and~~
- ~~(e) must be confined to costs incurred or expected to be incurred on or after 1 April 2021.~~

#### **Part E: Assessment of delivery under this condition (CROTRA<sub>t</sub> and CROTO<sub>t</sub>)**

3.2.18—The Authority will direct a value for CROTRA<sub>t</sub> and CROTO<sub>t</sub> where either of the following is appropriate:

- ~~(a) an adjustment in accordance with the assessment principles set out in Part A of Special Condition 9.3 (Price Control Deliverable assessment principles and reporting requirements), where the licensee has not Fully Delivered an output in the Cyber Resilience OT PCD Table; or~~
- ~~(b) a Use It Or Lose It Adjustment, which will be assessed after any assessment under sub-paragraph (a).~~

#### **Part F: Reporting Requirements**

~~3.2.19 1.1.1—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 OT 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 in relation to OT, including risk reduction and improved status of the licensee's network and information systems with respect to CAF Outcomes;~~
- ~~(d) a description of how the licensee has considered any relevant guidance provided by the Authority;~~
- ~~(e) a summary of the current status of CAF Outcomes; and~~
- ~~(f) such detailed supporting evidence as is reasonable in the circumstances.~~

3.2.20 Unless the Authority otherwise directs, the licensee must send reports under paragraph 3.2.19 by no later than the dates, and in relation to the periods, set out in Appendix 3.

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

3.2.21 Before making a direction under paragraph 3.2.8, 3.2.16, or 3.2.18 the Authority will send to the licensee:

- ~~(a) the text of the proposed direction;~~
- ~~(b)(a) 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.~~

3.2.22 A direction under paragraph 3.2.18 will set out the value of the CROTR<sub>t</sub> and CROTRO<sub>t</sub> term and the Regulatory Years to which those adjustments relate, and where the direction is under paragraph 3.2.18(a) will set out:

~~(a) the delivery status of the output that has not been Fully Delivered; and~~  
the methodology and data that has been used to decide the delivery status and value of any adjustments to the CROTA<sub>t</sub> and CROTRO<sub>t</sub> terms.

**~~Appendix 1~~**

**~~Title and publication date of document containing the Cyber Resilience OT  
Baseline Allowances Table~~**

<del>Title</del>	<del>Publication Date</del>
<del>SGN Cyber Resilience Operational Technology Re-opener Decision</del> <b>REVISED</b>	<del>16 December 2021</del>
<del>RH02 – SGN Cyber Resilience Operational Technology (OT) 2023 Re-opener Decision</del>	<del>25 September 2023</del>

**~~Appendix 2Appendix 1~~**

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

<del>Title</del>	<del>Publication Date</del>
<del>SGN Cyber Resilience Operational Technology Re-opener Decision</del> <b>REVISED</b>	<del>16 December 2021</del>
<del>RH02 – SGN Cyber Resilience Operational Technology (OT) 2023 Re-opener Decision</del>	<del>25 September 2023</del>

## Appendix 3

### **Report submission dates and the associated periods to be reported on**

**Dates each year by which reports must be submitted from 31 January 2022 to**

**31 July 2026**

31 July

1 April to 31 March

### **Special Condition 3.3 Cyber resilience information technology Re-opener and Price Control Deliverable (CRIT<sub>t</sub> and CRITRE<sub>t</sub>)**

#### **Introduction**

3.3.1—The purpose of this condition is to calculate the terms CRIT<sub>t</sub> (the Cyber resilience IT baseline term) and CRITRE<sub>t</sub> (the cyber resilience IT non-baseline term). These contribute to the calculation of the Totex Allowance.

3.3.2—The effect of this condition is to:

- (a) establish the Cyber Resilience IT Baseline Allowances Table;
- (b) establish the Cyber Resilience IT PCD Table, which specifies the outputs, delivery dates and associated allowances for cyber resilience in relation to IT;
- (c) require the licensee to take all reasonable steps to deliver in accordance with the Cyber Resilience IT PCD Table;
- (d) require the licensee to submit a Cyber Resilience IT Plan at the start of the Price Control Period;
- (e) establish Re-openers for the licensee and Authority to trigger amendments to the Cyber Resilience IT Baseline Allowances Table and the Cyber Resilience IT PCD Table during the Price Control Period;
- (f) require the licensee to report regularly to the Authority on cyber resilience IT; and
- (g) provide for an assessment of the Price Control Deliverable.

3.3.3—This condition also sets out the process the Authority will follow when directing any changes under paragraph 3.3.8, 3.3.16, or 3.3.18.

#### **Part A: Formulae for calculating the cyber resilience IT baseline term (CRIT<sub>t</sub>) and the cyber resilience IT non-baseline term (CRITRE<sub>t</sub>)**

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

$$CRIT_t = CRITA_t - CRITRA_t$$

where:



*CRITA<sub>t</sub>* means the allowances in the Cyber Resilience IT Baseline Allowances Table as amended as a result of circumstances set out in paragraph 3.3.11(d)(i); and

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

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

$$CRITRE_t = CRITO_t - CRITRO_t$$

where:

*CRITO<sub>t</sub>* means the allowances directed by the Authority as a result of circumstances set out in paragraphs 3.3.11(a) to (c) and (d)(ii); and

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

### **Part B: Cyber resilience IT outputs**

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

3.3.7—The licensee must take all reasonable steps to deliver the outputs in accordance with, and by the delivery dates specified in, the Cyber Resilience IT PCD Table.

### **Part C: Requirement to submit a Cyber Resilience IT Plan and Re-opener application**

3.3.8—The licensee must Between 1 April 2021 and 8 April 2021 submit to the Authority:

(a) a Cyber Resilience IT Plan; and

(b) an application for a direction by the Authority requesting such amendments to the Cyber Resilience IT PCD Table as it considers are warranted by its Cyber Resilience IT Plan.

3.3.9—A Cyber Resilience IT Plan submitted under paragraph 3.3.8(a) must be in writing and give details of any proposed activities that the licensee considers would be capable of improving cyber resilience in relation to IT, including risk reduction on the licensee's network and information systems.

3.3.10—An application under paragraph 3.3.8(b) must be made in writing and:

(a) include statements;

(b) setting out any amendments requested to the outputs, delivery dates or allowances in the Cyber Resilience IT PCD Table;

(c) explaining how any amendments requested would improve cyber resilience in relation to IT, including risk reduction on the licensee's network and information systems; and

- ~~(d) explaining the basis of the calculations for any amendments requested to allowances; and~~
- ~~(e) provide such detailed supporting evidence as is reasonable in the circumstances.~~

#### **Part D: Cyber resilience IT Re-opener**

3.3.11—This Part establishes a Re-opener that may be used where there are:

- ~~(a) new activities, including new technology, capable of improving cyber resilience in relation to IT, including risk reduction in respect to the licensee's network and information systems;~~
- ~~(b) changes to levels of risks or threats relating to cyber resilience in relation to IT, that take the licensee outside of its organisational risk appetite;~~
- ~~(c) changes to statutory or regulatory requirements relating to cyber resilience in relation to IT; or~~
- ~~(d) errors to correct or refinements required to;~~
- ~~(e) outputs, delivery dates or allowances set as part of RIIO-2 Final Determinations; or~~
- ~~(f) other existing outputs, delivery dates or allowances in order to improve the licensee's cyber resilience in relation to IT.~~

3.3.12—The licensee may only apply to the Authority for changes under this Re-opener Between 25 January 2023 and 31 January 2023, and during such other periods as the Authority may direct.

3.3.13—The Authority may instigate changes under this Re-opener at any time during the Price Control Period where it has become aware of circumstances set out in paragraph 3.3.11.

3.3.14—An application under paragraph 3.3.12 must be made in writing to the Authority and must:

- ~~(a) give details of the circumstances referred to in paragraph 3.3.11 that the licensee considers exist;~~
- ~~(b) set out any amendments requested to the outputs, delivery dates or allowances set out in the Cyber Resilience IT Baseline Allowances Table or the Cyber Resilience IT PCD Table;~~
- ~~(c) explain how any amendments requested would improve cyber resilience in relation to IT, including risk reduction on the licensee's network and information systems;~~
- ~~(d) explain the basis of the calculations for any amendments requested to allowances; and~~
- ~~(e) include such detailed supporting evidence as is reasonable in the circumstances.~~

3.3.15—An application under paragraph 3.3.12 must:

- (a) ~~relate to circumstances of the type referred to in paragraph 3.3.11 that have developed since the licensee submitted its Cyber Resilience IT Plan under paragraph 3.3.8;~~
- (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 2021, 2026.~~

3.3.16—The Authority ~~may~~will only ~~make~~direct changes under this Re-opener by direction:

3.2.15 Part C where an application is made by the licensee under paragraph 3.2.10:

- (a) ~~where~~if a circumstance in paragraph 3.2.9 3.112.10 exists; ~~and;~~
- (b) ~~if an application was made by the licensee under paragraph 3.2.10 3.122.11, where the requirements in paragraphs 3.2.11 3.142.13 and 3.2.12 3.152.14 have been met; ;~~
- (c) ~~if at any time during the relevant circumstance is that set out in paragraphs 3.3.11(a) or (b), Price Control Period where the addition it has become aware of new outputs would improve the licensee's cyber resilience in relation to IT;~~
- (e) ~~if the relevant circumstance is that~~circumstances set out in paragraph 3.3.11(c), 2.9.
- (d) ~~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 the addition it has become aware of new outputs would contribute to the licensee's compliance with the relevant statutory or regulatory requirements relating to cyber resilience in relation to IT;~~
- (e) ~~if the relevant circumstance is that~~the circumstances set out in paragraph 3.3.11(d), where a change to an existing output is justified;
- (f) ~~in order to correct an error; or~~
- (g) ~~because the licensee has demonstrated that the refinement would improve the licensee's cyber resilience in relation to IT; and~~

3.3.173.2.16 where there is sufficient detail to demonstrate that the proposed allowances are efficient and the change would improve the licensee's cyber resilience in relation to IT2.9.

3.3.183.2.17 A direction under this Part C:

- (a) may adjust ~~will add~~ allowances in the Cyber Resilience IT Baseline Re-opener Allowances Table and the Cyber Resilience PCD Table as a result of circumstances set out in paragraph 3.2.9 3.11(d)(i); 2.10;
- (b) ~~may amend outputs, delivery dates and allowances in the Cyber Resilience IT PCD Table;~~
- (e)(b) may modify the text in Appendices 1 and 2~~the Cyber Resilience Re-opener a~~Allowances t~~Table to amend the date of publication of the~~

documents containing the Cyber Resilience IT Baseline Allowances Table, Cyber Resilience Re-opener Allowances Table and the Cyber Resilience IT Cyber Resilience PCD Table;

(d)(c) will set out the value of CRITRA<sub>t</sub> and CRITRO<sub>t</sub> terms, where these are being adjusted the CYO<sub>t</sub>; and

(e)(d) must be confined to costs incurred or expected to be incurred on or after 1st April 2021-2026.

**Part E: Part D: Assessment of the Price Control Deliverable (CRITRA<sub>t</sub> and CRITRO<sub>t</sub> delivery under this condition (CYRA<sub>t</sub>, CYRO<sub>t</sub> and CYRAU<sub>t</sub>)**

3.2.18 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 CRITRA<sub>t</sub> and CRITRO<sub>t</sub>, CYRA<sub>t</sub> or CYRO<sub>t</sub>, where the licensee has not Fully Delivered an output in the Cyber Resilience PCD Table.

3.2.19 Separately, The Authority will consider directing a value for CYRAU<sub>t</sub> where, following a qualitative assessment of the licensee's stated and delivered needs, underpinning the allowance, it considers that a Use It Or Lose It Adjustment is appropriate.

**Part F: Part E: Cyber Resilience IT PCD Table-Resilience PCD Price Control Deliverable Reporting Requirements**

3.2.20 The licensee must send reports to the Authority, in a form approved by the Authority, that include:

(f)(a) a summary of progress against key milestones contained in the licensee's Improvement Plan;

**Part G: Reporting Requirements**

3.3.19 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 IT PCD Table; 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 in relation to IT, 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.

3.3.20 3.2.21 Unless the Authority otherwise directs, the licensee must send reports under paragraph 3.2.18 3.2.19 by no later than the dates, and in relation to the periods, set out in Appendix 35.

## **Part F: What process will Cyber Resilience UIOL use it or lose it Reporting allowance Requirements**

3.2.22 The licensee must, by no later than the dates, and in relation to the periods set out in Appendix 5, as part of its annual Cyber Resilience reporting, provide a qualitative report explaining how expenditure funded as uncertain investment from allowances for use it or lose it has contributed to activities intended to maintain or improve its cyber resilience posture.

3.2.23 The report under paragraph 3.2.20 must licensee shall provide to the Authority follow a qualitative report that:

- (a) sets out the relevant NCSC CAF Contributing Outcomes that the investment was intended to address;
- (b) provides 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) sets out any use it or lose it allowances that remain unspent; and
- (d) includes a confirmation from the licensee's NIS Responsible Officer 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 UIOL expenditure.

3.2.24 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 activities needs and the licensee's assessment of the impact of the use it or lose it UIOL expenditure on its cyber resilience posture.

3.2.25 This qualitative assessment does not constitute a Price Control Deliverable and shall is not be subject to the evaluative assessment principles set out in Special Condition 9.3.

3.3.213.2.26 The Authority may consider the reports provided under this Part this information for the purpose of monitoring and evaluation and in making any direction? under paragraph 3.2.17. of use it or lose allowances when making its adjustment at the end of the price control period.

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

3.3.223.2.27 Before making a direction under paragraph 3.2.153, 3.8, 2.14 3.2.17 3.2.16, or 3.2.17 3.2.18, the Authority will send to the licensee:

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

- (a) ~~A direction under paragraph 3.3~~ the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) ~~18a~~ 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.

3.3.233.2.28 A direction under paragraph 3.2.167 will set out:

- ~~(a) the delivery status of the output that has not been Fully Delivered;~~
- (b)(a) the value of the CRITRA<sub>t</sub>, CYRA<sub>t</sub> and CRITRO<sub>t</sub> term, 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.

3.2.29 A direction under paragraph 3.2.17 will set out:

- (a) the value of the CYRAU<sub>t</sub> term, and the Regulatory Years to which the adjustment relates, and
- (c)(b) the methodology and data that has been used to decide the delivery status and value of any adjustments to the CRITRA<sub>t</sub> and CRITRO<sub>t</sub> termsCYRAU<sub>t</sub> term.

## Appendix 1

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

<u>Title</u>	<u>Publication Date</u>
<u>RIIO-3 Final Determinations – SGN Southern Cyber Resilience</u>	<u>04 December 2025</u>

## Appendix 2

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

<u>Title</u>	<u>Publication Date</u>
<u>RIIO-3 Final Determinations – SGN Southern Cyber Resilience</u>	<u>04 December 2025</u>

## Appendix 3

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

Title	Publication Date
RIIO-3 <del>Final Determinations</del> <u>Re-opener Decision</u> – SGN <u>Southern</u> Cyber Resilience Information Technology <u>Re-opener Decision</u> REVISED	<del>16 December 2021</del> <u>To be confirmed</u>

#### **Appendix 2****Appendix 4**

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

Title	Publication Date
RIIO-3 <u>Final Determinations</u> – SGN <u>Southern</u> Cyber Resilience <u>Information Technology</u> <u>Re-opener Decision</u> REVISED	<del>16</del> <u>04</u> December <del>2021</del> <u>2025</u>

#### **Appendix 3****Appendix 5**

Report submission dates and the associated periods to be reported on

Dates each year by which reports must be submitted <del>from 31 January 2022 to 31 July 2026</del> <u>to the Authority</u>	Associated periods to be reported on
31 July <u>2027</u>	<del>1 October</del> <u>April 2026</u> to 31 March <u>2027</u>
31 January <u>July 2028</u>	1 April <u>2027</u> to <del>30 September</del> <u>31 March 2028</u>
31 July <u>2029</u>	<u>1 April 2028</u> to 31 March <u>2029</u>
31 July <u>2030</u>	<u>1 April 2029</u> to 31 March <u>2030</u>
31 July <u>2031</u>	<u>1 April 2030</u> to 31 March <u>2031</u>

#### **Special Condition 3.4****Special Condition 3.3** **Physical security Resilience Re-opener physical security PCD and Price Control Deliverable** **Re-opener (PSUP<sub>t</sub> and PSUPRE<sub>t</sub>)**

##### **Introduction**

3.3.1 The purpose of this condition is to calculate the terms PSUP<sub>t</sub> (the physical security Price Control Deliverable term) and, PSUPRE<sub>t</sub> (the 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:

~~3.4.11.1.1~~ These contribute to the calculation of the Totex Allowance.

~~3.4.21.1.1~~ The effect of this condition is to:

- (a) in relation to the physical security Price Control Deliverable term and physical security Re-opener term;
- (b) specify at Appendix 1 the physical security baseline allowances;
- (a)(c) 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;
- (b)(d) establish a Re-opener mechanism for the licensee and the Authority to trigger amendments to the Price Control Deliverable Physical Security PCD Table during the Price Control Period; and
  - i. provide for an assessment of the Price Control Deliverable; and
- (e) in relation to the Resilience Re-opener term, establish a Re-opener that the Authority may trigger during the Price Control Period.

3.4.33.3.3 This condition also sets out the process the Authority will follow when ~~directing~~making any changes under paragraph to Appendix 2 and 3.4.7, 3.4.11 or 3.12. 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 termterms (PSUPRE<sub>t</sub> and RESRE<sub>t</sub>)**

3.4.43.3.4 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 sum of baseline allowances in the Physical Security Baseline Allowances Table in Appendix 1 ~~that relate to the licensee;~~

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

3.4.53.3.5 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 ~~a result of Re-openers established by~~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?

3.4.63.3.7 Appendix 2 specifies the outputsAppendices 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: PhysicalLicencee triggered Pphysical security Re-opener

3.4.73.3.8 The licensee may apply to the Authority for a direction amending the outputs, delivery dates or associated allowancesphysical 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. following a change in the Critical National Infrastructure classification which results in a change to the scope of work the licensee is required to carry out under the physical security programme to be designated by UK Government.

3.3.9 The licensee may only apply to the Authority under paragraph 3.4.7 Between 25 January3.87 between:

(a) 1 April 2028 and 31 January in year 2024,8 April 2028; and

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

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

3.4.83.3.10 An application under paragraph 3.4.7 must3.87must be made in writing to the Authority and include statementsset out:

(a) setting out the changes to the scope of work the licensee is required to carry out under the physical security Upgrade programme to be designated by UK Government to which the application relates;

(b) setting out the change in Critical National Infrastructure classification for each site to which the application relates;

(c) setting out any amendments requested to the outputs, delivery dates or allowances set out in Appendix 2;

(c) explainingin the physical security PCD Table;

(d) an explanation of the basis of the calculations for any amendments requested to allowances; and

(e) providing such detailed supporting evidence as is reasonable in the circumstances.

3.4.93.3.11 An application under paragraph 3.4.73.87 must:

(a) only relate to changes to the scope of work the licensee is required to carry out under the Physical Security Upgrade Programmewhich take effect on or after 9 December 2019;28 June 2024 and which the licensee is required to carry out under the Physical Security Upgrade Programme; the physical

security programme to be designated by UK Government as a result of a change in the Critical National Infrastructure classification;

- (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 2021. 2026.

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

~~3.4.10~~3.3.12 The Authority will also consider directing amendments to may amend the outputs, delivery dates or allowances ~~set out in Appendix 2 by direction without an application being made under paragraph 3.4.3.7~~ where there have been changes to the scope of ~~workworks~~ the licensee is required to carry out under the physical security programme to be designated by UK Government programmes Physical Security Upgrade Programme that:

- (a) have been mandated on or after 9 December 2019, 28 June 2024; and
- (b) relate to costs incurred or expected to be incurred on or after 1 April 2021 2026.

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

~~3.4.11~~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), ~~consider directing a value for PSUPRA<sub>t</sub> and PSUPRO<sub>t</sub> 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> and PSUPRO<sub>t</sub> and~~ RESRO<sub>t</sub>.

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

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

~~3.4.12~~3.3.14 Before making a direction under paragraph 3.4.7, ~~3.4.11~~87, ~~3.3.12~~141 or ~~3.4.12~~3.1312, 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.
- ~~(a) A direction under paragraph 3.3. 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 3.4.7 or ~~3.4.11~~87 or ~~3.3.12~~141 will:

- ~~(d)~~(a) set out any amendments to 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.

3.4.133.3.16 A direction under paragraph 3.4.123.1312 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 This Part establishes the Resilience Activity term cost Re-opener, which is set out in Appendix 3.**

3.3.18 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.

3.3.19 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.

3.3.20 When making a modification under this Part, the Authority may require the licensee to provide such information as it may reasonably require.

3.3.21 The Authority will only make a modification under this Part where the aggregated costs of the Resilience Activities meet or exceed the Materiality Threshold.

3.3.22 For the purposes of paragraph 3.3.21, the Authority may group multiple Resilience Activities to meet the Materiality Threshold.

3.3.23 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 (PSUPA<sub>t</sub>) by Regulatory Year (£m) Table**

<u>GDN</u> <u>Title</u>	<u>21/22</u> <u>Publication Date</u>					
<u>EoE</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
<u>Lon</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>

NW	0.0	0.0	0.0	0.0	0.0	0.0
WM	0.0	0.0	0.0	0.0	0.0	0.0
Northern Gas Networks Ltd	0.0	0.0	0.0	0.0	0.0	0.0
Scotland Gas Networks plc	0.0	0.0	0.0	0.0	0.0	0.0

<u>SGN Southern Gas Networks plc</u> <u>Redacted Information Document</u>	0.0	TBC				
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<b>Wales &amp; West Utilities Ltd</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
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## Appendix 2

### Title and publication date of document containing the Physical Security Price Control Deliverable allowances by Regulatory Year (£m) PCD Table

<u>Site</u> <u>Title</u>	<u>Delivery</u> <u>Publication Date</u>
N/A – Not yet published	N/A – Not yet published

## Net Zero And Appendix 3

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

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

### Special Condition 3.5 Special Condition 3.4 Small Decarbonisation Projects Re-opener Development Fund use it or lose it allowance ( $RDF_t(SDP_t)$ )

#### Introduction

~~3.5.11.1.1 Introduction~~ The purpose of this condition is to calculate the term  $RDF_t$  (the Net Zero And Re-opener Development Fund term). This contributes to the calculation of the ~~Total Allowance~~.

~~3.5.21.1.1~~ The effect of this condition is to:

- ~~(a) specify the allowance for the Net Zero And Re-opener Development Fund;~~
- ~~(b) require the licensee to comply with the Net Zero And Re-opener Development Fund 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 Net Zero And Re-opener Development Fund Governance Document.

**Part A: Formula for calculating the Net Zero And Re-opener Development Fund term (RDF<sub>t</sub>)**

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

$$RDF_t = RDEA_t - RDFR_t$$

—where:

- RDEA<sub>t</sub> means the allowances in Appendix 1 that relate to the licensee; and
- RDFR<sub>t</sub> has the value zero unless otherwise directed by the Authority in accordance with Part D.

**Part B: Net Zero And Re-opener Development Fund Governance Document**

3.5.5—The licensee must comply with the Net Zero And Re-opener Development Fund Governance Document when incurring expenditure in relation to the allowance provided by this licence condition.

3.5.6—The Authority will issue and amend the Net Zero And Re-opener Development Fund Governance Document by direction.

3.5.7—The Authority will publish the Net Zero And Re-opener Development Fund Governance Document on the Authority's Website.

3.5.8—The Net Zero And Re-opener Development Fund Governance Document will make provision about the governance and administration of the Net Zero And Re-opener Development Fund, including:

- (a) the definition of "allowable RDF expenditure" and "unrecoverable RDF expenditure";
- (b) the eligibility criteria, which expenditure incurred in relation to the allowance provided by this licence condition must meet; and
- (c) the reporting obligations in respect of which expenditure incurred in relation to Net Zero And Re-opener Development Fund which the licensees must meet.

3.5.9—Before directing that the Net Zero And Re-opener Development Fund Governance Document comes into effect, the Authority will publish on the Authority's Website:

- (a) the text of the proposed Net Zero And Re-opener Development Fund Governance Document;
- (b) the date on which the Authority intends the Net Zero And Re-opener Development Fund Governance Document to come into effect; and
- (c) a period during which representations may be made on the content of the Net Zero And Re-opener Development Fund Governance Document, which will not be less than 28 days.

3.5.10—Before directing an amendment to the Net Zero And Re-opener Development Fund Governance Document, the Authority will publish on the Authority's Website:

- ~~(a) the text of the amended Net Zero And Re-opener Development Fund Governance Document;~~
- ~~(b) the date on which the Authority intends the amended Net Zero And Re-opener Development Fund Governance Document to come into effect;~~
- ~~(c) the reasons for the amendments to the Net Zero And Re-opener Development Fund Governance Document; and~~
- ~~(d) a period during which representations may be made on the amendments to the Net Zero And Re-opener Development Fund Governance Document, which will not be less than 28 days.~~

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

3.5.11—The Authority will direct an amendment to the value of RDR<sub>t</sub> where it considers that a Use It Or Lose It Adjustment is appropriate.

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

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)(a) 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.~~

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

### **Appendix 1**

#### **Net Zero And Re-opener Development Fund allowance (RDFA<sub>t</sub>) by Regulatory Year (£m)**

Network	Allowance					Total
	2021/22	2022/23	2023/24	2024/25	2025/26	
EoE	1.46	1.46	1.46	1.46	1.46	7.31
Lon	0.82	0.82	0.82	0.82	0.82	4.09
NW	0.98	0.98	0.98	0.98	0.98	4.87
WM	0.71	0.71	0.71	0.71	0.71	3.56
Northern Gas Networks Ltd	0.92	0.92	0.92	0.92	0.92	4.59
Scotland Gas Networks plc	0.67	0.67	0.67	0.67	0.67	3.35
Southern Gas Networks plc	1.50	1.50	1.50	1.50	1.50	7.49

Wales & West Utilities Ltd	0.95	0.95	0.95	0.95	0.95	4.75
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## **Special Condition 3.6 Net zero Re-opener and Price Control Deliverable (NZ<sub>t</sub>)**

### **Introduction**

~~3.6.11.1.1~~ The purpose of this condition is to calculate the term NZ<sub>t</sub> (the net zero 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;~~
- ~~(b)(a) 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 explains the process the Authority will follow when making any changes under this condition.

### **Part A: Formula for calculating the net zero Re-opener term (NZ<sub>t</sub>)**

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

$$NZ_t = NZO_t - NZRO_t$$

where:

NZO<sub>t</sub> means the sum of allowances in Appendix 1; and

NZRO<sub>t</sub> has the value zero unless otherwise directed by the Authority in accordance with Part D.

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

~~3.6.51.1.1~~ 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: Net Zero Re-opener**

~~3.6.6~~ This Re-opener may be used where:

- ~~(a) a Net Zero Development has occurred or is expected to occur;~~
- ~~(b) the Net Zero 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 on the cost of Licensed Activity is not otherwise provided for in this licence;~~

~~(d) the effect of the Net Zero Development has not already been assessed under another Re-opener; and~~  
~~the effect, or estimated effect, of the Net Zero Development on the cost of Licensed Activity exceeds the Materiality Threshold.~~

~~3.6.71.1.1 The Authority may make modifications under this Re-opener at any time during the Price Control Period.~~

~~3.6.81.1.1 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~~  
~~modifications to the outputs, delivery dates and allowances in the other special conditions of this licence.~~

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

#### **Part D: Assessment of the Price Control Deliverable (NZRO<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 NZRO<sub>t</sub> where the licensee has not Fully Delivered an output in Appendix 1.

#### **Part E: What process will the Authority follow in 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 not be less than 28 days.~~

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;~~
- ~~(a) the value of the NZRO<sub>t</sub> term and the Regulatory Years to which that value relates; and~~
  - ~~(b) the methodology and data that has been used to decide the delivery status and value of any adjustment to the NZRO<sub>t</sub> term.~~

### **Appendix 1**

#### **Net Zero Price Control Deliverable (£m)**

##### **Regulatory Year**

Output	Delivery date	2021/22	2022/23	2023/24	2024/25	2025/26	Total
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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 Non-operational IT Capex Re-opener and Price Control Deliverable (NOITRE<sub>t</sub>)**

#### **Introduction**

~~3.7.11.1.1~~ The purpose of this condition is to calculate the term NOITRE<sub>t</sub> (the Non-operational IT Capex Re-opener term). ~~This contributes to the calculation of the Totex Allowance.~~

~~3.7.2~~ The effect of this condition is to:

(a) specify the outputs, delivery dates and associated allowances for any Price Control Deliverable relating to Non-operational IT Capex;

(b) establish a Re-opener triggered by either the licensee or the Authority for Non-operational IT Capex; and

~~— (c) provide for an assessment of the Price Control Deliverables.~~

~~3.7.3~~ This condition also sets out the process the Authority will follow when directing any changes as a result of the Re-opener.

#### **Part A: Formula for calculating the Non-operational IT Capex Re-opener term (NOITRE<sub>t</sub>)**

~~3.7.4~~ The value of NOITRE<sub>t</sub> is derived in accordance with the following formula:

~~=====~~

$$NOITRE_t = NOITO_t - NOITRO_t$$

where:

NOITO<sub>t</sub> means allowances in Appendix 1; and

NOITRO<sub>t</sub> has the value zero unless otherwise directed by the Authority in accordance with Part D.

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

~~3.7.5~~ Appendix 1 specifies the total allowances provided for work relating to Non-operational IT Capex and Appendix 2 specifies the Price Control Deliverables that the licensee is funded to deliver, the delivery dates for those outputs and the allowances provided.

## **Part C: Non-operational IT Capex Re-opener**

3.7.6—The licensee may apply to the Authority for a direction amending Appendices 1 and 2 as a result of:

- ~~(a) the licensee identifying further evidence in support of Non-operational IT Capex projects that were included in its Business Plan, but in relation to which no allowance has been provided to date;~~
- ~~(b) the licensee identifying activities capable of improving the efficiency or performance of its Non-operational IT Capex; or~~
- ~~(c) any changes to statutory or regulatory requirements relating to Non-operational IT Capex.~~

3.7.7—The licensee may only apply to the Authority for changes under this Re-opener:

- ~~(a) Between 1 April 2021 and 8 April 2021;~~
- ~~(b) Between 25 January 2023 and 31 January 2023; and~~
- ~~(c) during such other periods as the Authority may direct.~~

3.7.8—An application under paragraph 3.7.6 must be made in writing to the Authority and:

- ~~(a) give details of the circumstances referred to in paragraph 3.7.6 that the licensee considers exist;~~
- ~~(b) explain how the adjustment requested would improve its Non-operational IT Capex;~~
- ~~(c) explain the basis of the calculations for the adjustment requested to allowances;~~
- ~~(d) give details of anticipated business benefits derived from any risk reduction as a result of the proposed activities; and~~
- ~~(e) provide such detailed supporting evidence, as is reasonable in the circumstances, which must include:~~
- ~~(f) delivery plans;~~
- ~~(g) a prioritisation programme;~~
- ~~(h) market and industry cost comparison; and~~
- ~~(i) anticipated business benefits derived as a result of the proposed activities.~~

3.7.9—An application under paragraph 3.7.6 must:

- ~~(a) take account of any allowed expenditure, which can be avoided as a result of the adjustment; and~~
- ~~(b) be confined to costs incurred or expected to be incurred on or after 1 April 2021.~~

3.7.10—The Authority will also consider amending Appendices 1 and 2 without an application being made under paragraph 3.7.6 where it considers that:

- ~~(a) circumstances of the type referred to in paragraph 3.7.6 exist; and~~
- ~~(b) costs were incurred or will be incurred on or after 1 April 2021.~~

## **Part D: Assessment of the Price Control Deliverable (NOITRO<sub>1</sub>)**

3.7.11 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 NOITRO<sub>1</sub> where the licensee has not Fully Delivered an output in Appendix 2.

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

3.7.12 Before making a direction under paragraph 3.7.6, 3.7.10 or 3.7.11, the Authority will publish on the Authority's Website:

- ~~(a) the text of the proposed direction;~~
- ~~(b)(a) 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.~~

3.7.13 A direction under paragraph 3.7.6 or 3.7.10 will set out any amendments to Appendices 1 and 2.

3.7.14 A direction under paragraph 3.7.11 will set out

- ~~(a) the delivery status of the output that has not been Fully Delivered;~~
- ~~(a) the value of the NOITRO<sub>1</sub> term and the Regulatory Years to which that value relates; and~~
- ~~(b) the methodology and data that has been used to decide the delivery status and value of any adjustment to the NOITRO<sub>1</sub> term.~~

### **Appendix 1**

#### **Non-operational IT Capex Re-opener allowance (£m)**

-	2021/22	2022/23	2023/24	2024/25	2025/26	All years-
Re-opener Allowance	0.861	2.783	2.93	2.499	1.536	10.609

### **Appendix 2**

#### **Non Operational IT Capex Price Control Deliverable (£m)**

-	-	-	Regulatory Year					-
NOITRE project	Output	Delivery date	2021/22	2022/23	2023/24	2024/25	2025/26	Total
Southern site surveys	Completion of 2,154 site surveys in Southern	31/03/23	0.49	0.35	0.0	0.0	0.0	0.84

Southern sites initial fitment	Conversion of 790 sites in Southern	31/03/24	0.0	2.41	1.27	0.0	0.0	3.68
Southern sites final fitment	Final conversion of 2,154 sites in Southern (1,077 additional sites converted from initial fitment)	31/03/26	0.0	0.0	1.26	1.51	0.48	3.25

## ~~Special Condition 3.8~~~~Special Condition 1.1 Coordinated adjustment mechanism Re-opener (CAM<sub>r</sub>)~~

### ~~Introduction~~

~~3.8.11.1.1 The purpose of this condition is to calculate the term CAM<sub>r</sub> (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 triggered by the licensee 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 the Re-opener.~~

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

~~3.8.4 The licensee may apply to the Authority for a direction adjusting the value of the CAM<sub>r</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: When to make an application~~

~~(b)(a) The licensee may only apply to the Authority for an adjustment under paragraph 3.8.4 Between 23 May and 29 May in each of the years 2021, 2022, 2023, 2024, 2025, and during such other periods as the Authority may direct.~~

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

~~3.8.51.1.1~~ 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)(a) 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)(a) explain why the original allocation of the CAM Activity no longer delivers greater overall consumer value, and why the reallocation does deliver greater overall consumer value;~~
- ~~(d)(a) 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 established by the special conditions of this licence and that of the Partner Licensee relating to the CAM Activity;~~
- ~~(f)(a) set out the adjustments to the value of the CAM, term for both the licensee and the Partner Licensee that the licensee is requesting and the Regulatory Years to which those adjustments relate;~~
- ~~(g)(a) explain the basis of the calculation for the proposed adjustments to the value of the licensee and the Partner Licensee's CAM, terms or other allowances of the licensee and the Partner Licensee;~~
- ~~(h) provide such detailed supporting evidence including cost benefit analysis, impact assessments, risk mitigation, and engineering justification statements as is reasonable in the circumstances; and~~
- ~~(i)(a) provide a copy of the agreement between the licensee and the Partner Licensee to transfer responsibility for and associated revenue of the CAM Activity;~~

~~3.8.61.1.1~~ 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 2021.~~

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

~~3.8.71.1.1~~ Before making a direction under paragraph 3.8.4 the Authority will publish on the Authority's Website:

- ~~(a) the text of the proposed direction;~~
- ~~(b)(a) 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.~~

~~3.8.81.1.1~~ The direction will set out:

- ~~(a) any adjustments to the PCFM Variable Values of this licence and that 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 that of the Partner Licensee.~~

## **Special Condition 3.9 Net Zero Pre-construction Work and Small Net Zero Projects Re-opener (NZP<sub>t</sub>)**

### **Introduction**

~~3.9.13.4.1~~ The purpose of this condition is to establish a Re-opener triggered by the Authority where pre-construction work or other projects have been identified that will support the achievement of Net Zero Carbon Targets.

~~3.9.23.4.2~~ The work or projects may be funded via the NZP<sub>t</sub>SDP<sub>t</sub> term (the Net Zero Pre-construction Work and Small Net ZeroDecarbonisation 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 (NZPS<sub>t</sub>)-SDPS<sub>t</sub>). The NZP<sub>t</sub>SDP<sub>t</sub> term contributes to the calculation of the Totex Allowance.

~~3.9.33.4.3~~ 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 Net Zero Pre-construction Work and Small Net ZeroDecarbonisation Projects Re-opener Governance Document; and~~
- ~~(c) explains the process the Authority will follow when:~~
- ~~(d) directing any changes as a result of the Re-opener; and~~
- ~~(e) issuing or amending the Net Zero Pre-construction Work and Small Net ZeroDecarbonisation Projects Re-opener Governance Document.~~

### **Part A: he Net Zero Pre-construction Work and The Small Net ZeroDecarbonisation Projects Re-opener**

~~3.9.43.4.4~~ The Authority may use this Re-opener where:

- ~~(a) there is Net Zero Pre-construction Work ora Small Net Zero ProjectsDecarbonisation Project needed that will support the achievement of Net Zero Carbon Targets;~~
- ~~(b) the Net Zero Pre-construction Work or Small Net ZeroDecarbonisation 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 Net Zero Pre-construction Work or Small Net ZeroDecarbonisation Project on the cost of the LicencedLicensed Activity is not otherwise provided for in this licence nor under another Re-opener; and~~

- (d) the effect, or estimated effect, of the ~~Net Zero Pre-construction Work or Small Net Zero~~Decarbonisation Project on the cost of Licensed Activity exceeds the materiality threshold of £1m but does not exceed £100m-; and
- (e) costs incurred or expected to be incurred relate to changes on or after 1 April 2026.

~~3.9.5~~3.4.5 The Authority may issue a direction setting out the following, where the conditions in paragraph 3.94.4 are satisfied:

- (a) the amount of funding for each ~~Net Zero Pre-construction Work or Small Net Zero~~Decarbonisation Project being provided under this Re-opener;
- (b) whether that funding is to be provided via the ~~NZP~~<sub>t</sub>SDP<sub>t</sub> term in this licence or via the pass-through term ~~NZPS~~<sub>t</sub>SDPS<sub>t</sub> 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.

~~3.9.6~~3.4.6 The licensee must comply with any conditions set under paragraph 3.94.5(d).

~~3.9.7~~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 3.94.5(d) the Authority may direct as appropriate:

- (a) a reduction to the ~~NZP~~<sub>t</sub>SDP<sub>t</sub> 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.

~~3.9.8~~3.4.8 If the licensee does not spend funding provided via the pass-through term ~~NZPS~~<sub>t</sub>SDPS<sub>t</sub> in the NTS Operator's licence on ~~Net Zero Pre-construction Work or Small Net Zero~~Decarbonisation Projects as set out in a direction made under paragraph 3.94.5, the Authority may direct that the licensee ~~returns~~must return that funding to the NTS Operator.

~~3.9.9~~3.4.9 The licensee must comply with a direction under paragraph 3.94.7(b) and 3.94.8 to return funding to the NTS Operator.

## **~~Part B: Net Zero Pre-construction Work and Small Net Zero~~Decarbonisation Projects Re-opener Governance Document**

~~3.9.10~~3.4.10 The licensee must comply with the ~~Net Zero Pre-construction Work and Small Net Zero~~Decarbonisation Projects Re-opener Governance Document in relation to ~~any Net Zero Pre-construction Work and Small Net Zero~~Decarbonisation Projects funded by this Re-opener.

~~3.9.11~~3.4.11 The Authority will issue and amend the ~~Net Zero Pre-construction Work and Small Net Zero~~Decarbonisation Projects Re-opener Governance Document by direction.

~~3.9.12~~3.4.12 The Authority will publish the ~~Net Zero Pre-construction Work and Small Net Zero~~Decarbonisation Projects Re-opener Governance Document on the Authority's Website.

~~3.9.13~~ Before issuing the ~~Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document~~ by direction, the Authority will publish on the Authority's Website:

~~(a) the text of the proposed Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document;~~

~~(b) the date on which the Authority intends the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document to come into effect; and~~

~~(c) a period during which representations may be made on the content of the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document, which will not be less than 28 days.~~

~~3.9.14~~3.4.13 Before amending the ~~Net Zero Pre-construction Work and Small Net Zero~~Decarbonisation Projects Re-opener Governance Document by direction, the Authority will publish on the Authority's Website:

~~(a) the text of the amended Net Zero Pre-construction Work and proposed Small Net Zero~~Decarbonisation Projects Re-opener Governance Document;

~~(b) the date on which the Authority intends the amended Net Zero Pre-construction Work and Small Net Zero~~Decarbonisation Projects Re-opener Governance Document to come into effect; and

~~(c) the reasons for the amendments to the Net Zero Pre-construction Work and a period during which representations may be made on the content of the Small Net Zero Projects Re-opener Governance Document; and~~

~~(d) a period during which representations may be made on the amendments to the Net Zero Pre-construction Work and Small Net Zero~~Decarbonisation Projects Re-opener Governance Document, which will ~~not be less than~~up to 28 days.

~~(c) What process will~~ 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?**

3.9.15 3.4.15 Before making a direction under paragraphs 3.94.5, 3.94.7 or 3.94.8 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) the text of the proposed direction;~~
- ~~(b)(a) the reasons for the proposed direction; and~~
- (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<sub>t</sub>)**

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

$$DPD_t = DPDA_t - DPDR_t$$

where:

- DPDA<sub>t</sub> means the allowances in Appendix 1 that relate to the licensee; and
- DPDR<sub>t</sub> has the value zero unless otherwise directed by the Authority in accordance with Part **DC**.

**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 proposed 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 ( $DPDA_t$ ) by Regulatory Year (£m)**

<b><u>Distribution Network</u></b>	<b><u>2026/27</u></b>	<b><u>2027/28</u></b>	<b><u>2028/29</u></b>	<b><u>2029/30</u></b>	<b><u>2030/31</u></b>	<b><u>Total</u></b>
<u>EoE</u>	<u>2.3741</u>	<u>2.3741</u>	<u>2.3741</u>	<u>2.3741</u>	<u>2.3740</u>	<u>11.85</u> <u>12.04</u>
<u>Lon</u>	<u>1.9598</u>	<u>1.9598</u>	<u>1.9598</u>	<u>1.9597</u>	<u>1.9597</u>	<u>9.7588</u>
<u>NW</u>	<u>1.5763</u>	<u>1.5763</u>	<u>1.5663</u>	<u>1.5663</u>	<u>1.5663</u>	<u>7.82</u> <u>8.15</u>
<u>WM</u>	<u>1.267</u>	<u>1.257</u>	<u>1.257</u>	<u>1.257</u>	<u>1.257</u>	<u>6.2635</u>
<u>Northern Gas Networks Ltd</u>	<u>1.66</u>	<u>1.66</u>	<u>1.66</u>	<u>1.665</u>	<u>1.665</u>	<u>8.3028</u>
<u>Scotland Gas Networks plc</u>	<u>1.240</u>	<u>1.240</u>	<u>1.240</u>	<u>1.20</u>	<u>1.20</u>	<u>6.0300</u>
<u>Southern Gas Networks plc</u>	<u>2.8079</u>	<u>2.79</u>	<u>2.79</u>	<u>2.79</u>	<u>2.798</u>	<u>13.9694</u>
<u>Wales &amp; West Utilities Ltd</u>	<u>1.7886</u>	<u>1.7886</u>	<u>1.7886</u>	<u>1.7885</u>	<u>1.7885</u>	<u>8.90</u> <u>9.28</u>

## **Special Condition 3.6 Decarbonisation and Eenvironmental Ppolicy 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 Ddecarbonisation and Eenvironmental Ppolicy 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 Ddecarbonisation and Eenvironmental Ppolicy 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 Eenvironmental Ppolicy 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:

- (e)(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~~9~~ 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~~10~~9~~ 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  $DEPROR_t$  term.

## **Appendix 1**

### **Decarbonisation and Environmental Policy Price Control Deliverable (£m) per Regulatory Year**

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

### **Special Condition 3.7 Digitalisation Re-opener ( $DIGI_t$ )**

3.7.1 The purpose of this condition is to calculate the term  $DIGI_t$  (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  $DIGI_t$  during the Price Control Period where there is a change in requirements for digital and data services from the government or the Authority, ~~additional responsibilities related to smart metering~~, or an advancement of Mature Innovation projects.

3.7.3 This condition ~~also sets out~~ explains the process the Authority will follow when ~~making~~ directing any changes under Part A or Part C of this condition. as a result of this Re-opener.

#### **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  $DIGI_t$  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) a re-tendering of the smart metering system resulting in additional roles or responsibilities for the licensee with regards to the smart metering system; or

(c) 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  $DIGI_t$  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 modification to the value of DIGIt:

- (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: The licensee must, when making an application under the Digitalisation Re-opener, send to the Authority a written application that:

- (a) gives details demonstrating how it is eligible to apply under Part A;
- (b) sets out the proposed modifications to the value of DIGIt in 3.7.13Appendix 1;
- (c) explains the basis for calculating the modifications requested to the term DIGIt allowances and the relevant profiling of the term DIGIt those allowances; and
- (d) provides 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 DIGIt amending 3.7.13Appendix 1 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 and C where:

- (a) a circumstance in Part A exists; and
- (b) in respect of an application under Part A, the requirements in paragraph 3.7.8 have been met.

3.7.12 Before making a direction under Part A, the Authority will must send to the licensee and publish on the Authority's Website:

- (a) the text of the proposed direction; modifications;
- (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<sub>t</sub> term and the Regulatory Years to which those adjustments relate.

## **Appendix 1**

### **Digitalisation Re-opener allowances (DIGI<sub>t</sub>) without Evaluative Price Control Deliverables by Regulatory Year (£m)**

	<u>26/27</u>	<u>27/28</u>	<u>28/29</u>	<u>29/30</u>	<u>30/31</u>	<u>Total allowance (all years)</u>
DIGI <sub>t</sub>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

## **Special Condition 3.8 Coordinated adjustment mechanism Re-opener (CAM<sub>t</sub>)**

### **Introduction**

- 3.8.1** The purpose of this condition is to calculate the term CAM<sub>t</sub> (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 this condition CAM<sub>t</sub> 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 including Cost-Benefit Analysis, impact assessments, risk mitigation, and engineering justification statements as set out in the Re-opener Guidance and Application Requirements Document as is reasonable in the circumstances; 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 ISOPNESCO 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 tTransport eEmissions rReduction Price Control Deliverable (OTE<sub>t</sub>)**

**Introduction**

3.9.1 The purpose of this condition is to calculate the term OTE<sub>t</sub> (the oOperational tTransport eEmissions rReduction Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.

(d)<sub>t</sub>

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 oOperational tTransport eEmissions rReduction 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;

$\Sigma OTEA_t$	means the total <u>Operational Transport Emissions Reduction</u> allowance for the Price Control Period;
$OTEV_n$	means the target number of vehicles for each <u>vehicle category group n</u> and set out in Appendix 2;
$OTED_n$	means the number of <u>vehicles annual lease payments</u> for each <u>vehicle in vehicle category group n</u> which is available to the licensee for its operations during the Price Control Period <u>delivers</u> as of 31 March 2031;
$OTEU_n$	means the <u>vehicles category</u> allowed unit costs, as set out in Appendix 2; and
$n$	means the vehicle <u>category</u> , 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 annual lease payments for each vehicles for in vehicle category n Operational Transport Emissions Reduction outputs which is available to the licensee for its operations during the Price Control Period specified in Appendix 2 by 31 March 2031.

### **Appendix 1**

#### **Operational Transport Emissions Reduction PCD allowance by Regulatory Year (£m)**

<u>Distribution Network</u>	<u>2026/2027</u>	<u>2027/2028</u>	<u>2028/2029</u>	<u>2029/30</u>	<u>2030/31</u>	<u>Total Allowance</u>
<u>EoE</u>	<u>0.281.40</u>	<u>0.020.10</u>	<u>0.040.20</u>	<u>0.944.70</u>	<u>0.040.20</u>	<u>1.326.60</u>
<u>Lon</u>	<u>0.231.16</u>	<u>0.080.41</u>	<u>0.110.56</u>	<u>0.522.61</u>	<u>0.070.36</u>	<u>1.025.10</u>
<u>NW</u>	<u>0.562.80</u>	<u>0.070.35</u>	<u>0.130.65</u>	<u>0.341.70</u>	<u>0.060.30</u>	<u>1.165.80</u>
<u>WM</u>	<u>0.231.15</u>	<u>0.100.50</u>	<u>0.221.10</u>	<u>0.020.10</u>	<u>0.070.35</u>	<u>0.643.20</u>
<u>Northern Gas Networks Ltd</u>	<u>0.22</u>	<u>0.12</u>	<u>0.16</u>	<u>0.29</u>	<u>0.20</u>	<u>1.00</u>
<u>Scotland Gas Networks plc</u>	<u>0.02</u>	<u>0.13</u>	<u>0.27</u>	<u>0.34</u>	<u>0.35</u>	<u>1.11</u>
<u>Southern Gas Networks plc</u>	<u>0.02</u>	<u>0.13</u>	<u>0.27</u>	<u>0.34</u>	<u>0.35</u>	<u>1.11</u>
<u>Wales &amp; West Utilities</u>	<u>0.04</u>	<u>0.02</u>	<u>0.01</u>	<u>0.03</u>	<u>0.00</u>	<u>0.10</u>

## Appendix 2

### Target number of annual ZEV lease payments and unit costs

<u>Distribution Network</u>	<u>Vehicle category (n)</u>	<u>Target Nnumbers</u> <u>OTEV<sub>n</sub></u>	<u>Allowed unit cost (£), OTEU<sub>n</sub></u>
<u>EoE</u>	<u>Medium Vvans - leased</u>	<u>4352,175</u>	<u>[REDACTED]</u>
<u>Lon</u>	<u>Medium Vvans - leased</u>	<u>3371,685</u>	<u>[REDACTED]</u>
<u>NW</u>	<u>Medium Vvans - leased</u>	<u>3781,890</u>	<u>[REDACTED]</u>
<u>WM</u>	<u>Medium Vvans - leased</u>	<u>2051,025</u>	<u>[REDACTED]</u>
<u>Scotland Gas Networks plc</u>	<u>Small Vvans - leased</u>	<u>371</u>	<u>[REDACTED]</u>
	<u>Medium Vvans - leased</u>	<u>85</u>	
	<u>4x4s - leased</u>	<u>98</u>	
<u>Southern Gas Networks plc</u>	<u>Small Vvans - leased</u>	<u>370</u>	<u>[REDACTED]</u>
	<u>Medium Vvans - leased</u>	<u>85</u>	
	<u>4x4s - leased</u>	<u>98</u>	

## **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:

$$T1MD_t = T1MRA_t + \min \left[ \sum_i C_i (DV_t - BV_t) \cdot 10^{-6}, T1MRA \cdot 0.03 \right] - \frac{T1MRA_t}{T1MRA} \left[ \sum_i C_i (DV_i - BV_i) \cdot 10^{-6} \right] \cdot \frac{T1MRA_t}{T1MRA}$$

where:

- i* denotes each Tier 1 Mains Decommissioned Workload Activity;

$DV_i$	means the Outturn Workload Of Tier 1 Mains Decommissioned within the relevant Tier 1 Mains Decommissioned Workload Activity;
$BV_i$	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;
$C_i$	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;
$T1MRA_t$	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

<del>GDN</del> <u>Distribution Network</u>	Volume (km)
EoE	<u>2,773.9722.86</u>
Lon	<u>1,531.4683.54</u>
NW	<u>1,918.3874.23</u>
WM	<u>1,468.5491.31</u>
Northern Gas Networks Ltd	<u>2,144.3186.50</u>
Scotland Gas Networks plc	<u>1,020.6075.00</u>
Southern Gas Networks plc	<u>3,001.3200.00</u>
Wales & West Utilities Ltd	<u>1,568.0674.77</u>

## Appendix 2

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

<u>Licensee Distribution Network</u>	<u>Diameter band of decommissioned pipe</u>	<u>Baseline Activity Volumes of Tier 1 Mains Decommissioned (km)</u>	<u>Allowed Unit Cost (£/km)</u>
<del>EoE</del> Southern Gas Networks plc	≤3"	<del>32.3</del> 54.24	86,520[REDACTED]
<del>EoE</del> Southern Gas Networks plc	4"-5"	1,476.5682.60	95,775[REDACTED]
<del>EoE</del> Southern Gas Networks plc	6"-7"	851.4 982.03	139,467[REDACTED] 1
<del>EoE</del> Southern Gas Networks plc	8"	413.8 481.13	208,849[REDACTED] 1

<del>Licensee</del>	<del>Diameter band of decommissioned pipe</del>	<del>Baseline Activity Volumes of Tier 1 Mains Decommissioned (km)</del>	<del>Allowed Unit Cost (£/km)</del>
<del>Lon</del>	≤3"	1.2	106,472
<del>Lon</del>	4"-5"	755.9	117,861
<del>Lon</del>	6"-7"	496.0	171,628
<del>Lon</del>	8"	278.2	257,010

<del>Licensee</del>	<del>Diameter band of decommissioned pipe</del>	<del>Baseline Activity Volumes of Tier 1 Mains Decommissioned (km)</del>	<del>Allowed Unit Cost (£/km)</del>
<del>NW</del>	≤3"	99.6	102,335
<del>NW</del>	4"-5"	921.6	113,282
<del>NW</del>	6"-7"	622.5	164,959
<del>NW</del>	8"	274.7	247,024

<del>Licensee</del>	<del>Diameter band of decommissioned pipe</del>	<del>Baseline Activity Volumes of Tier 1 Mains Decommissioned (km)</del>	<del>Allowed Unit Cost (£/km)</del>
<del>WM</del>	≤3"	24.2	102,827
<del>WM</del>	4"-5"	667.8	113,827
<del>WM</del>	6"-7"	455.3	165,753
<del>WM</del>	8"	321.2	248,212

<del>Licensee</del>	<del>Diameter band of decommissioned pipe</del>	<del>Baseline Activity Volumes of Tier 1 Mains Decommissioned (km)</del>	<del>Allowed Unit Cost (£/km)</del>
<del>Northern Gas Networks Ltd</del>	≤3"	81.6	80,922

Northern Gas Networks Ltd	4"-5"	1,122.0	89,578
Northern Gas Networks Ltd	6"-7"	615.3	130,442
Northern Gas Networks Ltd	8"	325.5	195,335

Licensee	Diameter band of decommissioned pipe	Baseline Activity Volumes of Tier 1 Mains Decommissioned (km)	Allowed Unit Cost (£/km)
Scotland Gas Networks plc	≤3"	61.4	111,351
Scotland Gas Networks plc	4"-5"	512.4	123,262
Scotland Gas Networks plc	6"-7"	343.5	179,492
Scotland Gas Networks plc	8"	103.4	268,786

Licensee	Diameter band of decommissioned pipe	Baseline Activity Volumes of Tier 1 Mains Decommissioned (km)	Allowed Unit Cost (£/km)
Southern Gas Networks plc	≤3"	75.3	104,248
Southern Gas Networks plc	4"-5"	1,821.5	115,400
Southern Gas Networks plc	6"-7"	794.0	168,043
Southern Gas Networks plc	8"	310.4	251,642

Licensee	Diameter band of decommissioned pipe	Baseline Activity Volumes of Tier 1 Mains Decommissioned (km)	Allowed Unit Cost (£/km)
Wales & West Utilities Ltd	≤3"	19.0	87,914
Wales & West Utilities Ltd	4"-5"	797.8	97,318
Wales & West Utilities Ltd	6"-7"	494.3	141,713

### Appendix 3

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

<u>GDN Distribution Network</u>	<u>21/22</u> <u>26</u> <u>/27</u>	<u>22/23</u> <u>27</u> <u>/28</u>	<u>23/24</u> <u>28</u> <u>/29</u>	<u>24/25</u> <u>29</u> <u>/30</u>	<u>25/26</u> <u>30</u> <u>/31</u>	<b>Total Value (all years)</b>
EoE	71.68 <del>93.</del> <del>01</del> 93.23	70.38 <del>93.</del> <del>74</del> 93.84	69.70 <del>97.</del> <del>25</del> 97.33	69.00 <del>100.</del> <del>50</del> 100.61	68.29 <del>104.</del> <del>63</del> 104.72	349.00 489.12 489.72
Lon	51.64 <del>75.</del> <del>04</del> 75.10	49.85 <del>82.</del> <del>62</del> 82.63	48.48 <del>88.</del> <del>91</del> 88.99	48.18 <del>97.</del> <del>14</del> 97.07	47.70 <del>104.</del> <del>41</del> 104.50	245.85 448.11 448.28
NW	59.27 <del>66.</del> <del>83</del> 68.39	57.57 <del>67.</del> <del>38</del> 69.04	56.34 <del>69.</del> <del>94</del> 71.65	55.89 <del>73.</del> <del>22</del> 75.01	55.46 <del>75.</del> <del>10</del> 76.93	284.5 352.47 361.02
WM	48.74 <del>54.</del> <del>12</del> 54.27	47.26 <del>56.</del> <del>65</del> 56.70	46.21 <del>57.</del> <del>45</del> 57.48	45.82 <del>59.</del> <del>55</del> 59.62	45.46 <del>64.</del> <del>33</del> 64.40	233.50 292.11 292.47
Northern Gas Networks Ltd	50.49 80.31 78.09	50.02 86.30 84.04	49.59 93.19 90.90	49.10 99.23 96.94	48.66 <del>105.</del> <del>35</del> 103.03	247.9 <del>464.</del> <del>38</del> 453.00
Scotland Gas Networks plc	32.86 <del>37.</del> <del>28</del> 37.07	32.96 <del>37.</del> <del>39</del> 37.18	32.50 <del>35.</del> <del>14</del> 34.94	32.32 <del>34.</del> <del>24</del> 34.04	32.64 <del>33.</del> <del>86</del> 33.66	163.29 177.91 176.88
Southern Gas Networks plc	87.53 <del>148.</del> <del>04</del> 148.10	87.88 <del>145.</del> <del>24</del> 144.60	87.01 <del>144.</del> <del>64</del> 144.06	86.49 <del>140.</del> <del>84</del> 140.24	86 <del>139.46</del> <del>138.82</del>	435.37 718.23 715.82
Wales & West Utilities Ltd	41.71 <del>76.</del> <del>45</del> 80.55	41.24 <del>73.</del> <del>92</del> 77.91	41.16 <del>73.</del> <del>11</del> 76.98	39.22 <del>73.</del> <del>01</del> 76.92	40.56 <del>70.</del> <del>14</del> 73.88	203.88 366.64 386.24

### 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  $T1SR_t$  will be derived in accordance with the following formula:

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

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;
- $FVM$  means the Funded Volume Multiplier, derived in accordance with paragraph 3.11.4;
- $BV_i$  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.

~~3.11.4 The value of FVM is derived in accordance with the following formula:~~

$$FVM = \min \left( \left( \frac{\sum_t BV_t}{\sum_t DV_t} \times 1.1 \right), 1 \right)$$

~~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; and~~
- ~~$BV_i$  means the Baseline Activity Volume Of Tier 1 Services Repex within the relevant Tier 1 Services Repex Workload Activity, as set out in Appendix 1.~~

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

~~3.11.5~~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

~~3.11.6~~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

<del>GDND</del> <u>Distribution Network</u>	Volume (no. interventions)
EoE	241,930 <del>227,686</del> 229,963
Lon	185,295 <del>166,687</del>
NW	195,011 <del>143,874</del> 145,313
WM	157,646 <del>127,433</del> 128,707
Northern Gas Networks Ltd	147,469 <del>158,893</del>
Scotland Gas Networks plc	80,430 <del>76,325</del>
Southern Gas Networks plc	269,929 <del>262,400</del>
Wales & West Utilities Ltd	118,603 <del>122,984</del>

### Appendix 2

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

<del>Licensee</del> <u>Distribution Network</u>	Type of service intervention	Baseline Activity Volume of Tier 1 Services (no. interventions)	Allowed Unit Cost (£/intervention)
EoE	Relay	115,293 <del>138,372</del> 139,756	812[REDACTED]
EoE	Test & Transfer	126,636 <del>89,314</del> 90,207	512[REDACTED]
Lon	Relay	138,138 <del>124,265</del>	868[REDACTED]
Lon	Test & Transfer	47,158 <del>42,422</del>	547[REDACTED]
NW	Relay	128,774 <del>96,569</del> 97,534	542[REDACTED]
NW	Test & Transfer	66,237 <del>47,306</del> 47,779	341[REDACTED]
WM	Relay	103,826 <del>84,424</del> 85,269	556[REDACTED]
WM	Test & Transfer	53,820 <del>43,009</del> 43,439	350[REDACTED]

<u>Licensee Distribution Network</u>	<b>Type of service intervention</b>	<b>Baseline Activity Volume of Tier 1 Services (no. interventions)</b>	<b>Allowed Unit Cost (£/intervention)</b>
Northern Gas Networks Ltd	Relay	<del>88,481</del> <u>93,213</u>	<del>361</del> <u>[REDACTED]</u>
Northern Gas Networks Ltd	Test & Transfer	<del>58,988</del> <u>65,679</u>	<del>227</del> <u>[REDACTED]</u>
Scotland Gas Networks plc	Relay	<del>31,130</del> <u>38,926</u>	<del>913</del> <u>[REDACTED]</u>
Scotland Gas Networks plc	Test & Transfer	<del>49,300</del> <u>37,399</u>	<del>575</del> <u>[REDACTED]</u>
Southern Gas Networks plc	Relay	<del>179,836</del> <u>173,208</u>	<del>778</del> <u>[REDACTED]</u>
Southern Gas Networks plc	Test & Transfer	<del>90,093</del> <u>89,192</u>	<del>490</del> <u>[REDACTED]</u>
Wales & West Utilities Ltd	Relay	<del>59,302</del> <u>61,492</u>	<del>522</del> <u>[REDACTED]</u>
Wales & West Utilities Ltd	Test & Transfer	<del>59,302</del> <u>61,492</u>	<del>329</del> <u>[REDACTED]</u>

### Appendix 3

### Appendix 4

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

GDN	21/22	22/23	23/24	24/25	25/26	Total Value (all years)
EoE	32.27	31.93	31.69	31.34	31.01	158.3
Lon	30.60	29.63	28.77	28.52	28.21	145.74
NW	19.27	18.70	18.25	18.08	17.93	92.20
WM	16.00	15.52	15.14	15.00	14.87	76.50
Northern Gas Networks Ltd	9.12	9.04	8.96	8.87	8.79	44.8
Scotland Gas Networks plc	11.42	11.48	11.30	11.26	11.31	56.8
Southern Gas Networks plc	37.21	37.21	36.73	36.41	36.46	184.03
Wales & West Utilities Ltd	11.26	10.06	9.34	10.00	9.80	50.47

#### Special Condition 3.12 Capital projects Price Control Deliverables (CAP<sub>t</sub>)

<u>Distribution Network</u>	<u>26/27</u>	<u>27/28</u>	<u>28/29</u>	<u>29/30</u>	<u>30/31</u>	<u>Total Value (all years)</u>
<u>EoE</u>	<u>55.54</u> <u>55.67</u>	<u>58.48</u> <u>58.55</u>	<u>52.14</u> <u>52.18</u>	<u>48.00</u> <u>48.05</u>	<u>40.89</u> <u>40.93</u>	<u>255.05</u> <u>255.37</u>

<u>Distribution Network</u>	<u>26/27</u>	<u>27/28</u>	<u>28/29</u>	<u>29/30</u>	<u>30/31</u>	<u>Total Value (all years)</u>
<u>Lon</u>	<u>44.96</u> <u>44.99</u>	<u>46.00</u>	<u>45.30</u> <u>45.34</u>	<u>45.63</u> <u>45.60</u>	<u>45.83</u> <u>45.87</u>	<u>227.71</u> <u>227.80</u>
<u>NW</u>	<u>31.03</u> <u>31.76</u>	<u>28.99</u> <u>29.70</u>	<u>25.74</u> <u>26.36</u>	<u>23.09</u> <u>23.65</u>	<u>18.78</u> <u>19.24</u>	<u>127.63</u> <u>130.72</u>
<u>WM</u>	<u>28.92</u> <u>29.00</u>	<u>28.31</u> <u>28.33</u>	<u>26.94</u> <u>26.96</u>	<u>23.32</u> <u>23.35</u>	<u>19.21</u> <u>19.23</u>	<u>126.70</u> <u>126.86</u>
<u>Northern Gas Networks Ltd</u>	<u>16.15</u> <u>15.70</u>	<u>17.71</u> <u>17.24</u>	<u>19.45</u> <u>18.97</u>	<u>20.98</u> <u>20.50</u>	<u>22.61</u> <u>22.11</u>	<u>96.90</u> <u>94.53</u>
<u>Scotland Gas Networks plc</u>	<u>12.46</u> <u>12.39</u>	<u>12.50</u> <u>12.43</u>	<u>11.75</u> <u>11.68</u>	<u>11.44</u> <u>11.38</u>	<u>11.32</u> <u>11.25</u>	<u>59.46</u> <u>59.12</u>
<u>Southern Gas Networks plc</u>	<u>43.18</u> <u>43.20</u>	<u>42.36</u> <u>42.18</u>	<u>42.19</u> <u>42.02</u>	<u>41.08</u> <u>40.91</u>	<u>40.68</u> <u>40.49</u>	<u>209.49</u> <u>208.79</u>
<u>Wales &amp; West Utilities Ltd</u>	<u>24.10</u> <u>25.40</u>	<u>26.48</u> <u>27.90</u>	<u>23.75</u> <u>25.01</u>	<u>23.75</u> <u>25.02</u>	<u>27.10</u> <u>28.54</u>	<u>125.18</u> <u>131.87</u>

## Introduction

~~3.12.11.1.1~~ The purpose of this condition is to calculate the term  $CAP_t$  (the capital projects Price Control Deliverable term). ~~This contributes to the calculation of the Totex Allowance.~~

3.12.2 The effect of this condition is to:

~~(a) specify the outputs, delivery dates and associated allowances for the Price Control Deliverables; and~~

~~(b)(a) provide for an assessment of the Price Control Deliverable at the end of the Price Control Period.~~

3.12.3 This condition also explains the process the Authority will follow when assessing the Price Control Deliverable.

## Part A: Formula for calculating the capital projects Price Control Deliverable term ( $CAP_t$ )

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

$$CAP_t = CAPA_t - CAPR_t$$

— where:

$CAPA_t$  means the allowances in Appendix 1 that relate to the licensee; and

$CAPR_t$  has the value zero unless otherwise directed by the Authority in accordance with Part C.

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

~~3.12.5 Appendix 1 specifies the outputs that the licensee is funded to deliver, the delivery dates for those outputs and the allowances provided.~~

**~~Part C: Assessment of the Price Control Deliverable ( $CAPR_t$ )~~**

~~3.12.6 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  $CAPR_t$  where the licensee has not Fully Delivered an output in Appendix 1.~~

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

~~3.12.7 1.1.1 Before making a direction under paragraph 3.12.6 the Authority will publish on the Authority's Website:~~

- ~~(a) the text of the proposed direction;~~
- ~~(b)(a) 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.~~

~~3.12.8 The direction will set out:~~

- ~~(a) the delivery status of the output that has not been Fully Delivered;~~
- ~~(b) any adjustments due to the value of the  $CAPR_t$  term and the Regulatory Years to which that adjustment relates; and~~
- ~~(c) the methodology and data that has been used to decide the delivery status and value of any adjustments to the  $CAPR_t$  term.~~

**Appendix 1**

**Capital projects Price Control Deliverable – Cadent Gas Limited**

<b>GDN</b>	<b>Field</b>	<b>Description</b>
EoE, NW and WM	Project name	Capacity upgrades > 7bar
	Delivery date	31 March 2026
	Total allowance	£29.34m
	Outputs	Upsize the following 13 sites to meet peak 1-in-20 year demand: EoE: March, Maltby, Eye Green Offtake, West Winch Offtake, Teversham, Westfield. NW: Ashton Under Lyne, Thornton, Barrowford, Longridge Road, Hambleton PRI. WM: Dawley, Kinver.
EoE, Lon, NW and WM	Project name	Offtakes & PRS Metering

Delivery date	31 March 2026
Total allowance	£16.88m
Outputs	Replace the flow weighted average calorific value metering systems at the following offtake sites: EoE: Great Wilbraham, Matching Green, Sutton Bridge, Royston, Walesby, Bacton, Kirkstead, Brisley. Lon: Horndon, Dunstall Green Inter-LDZ. NW: Warburton, Partington, Ecclestone. WM: Alrewas (A), Leamington, Hydes Pastures Inter-LDZ, Atherstone Inter-LDZ, Rugby.

EoE	Project name	Lowestoft
	Delivery date	31 March 2026
	Total allowance	£2.25m
	Outputs	Replace interim PE pipes within the service tunnel at Lowestoft Harbour with a permanent 8" steel pipe.

**Capital projects Price Control Deliverable allowances by Regulatory Year (£m) – Cadent Gas Limited**

Project name	GDN	21/22	22/23	23/24	24/25	25/26	Total
Capacity upgrades > 7bar	EoE	1.49	4.85	2.24	0.00	0.97	9.56
	NW	1.13	5.49	4.78	3.20	0.00	14.60
	WM	3.16	0.00	0.40	1.61	0.00	5.18
Offtakes & PRS Metering	EoE	0.70	2.56	1.80	1.87	0.87	7.81
	Lon	0.00	0.08	1.06	0.88	0.02	2.03
	NW	0.12	0.94	0.95	0.71	0.03	2.75
	WM	0.19	1.55	1.04	0.81	0.69	4.29
Loewstoft	EoE	2.25	0.00	0.00	0.00	0.00	2.25

**Capital projects Price Control Deliverable – Northern Gas Networks Limited**

GDN	Field	Description
Northern Gas Networks Ltd	Project name	TransPennine
	Delivery date	31 March 2026
	Total allowance	£19.14m
	Outputs	Carry out diversionary works required for the TransPennine electrification upgrade scheme for Ridge Road overcrossing, Dewsbury 17bar overcrossing, Austhorpe Lane overcrossing, and distribution crossings (intermediate, medium and low pressure).

Northern Gas Networks Ltd	Project name	Overcrossings
	Delivery date	31 March 2026
	Total allowance	£8.14m
	Outputs	Remediate 45 overcrossings known to have extreme deterioration in asset condition, and carry out security upgrades at 63 overcrossings.

**Capital projects Price Control Deliverable allowances by Regulatory Year (£m) – Northern Gas Networks Limited**

Project name	GDN	21/22	22/23	23/24	24/25	25/26	Total
TransPennine	Northern Gas Networks Ltd	2.37	5.42	6.76	3.71	0.87	19.14
Overcrossings	Northern Gas Networks Ltd	1.52	1.57	1.47	1.83	1.75	8.14

**Capital projects Price Control Deliverable – Scotland Gas Networks plc and Southern Gas Networks plc**

GDN	Field	Description
Scotland Gas Networks plc	Project name	R02 Dunkeld
	Delivery date	31 March 2026
	Total allowance	£23.11m
	Outputs	Construct a new pressure reduction station at Dunkeld and a new IP main from the pressure reduction station to the outlet of Logierait PRS. Abandon the elements of the existing steel HP pipeline with compromised integrity from Dunkeld to Logierait and install a new district governor to receive gas from the new IP pipeline.
Scotland Gas Networks plc	Project name	T8: Pitcairngreen to Huntingtower – R04 and R05
	Delivery date	31 March 2026
	Total allowance	£6.61m
	Outputs	Reinforce the Pitcairngreen to Huntingtower pipeline (supplying Huntingtower PRS) by installing a new pipeline and facilities to allow Inline Inspection of the new pipeline.



Scotland Gas Networks plc and Southern Gas Networks plc	Project name	E&I Upgrade Programme
	Delivery date	31 March 2026
	Total allowance	£7.38m
	Outputs	The full, or partial, upgrade of the required electrical, instrumentation and control assets at offtakes and PRS sites: Offtake sites Scotland Gas Networks plc: 5 Sites Southern Gas Networks plc: 2 Sites PRS sites Scotland Gas Networks plc: 4 Sites Southern Gas Networks plc: 23 Sites
Scotland Gas Networks plc	Project name	Newton Mearns and Waterfoot PRS
	Delivery date	31 March 2026
	Total allowance	£8.34m
	Outputs	Decommission the existing Newton Mearns PRS and Waterfoot PRS. Construct a new PRS and new outlet pipework to connect the Newton Mearns Grid and Waterfoot Grid.
Scotland Gas Networks plc	Project name	Provan PRS
	Delivery date	31 March 2026
	Total allowance	£13.63m
	Outputs	Full site rebuild of Provan PRS (Beardmores and City), replace above ground pipework (HP, MP, and Local MP) with buried pipelines, and install facilities to allow Inline Inspection of the new pipeline.
Southern Gas Networks plc	Project name	Mappowder
	Delivery date	31 March 2026
	Total allowance	£5.10m
	Outputs	Replace the pre-heating system and pressure control system at Mappowder NTS offtake.
Southern Gas Networks plc	Project name	Winkfield Offtake – System 1 (South East)
	Delivery date	31 March 2026
	Total allowance	£7.76m
	Outputs	Replace the PRS pre-heating system and pressure control systems including the two stream slam shut valves on the Winkfield South East LDZ Offtake site.

Southern Gas Networks plc	Project name	Winkfield Offtake – System 2 (South)
	Delivery date	31 March 2026
	Total allowance	£7.32m
	Outputs	Replace the PRS pre-heating system and pressure control systems including the two stream slam shut valves on the Winkfield South LDZ Offtake site.
Southern Gas Networks plc	Project name	[REDACTED]
	Delivery date	31 March 2026
	Total allowance	£4.81m
	Outputs	Decommission a 434m section of 12” steel intermediate pressure main located within the bridge structure and service tunnel. The existing main will be replaced with a suitable and fit for purpose alternative.

**Capital projects Price Control Deliverable allowances by Regulatory Year (£m) – Scotland Gas Networks plc**

Project name	GDN	21/22	22/23	23/24	24/25	25/26	Total
R02 Dunkeld	Scotland Gas Networks plc	0.66	4.67	8.41	9.38	0.00	23.11
T8: Pitcairngreen to Huntingtower – R04 and R05	Scotland Gas Networks plc	2.05	3.93	0.63	0.00	0.00	6.61
E&I Upgrade Programme	Scotland Gas Networks plc	0.44	0.41	0.41	0.44	0.47	2.17
Newton Mearns and Waterfoot PRS	Scotland Gas Networks plc	0.00	0.00	0.75	2.11	5.48	8.34
Provan PRS	Scotland Gas Networks plc	0.00	3.96	7.98	1.70	0.00	13.63

**Capital projects Price Control Deliverable allowances by Regulatory Year (£m) –  
Southern Gas Networks plc**

<b>Project name</b>	<b>GDN</b>	<b>21/22</b>	<b>22/23</b>	<b>23/24</b>	<b>24/25</b>	<b>25/26</b>	<b>Total</b>
E&I Upgrade Programme	Southern Gas Networks plc	1.08	1.00	1.01	1.01	1.11	5.21
Mappowder	Southern Gas Networks plc	0.22	0.36	1.52	2.79	0.21	5.10
Winkfield Offtake-System 1 (South East)	Southern Gas Networks plc	0.31	1.72	4.63	1.10	0.00	7.76
Winkfield Offtake-System 2 (South)	Southern Gas Networks plc	0.31	1.72	2.31	2.60	0.38	7.32
[REDACTED]	Southern Gas Networks plc						4.81
		4.81	0.00	0.00	0.00	0.00	

**Capital projects Price Control Deliverable – Wales & West Utilities Limited**

<b>GDN</b>	<b>Field</b>	<b>Description</b>
Wales & West Utilities Ltd	Project name	HN039 LTS Pipeline Replacement
	Delivery date	31 March 2026
	Total allowance	£13.02m
	Outputs	Replace 13km of the HN039 pipeline to meet the latest IGEM/TD/1 standards.

**Capital projects Price Control Deliverable allowances by Regulatory Year (£m) –  
Wales & West Utilities Limited**

<b>Project name</b>	<b>GDN</b>	<b>21/22</b>	<b>22/23</b>	<b>23/24</b>	<b>24/25</b>	<b>25/26</b>	<b>Total</b>
HN039 LTS Pipeline Replacement	Wales & West Utilities Ltd	2.40	9.30	1.32	0.00	0.00	13.02

## **Special Condition 3.13 Commercial fleet Price Control Deliverable (OTC<sub>t</sub>)**

### **Introduction**

~~3.13.11.1.1~~ The purpose of this condition is to calculate the term OTC<sub>t</sub> (the commercial fleet Price Control Deliverable term). ~~This contributes to the calculation of the Totex Allowance.~~

3.13.2 This condition specifies the allowances for the Price Control Deliverable and the reduction in allowances if the licensee does not deliver the number of units associated with each vehicle category.

### **Part A: Formula for calculating the commercial fleet Price Control Deliverable term (OTC<sub>t</sub>)**

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

$$OTC_{\text{t}} = OTCA_{\text{t}} - OTCR_{\text{t}}$$

—————where:

$OTCA_{\text{t}}$  means the allowances in Appendix 1 that relate to the licensee; and  
 $OTCR_{\text{t}}$  is zero unless after the Price Control Period the Authority directs that Part C applies.

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

3.13.4 The licensee is funded to the extent specified in Appendix 1 to deliver the outputs specified in Appendix 2 by 31 March 2026.

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

3.13.5 Where the Authority makes a direction under paragraph 3.13.3, the value of OTCR<sub>t</sub> will be derived in accordance with the following formula:

$$OTCR_{\text{t}} = \sum_{n=1}^6 \left( (OTT_{\text{n}} - OTD_{\text{n}}) \left( \frac{A_{\text{n}}}{10^6} \right) \right) \frac{OTCA_{\text{t}}}{\sum OTCA_{\text{t}}}$$

—————where:

$OTT_{\text{n}}$  means the number of units for vehicle category n allowed for in Appendix 2;

$OTD_{\text{n}}$  means the number of units for vehicle category n purchased on or after 1 April 2021;

$A_{\text{n}}$  means the unit cost allowance for vehicle category n, as set out in Appendix 2; and

—  $n$  means the vehicle category corresponding to the table in Appendix 2.

## Appendix 1

### Commercial fleet allowances (OTCA<sub>t</sub>) by Regulatory Year (£m)

Network	21/2 2	22/2 3	23/2 4	24/2 5	25/2 6	Total Allowance
EoE	0.42	0.32	1.58	1.57	1.54	5.43
Lon	0.28	0.21	1.06	1.05	1.03	3.64
NW	0.29	0.22	1.10	1.09	1.07	3.77
WM	0.2	0.15	0.77	0.76	0.75	2.63
Northern Gas Networks Ltd	0.95	0.83	0.29	0.07	0.08	2.23
Scotland Gas Networks plc	0.63	0.87	1.03	0.53	0.91	3.97
Southern Gas Networks plc	1.03	1.42	1.68	0.87	1.48	6.49
Wales & West Utilities Ltd	0.22	0.08	0.29	1.28	0.74	2.60

## Appendix 2

### Commercial fleet volumes and unit costs

Network	Vehicle category (n)	Number of units (OTT)	Unit Cost (£)
EoE	4x4	0	9,567
	Small Van	0	7,798
	Medium Van	0	9,358
	Large Van	351	13,551
	Support Van	0	11,289
	Electric vehicle charging point	141	4,783
Lon	4x4	0	9,577
	Small Van	0	7,806
	Medium Van	0	9,368
	Large Van	235	13,564
	Support Van	0	11,300
	Electric vehicle charging point	95	4,788
NW	4x4	0	9,580
	Small Van	0	7,809
	Medium Van	0	9,372
	Large Van	243	13,570
	Support Van	0	11,305
	Electric vehicle charging point	98	4,790
WM	4x4	0	9,577
	Small Van	0	7,807
	Medium Van	0	9,369
	Large Van	170	13,566
	Support Van	0	11,301

Northern Gas Networks Ltd	Electric vehicle charging point	68	4,789
	4x4	0	9,728
	Small Van	30	7,930
	Medium Van	116	9,516
	Large Van	0	13,799
Scotland Gas Networks plc	Support Van	0	11,479
	Electric vehicle charging point	182	4,864
	4x4	7	9,620
	Small Van	19	7,841
	Medium Van	78	9,410
Southern Gas Networks plc	Large Van	135	13,626
	Support Van	47	11,351
	Electric vehicle charging point	135	4,810
	4x4	11	9,620
	Small Van	31	7,841
Wales & West Utilities Ltd	Medium Van	128	9,410
	Large Van	221	13,625
	Support Van	76	11,351
	Electric vehicle charging point	220	4,810
	4x4	5	9,546
	Small Van	33	7,781
	Medium Van	150	9,338
	Large Van	0	13,521
	Support Van	0	11,264
	Electric vehicle charging point	188	4,773

### **Special Condition 3.14 Fuel Poor Network Extension Scheme volume driver (FPA<sub>t</sub>)**

#### **Introduction**

~~3.14.11.1.1~~ The purpose of this condition is to calculate the term FPA<sub>t</sub> (the FPNES adjustment term). This contributes to the calculation of the Totex Allowance.

3.14.2 The effect of this condition is to adjust revenue to fund the licensee for connections made under the FPNES.

### **Part A: Formula for calculating the FPNES adjustment term ( $FPA_t$ )**

3.14.3 For any Regulatory Year where the Fuel Poor Network Extension Scheme was open at any point during that year, the value of  $FPA_t$  is derived in accordance with the following formula:

$$FPA_t = \min((DC \times (V/10^6)), (C \times V/10^6)) \cdot \frac{DC_t}{DC} - FPM_t$$

where:

- $C$  means the maximum number of Delivered FPNES Connections the licensee may complete within the Price Control Period as set out in Appendix 2;
- $DC$  means the number of Delivered FPNES Connections while the Fuel Poor Network Extension Scheme is open;
- $DC_t$  means the number of Delivered FPNES Connections in Regulatory Year  $t$ ;
- $V$  means the Fuel Poor Individual Connection Cost as set out in Appendix 3; and
- $FPM_t$  has the value zero unless otherwise directed by the Authority in accordance with Part B.

### **Part B: Closing the scheme**

3.14.4 The Authority will close the FPNES by direction if changes in government policy lead the Authority to the conclusion that the closure of the FPNES is appropriate in the circumstances.

3.14.5 Before issuing a direction, the Authority will publish a notice setting out:

- (a) the changes in government policy that it considers have made the FPNES redundant;
- (b) the date by which the licensee must complete all planned connections under the FPNES;
- (c) the resultant changes to the licensee's RHO GD2 FPNES Connection Target set out in Appendix 1;
- (d) a value for  $FPM_t$ , if appropriate, to adjust the allowances for mains work associated with FPNES Connections;
- (e) the date of the planned closure, which will be not less than 30 days after the date of publication of the notice; and
- (f) a period during which representations may be made on the notice, which will not be less than 15 days.

## **Part C: FPNES Governance Document**

- ~~3.14.6—The licensee must comply with the FPNES Governance Document for the administration and delivery of the FPNES.~~
- ~~3.14.7—The Authority will issue and amend the FPNES Governance Document by direction.~~
- ~~3.14.8—The Authority will publish the FPNES Governance Document on the Authority's Website.~~
- ~~3.14.9—The FPNES Governance Document will make provision about:~~
- ~~(a) the eligibility criteria which FPNES Connections must meet; and~~
  - ~~(b) requirements the licensee must adhere to in relation to the administration and delivery of the FPNES.~~
- ~~3.14.10—Before issuing the FPNES Governance Document by direction, the Authority will publish on the Authority's Website:~~
- ~~(a) the text of the proposed FPNES Governance Document;~~
  - ~~(b) the date on which the Authority intends the FPNES Governance Document to come into effect; and~~
  - ~~(c) a period during which representations may be made on the content of the FPNES Governance Document, which will not be less than 28 days.~~
- ~~3.14.11—Before amending the FPNES Governance Document by direction, the Authority will publish on the Authority's Website:~~
- ~~(a) the text of the amended FPNES Governance Document;~~
  - ~~(b) the date on which the Authority intends the amended FPNES Governance Document to come into effect;~~
  - ~~(c) the reasons for the amendments to the FPNES Governance Document; and~~
  - ~~(d) a period during which representations may be made on the amendments to the FPNES Governance Document, which will not be less than 28 days.~~

## **Appendix 1**

### **RHO-GD2 FPNES Connection Target Between 1 April 2021 and 31 March 2026**

<b>Distribution Network</b>	<b>FPNES Connection Target</b>
EoE	2,050
Lon	500
NW	2,250
WM	1,450
Northern Gas Networks Ltd	5,000
Scotland Gas Networks plc	13,000
Southern Gas Networks plc	5,000
Wales & West Utilities Ltd	2,500



## **Appendix 1**

### **Maximum number of Delivered FPNES Connections Between 1 April 2021 and 31 March 2026**

<b>Distribution Network</b>	<b>Maximum number of Delivered FPNES Connections</b>
EoE	2,446
Lon	639
NW	1,909
WM	2,003
Northern Gas Networks Ltd	2,154
Scotland Gas Networks plc	3,227
Southern Gas Networks plc	1,199
Wales & West Utilities Ltd	2,181

## **Appendix 2**

<b>Fuel Poor Individual Connection Cost (£)</b>	<b>£</b>
<b>Distribution Network</b>	
EoE	2,253
Lon	2,352
NW	2,594
WM	2,539
Northern Gas Networks Ltd	2,019
Scotland Gas Networks plc	1,434
Southern Gas Networks plc	1,520
Wales & West Utilities Ltd	2,123

### **Special Condition 3.15 Domestic Connections volume driver (CA<sub>t</sub>)**

#### **Introduction**

~~3.15.11.1.1~~ The purpose of this condition is to calculate the term CA<sub>t</sub> (the Domestic Connections volume driver term). This contributes to the calculation of the Totex Allowance.

3.15.2 The effect of this condition is to adjust revenue to fund the licensee for the non-recoverable cost of Domestic Connections.

#### **Part A: Formula for calculating the Domestic Connections volume driver term (CA<sub>t</sub>)**

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

$$CA_t = VC_t \cdot UC \cdot 10^{-6} + VM_t \cdot UM \cdot 10^{-6}$$

where:

$VC_t$	means the number of Domestic Connections the licensee has delivered to new and existing housing;
$VM_t$	means the length of Mains Commissioned in kilometres across all diameter bands delivered to new and existing housing;
UC	means the specific matrix cost for Domestic Connections, where the unit cost relates to the non-recoverable cost, delivered as set out in the relevant table in Appendix 1; and
UM	means the specific matrix cost for Mains Commissioned, where the unit cost relates to the non-recoverable cost, as set out in the relevant table in Appendix 1.

## Appendix 1

### ~~Distribution Network specific matrix costs: Distribution Network: EoE~~

#### ~~Specific matrix costs~~

~~Unit of deliverable~~

<del>UC (£/service connection)</del>	<del>1,106</del>
<del>UM (£/km commissioned)</del>	<del>82,717</del>

### ~~Distribution Network specific matrix costs: Distribution Network: Lon~~

#### ~~Specific matrix costs~~

~~Unit of deliverable~~

<del>UC (£/service connection)</del>	<del>1,601</del>
<del>UM (£/km commissioned)</del>	<del>355,280</del>

### ~~Distribution Network specific matrix costs: Distribution Network: NW~~

#### ~~Specific matrix costs~~

~~Unit of deliverable~~

<del>UC (£/service connection)</del>	<del>1,464</del>
<del>UM (£/km commissioned)</del>	<del>80,779</del>

### ~~Distribution Network specific matrix costs: Distribution Network: WM~~

#### ~~Specific matrix costs~~

~~Unit of deliverable~~

<del>UC (£/service connection)</del>	<del>1,729</del>
<del>UM (£/km commissioned)</del>	<del>50,022</del>

**~~Distribution Network specific matrix costs: Distribution Network: Northern Gas Networks Limited~~**

**Specific matrix costs**

Unit of deliverable

UC (£/service connection)	746
UM (£/km commissioned)	33,275

**~~Distribution Network specific matrix costs: Distribution Network: Scotland Gas Networks plc~~**

**Specific matrix costs**

Unit of deliverable

UC (£/service connection)	516
UM (£/km commissioned)	26,287

**~~Distribution Network specific matrix costs: Distribution Network: Southern Gas Networks plc~~**

**Specific matrix costs**

Unit of deliverable

UC (£/service connection)	597
UM (£/km commissioned)	36,283

**~~Distribution Network specific matrix costs: Distribution Network: Wales & West Utilities Limited~~**

**Specific matrix costs**

Unit of deliverable

UC (£/service connection)	859
UM (£/km commissioned)	61,411

**~~Special Condition 3.16~~Special Condition 3.12 Tier 2A mains and services replacement volume driver (RE<sub>t</sub>)**

**Introduction**

~~3.16.13.12.1~~3.12.12.1 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.

~~3.16.23.12.2~~3.12.12.2 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

3.16.33.12.3 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<sub>n,t</sub>* 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 defined as set out prescribed in the following table, except that any diameter of mains not covered 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 <u>to</u> <10
2	>= <u>10</u> <= <u>12</u>
3	>12 <u>to</u> <18; and

; and

*U<sub>n,t</sub>* 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 by Regulatory Year: Distribution Network: EoE**

Diameter band n	2021/22	2022/23	2023/24	2024/25	2025/26
1	124,266	124,266	124,266	124,266	124,266
2	258,233	258,233	258,233	258,233	258,233
3	441,839	441,839	441,839	441,839	441,839

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

Diameter band n	2021/22	2022/23	2023/24	2024/25	2025/26
1	141,293	141,293	141,293	141,293	141,293
2	293,615	293,615	293,615	293,615	293,615
3	502,377	502,377	502,377	502,377	502,377

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

Diameter band n	2021/22	2022/23	2023/24	2024/25	2025/26
1	137,603	137,603	137,603	137,603	137,603
2	285,948	285,948	285,948	285,948	285,948
3	489,259	489,259	489,259	489,259	489,259

**Appendix 1**

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

Diameter band n	2021/22 <u>2026/27</u>	2022/23 <u>2027/28</u>	2023/24 <u>2028/29</u>	2024/25 <u>2029/30</u>	2025/26 <u>2030/31</u>
1	155,779[REDACTED]	155,779[REDACTED]	155,779[REDACTED]	155,779[REDACTED]	155,779[REDACTED]
2	323,719[REDACTED]	323,719[REDACTED]	323,719[REDACTED]	323,719[REDACTED]	323,719[REDACTED]
3	553,885[REDACTED]	553,885[REDACTED]	553,885[REDACTED]	553,885[REDACTED]	553,885[REDACTED]

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

Diameter band n	2021/22	2022/23	2023/24	2024/25	2025/26
1	174,088	174,088	174,088	174,088	174,088
2	361,765	361,765	361,765	361,765	361,765
3	618,983	618,983	618,983	618,983	618,983

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

Diameter band n	2021/22	2022/23	2023/24	2024/25	2025/26
1	134,180	134,180	134,180	134,180	134,180
2	278,834	278,834	278,834	278,834	278,834
3	477,087	477,087	477,087	477,087	477,087

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

Diameter band n	2021/22	2022/23	2023/24	2024/25	2025/26
1	143,451	143,451	143,451	143,451	143,451
2	298,101	298,101	298,101	298,101	298,101
3	510,053	510,053	510,053	510,053	510,053

**Distribution Network specific matrix costs (£ per kilometre mains decommissioned including associated service interventions) for Above Risk Action Threshold Tier 2 Mains by Regulatory Year: Distribution Network: Wales & West Utilities Limited**

Diameter band n	2021/22	2022/23	2023/24	2024/25	2025/26
1	107,746	107,746	107,746	107,746	107,746
2	223,904	223,904	223,904	223,904	223,904
3	383,101	383,101	383,101	383,101	383,101

**Special Condition 3.17Special Condition 3.13 HSE policy Re-opener (REP<sub>t</sub>)**

**Introduction**

~~3.17.13.13.1~~ 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.

~~3.17.23.13.2~~ 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 Emergency And Repair Costs directly associated with statutory requirements relating to managing fatigue for shift workers

~~enforced~~programmes of work to remediate non-compliant Legacy  
~~SafetyGS(IU)R~~ Disconnections as determined in writing by the HSE.

~~3.17.33.13.3~~ 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**

#### **Part A: ~~Where paragraph 3.13.5 applies, What is the scope of this Re-opener?~~**

~~3.17.43.13.4~~ the licensee may apply to the Authority for a direction adjusting:

- (a) ~~the value of REP<sub>t</sub> 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); and~~
- (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).~~

~~3.17.53.13.5~~ This paragraph applies where there are:

- (a) ~~changes to a Repex Related HSE Policy Area that will materially impact Repex; or~~
- (b) ~~Emergency And Repair~~additional costs directly arising from statutory requirements relating changes to managing fatigue for shift workers  
~~enforced~~programmes of work to remediate non-compliant Legacy  
~~SafetyGS(IU)R~~ Disconnections as determined in writing by the HSE.

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

~~3.17.63.13.6~~ The licensee may only apply to the Authority for an adjustment under paragraph ~~3.17.4:13.4~~, relating to the condition in paragraph 3.13.5 part (a):

- (a) ~~Between 25 January 20221 October 2027 and 31 January 20227 October 2027;~~
- ~~(b)~~Between 25 January 20231 October 2029 and 31 January 2023;
- ~~(c)~~(b) Between 25 January 20247 October 2029; and 31 January 2024;
- ~~and~~
- ~~(d)~~(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

~~3.17.73.13.8~~ 3.17.13.4 An application under paragraph 3.1713.4 must be made in writing to the Authority and must:

~~(a) specify~~ provide:

~~(b) evidence of enforcement~~ 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;

~~(c) evidence of notice in writing from the HSE of a change in an Approved Programme; or~~

~~(d) evidence of agreement in writing from the HSE of changes or the statutory requirements relating to managing fatigue for shift workers to programmes of work to remediate non-compliant Legacy SafetyGS(IU)R Disconnections, to which the application relates;~~

~~(a)~~ (e) set out the proposed adjustments to the value of the REP<sub>t</sub> term that the licensee is requesting;

~~(b)~~ (f) set out any changes/adjustments to Special Condition 3.1, 3.10, 3.11 or 3.1119 that the licensee is requesting;

~~(c)~~ (g) explain the basis of the calculation for any proposed adjustments to the REP<sub>t</sub> term or any values in Special Conditions 3.1, 3.10, 3.11 or 3.1119;

~~(d)~~ (h) specify the Regulatory Years to which any adjustments proposed under sub-paragraph (b) or (c) relate; and

~~(e)~~ (i) include such detailed supporting evidence, including Cost-Benefit Analysis, impact assessments and engineering justification statements, as is reasonable in the circumstances.

~~3.17.83.13.9~~ 3.17.13.9 An application must:

~~(a) relate to changes to a Repex Related HSE Policy Area that came into effect Between 1 April 2020 and 31 March 2026, or Approved Programme which relates to Repex, or changes to programmes of work to remediate Legacy SafetyGS(IU)R 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 2021~~ 2026.

## Part D: Authority triggered re-opener

~~3.17.93.13.10~~ 3.17.13.10 The Authority ~~will also consider directing~~ may direct an adjustment to the value of the REP<sub>t</sub> term or Special Conditions 3.1, 3.10, 3.11 or 3.1119 where it considers that there have been changes to ~~any~~ a Repex Related HSE Policy Area or the licensee's Approved Programme that materially impact Repex ~~or~~



changes to Emergency And Repair Costs directly arising from statutory requirements relating to managing fatigue for shift workers, that are enforced by the HSE, that:

- (a) have come into effect Between 1 April 2020 and 31 March 2026; 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 2021/2026.

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

~~3.17.10~~3.13.11 Before making a direction under paragraph 3.1713.4 or ~~3.17.8~~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 not be less than 28 days **up to 28 days unless the Authority determines that a longer period is appropriate.**

~~3.17.11~~3.13.12 The direction will set out:

- (a) any adjustments to the value of the REP<sub>t</sub> term;
- (b) any amendments to Special Conditions 3.1, 3.10, 3.11 and 3.41/19; and
- (c) the Regulatory Years to which any adjustments to allowances made under sub-paragraphs (a) and (b) relate.

### **Special Condition ~~3.18~~ Tier 1 Stubs Repex policy Re-opener (STUB<sub>t</sub>)**

#### **Introduction**

~~3.28.1~~ The purpose of this condition is to calculate the term STUB<sub>t</sub> (the Tier 1 Stubs Re-opener term). ~~This contributes to the calculation of the Totex Allowance.~~

~~3.18.11.1.1~~ 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 decommissioning of Tier 1 Stubs during the Price Control Period.

~~3.18.21.1.1~~ 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?**

3.18.3 The licensee may apply to the Authority for a direction:

- (a) adjusting the value of the STUB<sub>t</sub> term;
- (b) amending the values in Special Condition 3.10 (Tier 1 Mains decommissioned Price Control Deliverable); or

~~(c) amending the values in Special Condition 3.11 (Tier 1 Services Repex Price Control Deliverable)~~

for any Regulatory Year during the Price Control Period where the licensee incurs costs relating to the decommissioning of Tier 1 Stubs, 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**

3.18.4—The licensee may only apply to the Authority for an adjustment under paragraph 3.18.4:

~~(a) Between 25 January 2023 and 31 January 2023; and~~

~~(b) during such later periods as the Authority may direct.~~

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

3.18.5—An application under paragraph 3.18.4 must be made in writing to the Authority and must:

~~(a) specify the additional costs relating to the decommissioning of Tier 1 Stubs;~~

~~(b)(a) — give justification for the needs case of the proposal;~~

~~(c) give engineering and cost justifications for the set of technical solutions for replacing Tier 1 Stubs;~~

~~(d)(a) — 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)(a) — set out a proposed project timeline for replacing the volumes proposed in the application;~~

~~(f) set out any amendments to the outputs, delivery dates or allowances in the Special Condition 3.10 or 3.11 that the licensee is requesting;~~

~~(g) set out the adjustments to the value of the STUB<sub>t</sub> term that the licensee is requesting, and the Regulatory Years to which that adjustment relates;~~

~~(h) explain the basis of the calculation for the proposed adjustments to the STUB<sub>t</sub> term or the allowances in the Special Condition 3.10 or 3.11; and~~

~~(i) include such detailed supporting evidence including cost benefit analysis, impact assessments and engineering justification statements, as is reasonable in all the circumstances.~~

3.18.6—An application must:

~~(a) be confined to costs that are incurred or are expected to be incurred on or after 1 April 2021; and~~

~~(b)(a) — take account of any allowed expenditure which can be avoided as a result of the changes.~~

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

~~3.18.71.1.1~~ Before making a direction under paragraph 3.18.4, the Authority will publish on the Authority's Website:

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

~~3.18.81.1.1~~ The direction will set out:

- ~~(a) any adjustments to the value of the STUB<sub>t</sub> term;~~
- ~~(b) any amendments to Special Condition 3.10 or 3.11; and~~
- ~~(c) the Regulatory Years to which any adjustments to allowances under sub-paragraphs (a) and (b) relate.~~

## **~~Special Condition 3.19~~Special Condition 3.14 Heat policy and energy efficiency Re-opener (HPRA<sub>t</sub>)**

### **Introduction**

~~3.19.13.14.1~~ The purpose of this condition is to calculate the term HPRA<sub>t</sub> (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**

~~3.19.2~~ The effect of this condition is to establish a Re-opener triggered by either the licensee or the Authority where there have been changes to Heat Policy Areas that result in material changes to the cost of Licensed Activity.

~~3.19.3~~ 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 the Re-opener?~~**

~~3.19.4~~ The licensee may apply to the Authority for a direction to adjust the value of the HPRA<sub>t</sub> term and the outputs, delivery dates and allowances established by the special conditions of this licence for any Regulatory Year during the Price Control Period where there have been changes to Heat Policy Areas that affect its legal obligations as a licensee.

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

~~3.19.5~~ The licensee may only apply to the Authority for an adjustment under paragraph 3.19.4:

- ~~(a) Between 25 January 2022 and 31 January 2022;~~

- ~~(b) Between 25 January 2023 and 31 January 2023; and~~
- ~~(c) during such later periods as the Authority may direct.~~

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

3.19.6—An application under paragraph 3.19.4 must be made in writing to the Authority and include:

- ~~(a) the Heat Policy Areas and the consequent changes to the licensee's legal obligations to which the application relates;~~
- ~~(b) any amendments requested to the value of the HPRA<sub>t</sub> term and the outputs, delivery dates and allowances established by the special conditions of this licence;~~
- ~~(c) the Regulatory Years to which any adjustment to the HPRA<sub>t</sub> term or other allowances sought relates;~~
- ~~(d) the basis of the calculation for the proposed adjustments to the HPRA<sub>t</sub> term and other allowances; and~~
- ~~(e) such detailed supporting evidence, including cost benefit analysis, impact assessments and engineering justification statements, as is reasonable in the circumstances.~~

3.19.7—An application under paragraph 3.19.4 must:

- ~~(a) relate to changes to Heat Policy Areas that have come into effect on or after 1 April 2021;~~
- ~~(b) take account of any allowed expenditure, which can be avoided as a result of the changes;~~
- ~~(c) exceed the Materiality Threshold; and~~
- ~~(d) be confined to costs incurred or expected to be incurred on or after 1 April 2021.~~

**~~Part D: Part A: Authority triggered Re-opener~~**

3.19.83.14.3 The Authority will ~~also~~ consider directing an adjustment to the HPRA<sub>t</sub> term or the outputs, delivery dates or allowances established by the special conditions of this licence where there have been changes to **Heat Policy Areas that affect any Heat Policy Area that affects** the licensee's legal obligations as a licensee that:

- ~~(a) have come into effect on or after 1 April 2021~~2026;
- ~~(b) exceed the Materiality Threshold; and~~
- ~~(c) relate to costs incurred or expected to be incurred on or after 1 April 2021~~2026.

**~~Part E: Part B: What~~The process will the Authority follow infor making a direction?**

3.14.4 Before making a direction under paragraph 3.19.4 ~~or 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
- (d)(c) a period during which representations may be made on the proposed direction, which will ~~19.8, be~~ up to 28 days unless the Authority will publish on the Authority's Website: determines that a longer period is appropriate.
- ~~(e)(a) the text of the proposed direction;~~
- ~~(f)(a) the reasons for the proposed direction; and~~
- ~~(g) a period during which representations may be made on the proposed direction, which will not be less than 28 days.~~

~~3.19.93.14.5~~ 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 3.20~~Special Condition 3.15 Diversions and Loss of Development Claims ~~policy~~ Re-opener (DIV<sub>t</sub>)**

#### **Introduction**

#### **~~Introduction~~**

~~3.20.13.15.1~~ The purpose of this condition is to calculate the term DIV<sub>t</sub> (the Diversions ~~policy~~ and Loss of Development Claims Re-opener term). This contributes to the calculation of the Totex Allowance.

~~3.20.23.15.2~~ 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.

~~3.20.33.15.3~~ 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?**

~~3.20.43.15.4~~ The licensee may apply to the Authority for a direction adjusting the value of the DIV<sub>t</sub> 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

~~3.20.53.15.5~~ The licensee may only make an application under paragraph 3.2015.4 between ~~25 January 2024~~1 April 2028 and ~~31 January 2024~~7 April 2028, and during such later periods as the Authority may direct.

## ~~Part C: Part A: How to make an application~~

## Part C: How to make an application

~~3.20.63.15.6~~ An application under paragraph 3.2015.4 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<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 DIV<sub>t</sub> 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.

~~3.20.71.1.1~~ ~~An application under paragraph 3.20.4 must:~~

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 2021~~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?

~~3.20.83.15.8~~ Before making a direction under paragraph 3.20~~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~~
- ~~(a) a period during which representations may be made on the proposed direction, which will the text of the proposed direction;~~
- ~~(b)(a) 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.~~
- (c) be up to 28 days unless the Authority determines that a longer period is appropriate.

~~3.20.93.15.9~~ 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 ~~3.21~~ Multiple Occupancy Buildings safety Re-opener ( $MOBS_t$ )

### Introduction

~~3.21.1~~ The purpose of this condition is to calculate the term  $MOBS_t$  (the Multiple Occupancy Buildings safety Re-opener term). This contributes to the calculation of the Totex Allowance.

~~3.21.2~~ The effect of this condition is to establish a Re-opener triggered by the licensee where there have been changes to the Safety Requirements Relating To Multiple Occupancy Buildings and or the development of an Approved MOB Safety Works Programme, that result in material changes to the costs of carrying out Licensed Activity.

~~3.21.31.1.1~~ 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?

~~3.21.4~~ The licensee may apply to the Authority for a direction to adjust the value of the  $MOBS_t$  term for any Regulatory Year during the Price Control Period where there have been changes to:

- ~~(a) the Safety Requirements Relating To Multiple Occupancy Buildings that affect its legal obligations as a licensee; or~~
- ~~(b) an Approved MOB Safety Works Programme.~~

### ~~Part B:~~Part A: When to make an application

~~3.21.5~~ The licensee may only apply to the Authority for an adjustment under paragraph 3.21.4:

- ~~(a) Between 25 January 2023 and 31 January 2023;~~
- ~~(b) Between 25 January 2024 and 31 January 2024; and~~
- ~~(c) during such later periods as the Authority may direct.~~

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

3.21.6—An application under paragraph 3.21.4 must be made in writing to the Authority and must:

- ~~(a) specify the changes set out in paragraph 3.21.4 to which the application relates;~~
- ~~(b) set out the adjustments to the value of the MOBS<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 MOBS<sub>t</sub> term; and~~
- ~~(d) include such detailed supporting evidence, including cost benefit analysis, impact assessments and engineering justification statements, as is reasonable in the circumstances.~~

3.21.7—An application under paragraph 3.21.4(a) must:

- ~~(a) relate to changes that have come into effect on or after 1 April 2021;~~
- ~~(b) take account of any allowed expenditure, which can be avoided as a result of the change;~~
- ~~(c) request changes to allowances that exceed the Materiality Threshold; and~~
- ~~(d) be confined to costs incurred or expected to be incurred on or after 1 April 2021.~~

3.21.8—An application under paragraph 3.21.4(b) must:

- ~~(a) take account of any allowed expenditure, which can be avoided as a result of the change;~~
- ~~(b) request changes to allowances that exceed the Materiality Threshold; and~~
- ~~(c) be confined to costs incurred or expected to be incurred on or after 1 April 2021.~~

**~~Part D: What process will the Authority follow in directing changes to allowances?~~**

~~3.21.9 3.21.1.1—Before making a direction under paragraph 3.21.4 the Authority will publish on the Authority's Website:~~

- ~~(a) the text of the proposed direction;~~
- ~~(b)(a) 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.~~

3.21.10—The direction will set out any amendments to the value of the MOBS<sub>t</sub> term and the Regulatory Years to which that adjustment relates.



## **Special Condition 3.22Special Condition 3.16 New Large Load Connections Re-opener (NLLR<sub>t</sub>)**

### **Introduction**

~~3.22.13.16.1~~ 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.

~~3.22.23.16.2~~ The effect of this condition is to establish a Re-opener triggered by either the licensee ~~or the Authority~~ where connection of New Large Load Connections will trigger specific reinforcement expenditure that cannot be recovered through the Connection Charge.

~~3.22.33.16.3~~ This condition ~~also explains~~sets out the process the Authority will follow when directing any changes as a result of ~~the~~this Re-opener.

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

~~3.22.43.16.4~~ 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**

~~3.22.53.16.5~~ The licensee may only apply to the Authority for an adjustment under paragraph 3.2216.4 ~~Between 25 January 2024~~1 October 2028 and ~~31 January 2024~~7 October 2028, and during such later periods as the Authority may direct.

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

~~3.22.63.16.6~~ An application under paragraph 3.2216.4 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.

~~3.22.73.16.7~~ An application under paragraph 3.2216.4 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 2021/2026.

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

~~3.22.83.16.8~~ What process will the Authority follow in~~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

~~3.22.91.1.1~~ 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)(a) 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.~~
- (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.

~~3.22.103.16.9~~ 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 3.23 Smart Metering Roll-out Costs Re-opener (SMR<sub>t</sub>)**

#### **Introduction**

~~3.23.1~~ The purpose of this condition is to calculate the term SMR<sub>t</sub> (the Smart Metering Roll-out Costs Re-opener term). This contributes to the calculation of the Totex Allowance.

~~3.23.2~~ The effect of this condition is to establish a Re-opener, triggered by either the licensee or the Authority, where there are material additional Smart Metering Roll-out Costs.

~~3.23.3~~ 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?**

~~3.23.4~~ The licensee may apply to the Authority for a direction adjusting the value of the SMR<sub>t</sub> term for any Regulatory Year during the Price Control in relation to additional Smart Metering Roll-out Costs.

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

- ~~(b)(a) — The licensee may only apply to the Authority for an adjustment under paragraph 3.23.4 Between 25 January 2024 and 31 January 2024, and during such later periods as the Authority may direct.~~

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

3.23.5 — An application under paragraph 3.23.4 must be made in writing to the Authority and:

- ~~(a) set out the adjustments to the value of the SMR<sub>t</sub> term that the licensee is requesting and the Regulatory Years to which that adjustment relates;~~
- ~~(b) explain the basis of the licensee's calculation of the proposed adjustments to the value of the SMR<sub>t</sub> term; and~~
- ~~(c) include such detailed supporting evidence that the additional Smart Metering Roll-out Costs are efficient and unavoidable as is reasonable in the circumstances.~~

3.23.6 — An application under paragraph 3.23.4 must:

- ~~(a) be confined to additional Smart Metering Roll-out Costs that have been incurred or are expected to be incurred on or after 1 April 2021;~~
- ~~(b) take account of any allowed expenditure, which can be avoided as a result of these additional Smart Metering Roll-out Costs; and~~

## **~~Part D: Part A: relate to costs incurred or expected to be incurred that exceed or are expected to exceed the Materiality Threshold. What process will the Authority follow in making a direction?~~**

3.23.7 — Before making a direction under paragraph 3.23.4 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 not be less than 28 days.~~

3.23.8 — The direction will set out any adjustments to the value of the SMR<sub>t</sub> term and the Regulatory Years to which that adjustment relates.

## **Special Condition 3.24Special Condition 3.17 Specified Streetworks Costs Re-opener (STW<sub>t</sub>)**

### **Introduction**

~~3.24.13.17.1~~ 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.

~~3.24.23.17.2~~ 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.

~~3.24.33.17.3~~ 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?**

~~3.24.43.17.4~~ 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**

~~3.24.53.17.5~~ The licensee may only apply to the Authority for an adjustment under paragraph 3.24~~17.4~~ Between ~~25 January 2024~~1 April 2029 and ~~31 January 2024~~7 April 2029, and during such later periods as the Authority may direct.

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

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

~~3.24.63.17.6~~ An application under paragraph 3.24~~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.

~~3.24.73.17.7~~ An application under paragraph 3.24~~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 2021; 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
- ~~(a)(b)~~ take account of any allowed expenditure, which can be avoided as a result; and
- ~~(b)(c)~~ relate to costs incurred or expected to be incurred that exceed or are expected to exceed the Materiality Threshold.
- ~~(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

3.24.8 a period during which representations may be made on the proposed direction, which will 24.4be up to 28 days unless the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b)(a) 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 determines that a longer period is appropriate.

3.24.93.17.9 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 3.25 Not used~~**

**~~Special Condition 3.26 Not used~~**

**~~Special Condition 3.27 Not used~~**

**~~Special Condition 3.28 Not used~~**

**~~Special Condition 3.29 Remote pressure management Price Control Deliverable ( $RPM_t$ )~~**

**Special Condition 3.18 Safety Deconnections volume driver ( $GDVD_t$ )**

### Introduction

3.29.13.18.1 The purpose of this condition is to calculate the term  $RPM_tGDVD_t$  (the remote pressure management Price Control Deliverablesafety disconnections adjustment term). This contributes to the calculation of the Totex Allowance.

3.29.2—The effect of this condition is to:

~~(a) specify the outputs, delivery dates and associated allowances for the Price Control Deliverable; and~~

~~3.29.33.18.2 place reporting requirements on the licensee in relation adjust revenue to trials of the Remote Pressure Management Equipment.fund~~ **SafetyGSIUR** ~~Disconnections.~~

~~3.29.4—This condition also explains the process the Authority will follow when assessing the Price Control Deliverable~~

**Part A: Formula for calculating the remote pressure management Price Control Deliverablesafety disconnections adjustment term ( $RPM_tGDVD_t$ )**

~~3.29.53.18.3~~ The value of  $RPM_tGDVD_t$  is derived in accordance with the following formula:

$$RPM_t = RPMA_t - RPMR_t$$

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

where:

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

$RPMA_t$  means the allowancesindividual Simple Disconnection unit cost **SDUCDCUS** as set out in Appendix 1; and

$RPMR_t$   $CDC_t$  hasmeans the value zero unless otherwise directednumber of Complex Disconnections carried out by the Authority in accordance with Part D-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**

<b><u>Distribution Network</u></b>	<b><u>Simple Disconnection unit cost (£)</u></b>
<u>EoE</u>	<b>150 148</b>
<u>Lon</u>	<b>153 132</b>
<u>NW</u>	<b>181 153</b>
<u>WM</u>	<b>143</b>
<u>Northern Gas Networks Ltd</u>	<b>421 245</b>
<u>Scotland Gas Networks plc</u>	<b>181</b>
<u>Southern Gas Networks plc</u>	<b>364 220</b>
<u>Wales and West Utilities Ltd</u>	<b>440 250</b>

## **Appendix 2**

### **Complex Disconnection unit costs**

<b><u>Distribution Network</u></b>	<b><u>Complex Disconnection unit cost (£)</u></b>
<u>EoE</u>	<u>1,485 1,137</u>
<u>Lon</u>	<u>1,755 1,600</u>
<u>NW</u>	<u>1,577 1,212</u>
<u>WM</u>	<u>1,532 1,177</u>
<u>Northern Gas Networks Ltd</u>	<u>693</u>
<u>Scotland Gas Networks plc</u>	<u>1,414</u>
<u>Southern Gas Networks plc</u>	<u>2,420 1,810</u>
<u>Wales and West Utilities Ltd</u>	<u>1,111</u>

### **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:

<u><math>TW_t</math></u>	<u>means the target workload of Tier 1 Stubs Decommissioned as set out in Appendix 1;</u>
<u><math>CS</math></u>	<u>means the allowed unit cost of Tier 1 Stubs Decommissioned as set out in Appendix 2;</u>
<u><math>FNS_t</math></u>	<u>means the forecast number of Tier 1 Stubs Investigated But Not Decommissioned as set out in Appendix 3; and</u>
<u><math>CNS</math></u>	<u>means the allowed unit cost of Tier 1 Stubs Investigated But Not Decommissioned as set out in Appendix 4.</u>

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

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

~~3.29.63.19.5~~ The licensee is funded to deliver by 31 March 2026 the target number of District Governors that are installed with Remote Pressure Management Equipment specified in Appendix 2 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: Reporting requirement**

~~3.29.7~~ The licensee must submit to the Authority by 31 December 2021 a report detailing the outcome of its trials of the Remote Pressure Management Equipment, including a revised forecast of the costs per District Governor.

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

~~3.19.6~~ The Authority 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:

<u><math>CNS</math></u>	<u>means the allowed unit cost of Tier 1 Stubs Investigated But Not Decommissioned as set out in Appendix 4;</u>
<u><math>FNS_t</math></u>	<u>means the forecast number of Tier 1 Stubs Investigated But Not Decommissioned as set out in Appendix 3; and</u>
<u><math>ANS_t</math></u>	<u>means the number of Tier 1 Stubs Investigated But Not Decommissioned as of 31<sup>st</sup> March per Regulatory Year.</u>

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

$$STBDAd = \begin{cases} CS(TW_t - AW_t) \cdot 10^{-6}, & AW_t \leq TW_t \\ CS(AW_t - TW_t) \cdot 10^{-6}, & AW_t > TW_t \end{cases}$$

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**

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

### **Appendix 2**

#### **Allowed unit cost Of Tier 1 Stubs Decommissioned**

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

### Appendix 3

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

<u>Distribution Network</u>	<u>26/27</u>	<u>27/28</u>	<u>28/29</u>	<u>29/30</u>	<u>30/31</u>	<u>Total (all years)</u>
<u>EoE</u>	<u>201</u>	<u>201</u>	<u>201</u>	<u>2001</u>	<u>2001</u>	<u>1,0035</u>
<u>Lon</u>	<u>212</u>	<u>212</u>	<u>212</u>	<u>2132</u>	<u>2132</u>	<u>1,0620</u>
<u>NW</u>	<u>287</u>	<u>287</u>	<u>287</u>	<u>287</u>	<u>2867</u>	<u>1,4345</u>
<u>WM</u>	<u>357</u>	<u>357</u>	<u>357</u>	<u>3567</u>	<u>3567</u>	<u>1,7835</u>
<u>Northern Gas Networks Ltd</u>	<u>405</u>	<u>405</u>	<u>405</u>	<u>0</u>	<u>0</u>	<u>1,215</u>
<u>Scotland Gas Networks plc</u>	<u>6</u>	<u>6</u>	<u>7</u>	<u>5</u>	<u>3</u>	<u>27</u>
<u>Southern Gas Networks plc</u>	<u>18</u>	<u>18</u>	<u>18</u>	<u>18</u>	<u>18</u>	<u>90</u>
<u>Wales &amp; West Utilities Ltd</u>	<u>211</u>	<u>211</u>	<u>211</u>	<u>211</u>	<u>211</u>	<u>1,055</u>

### Appendix 4

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

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

## **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 assessment principles set out in Part A of Special Condition 9.3 (Price Control Deliverable assessment principles and reporting requirements), consider~~The~~effect of this condition is to establish a Re-opener triggered by either the licensee or by the Authority where General Reinforcements will trigger specific reinforcement expenditure that cannot be recovered through any other charge. the Connection 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 a value~~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 specific reinforcement expenditure that cannot be recovered through any other charge. the Connection Charge.~~

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

3.20.5 RPMR<sub>t</sub>, taking into account evidence from the report described in~~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 specific 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;~~29.6~~
- (b) relate to costs that exceed the Materiality Threshold; and
- (b)(c) be confined to costs incurred or expected to be incurred on or after 1 April 2026.

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

~~3.29.8~~3.20.7 Before making a direction under paragraph ~~3.29.7~~20.4, the Authority will publish on the ~~Authority's~~Authority's Website:

~~(a) the text of the proposed direction;~~

~~(b)(a) the reasons for the proposed direction; and~~

~~(a) a period during which representations may be made on the proposed direction, which will not be less than 28 days.~~

~~(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.~~

~~3.29.9~~—The direction will set out:

~~(a) the delivery status of the output that has not been Fully Delivered;~~

~~3.29.10~~3.20.8 any adjustments due to the value of the ~~RPMR<sub>t</sub>~~GRCR<sub>t</sub> term and the Regulatory Years to which that adjustment relates; ~~and.~~

~~(a) the methodology and data that has been used to decide the delivery status and value of any adjustments to the ~~RPMR<sub>t</sub>~~ term.~~

### **Appendix 1**

**~~Remote pressure management~~ Biomethane Distributed Entry Reinforcement (BDER) use it or lose it allowance ~~(RPMA<sub>t</sub>)~~ by Regulatory Year (£m)**

<b>GDN</b>	<b>21/22</b>	<b>22/23</b>	<b>23/24</b>	<b>24/25</b>	<b>25/26</b>	<b>Total Allowance (All years)</b>
Southern Gas Networks plc	1.17	1.10	0.35	0.35	0.35	3.32

### **Appendix 2**

**~~Target number of District Governors installed with Remote Pressure Management Equipment and related allowance~~**

<b>GDN</b>	<b>Target number of District Governors installed with Remote Pressure Management Equipment</b>	<b>Allowance per District Governor installed with Remote Pressure Management Equipment (£)</b>
Southern Gas Networks plc	702	£4,889

### **~~Special Condition 3.30 Biomethane improved access rollout Price Control Deliverable (BMI<sub>t</sub>)~~**

### **~~Special Condition 3.31~~ Special Condition 3.21 Introduction **BDER<sub>t</sub>****

~~3.31.13.21.1~~ The purpose of this condition is to calculate the term BMI<sub>t</sub>BDER<sub>t</sub> (the Biomethane improved access rollout Price Control Deliverable term 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<sub>t</sub>;
- (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<sub>t</sub>)**

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

$$BDER_t = BDERA_t - BDERR_t$$

where:

- BDERA<sub>t</sub> means the allowances in Appendix 1 that relate to the licensee; and
- BDERR<sub>t</sub> has the value zero unless otherwise directed by the Authority in accordance with Part **GB**.

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

3.21.5 The Authority will direct an amendment to the value of BDER<sub>t</sub> where it considers that a Use It Or Lose It Adjustment is appropriate.

#### **Part C: Cap of the use it or lose it allowance per Biomethane Connection**

3.21.6 The allowances specified in Appendix 1 must not exceed £2m per Biomethane Connection.

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

3.21.7 The licensee must comply with the Biomethane UIOLI Governance Document when incurring expenditure in relation to the allowance provided by this condition.

3.21.8 The Authority will issue and amend the Biomethane UIOLI Governance Document by direction.

3.21.9 The Authority will publish the Biomethane UIOLI Governance Document on the Authority's Website.

3.21.10 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; and
- (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.

3.21.11 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.

3.21.12 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 E: Authority's direction process**

3.21.13 Before making a direction under paragraph 3.21.56, 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.

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

## **Part F: 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><u>Distribution Network</u></b>	<b><u>Allowance (£m)</u></b>
<u>EoE</u>	<u>20.00</u>
<u>Lon</u>	<u>20.00</u>
<u>NW</u>	<u>20.00</u>
<u>WM</u>	<u>20.00</u>
<u>NGN</u>	<u>20.00</u>
<u>Sc</u>	<u>20.00</u>
<u>So</u>	<u>20.00</u>
<u>WWU</u>	<u>20.00</u>

## **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<sub>t</sub> 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<sub>t</sub> 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<sub>t</sub> 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 South London mains Price Control Deliverable (SLM<sub>t</sub>) [SGN]**

#### **Introduction**

3.27.1 The purpose of this condition is to calculate the term SLM<sub>t</sub> (the South London mains Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.

~~3.31.~~23.27.2 The effect of this condition is to:

- (a) specify the outputs, delivery dates and associated allowances for the Price Control Deliverable; and
- (b) provide for an assessment of the Price Control Deliverable at the end of the Price Control Period.
- ~~(b) require the licensee to disseminate knowledge and comply with the Data Best Practice Guidance when delivering the outputs.~~

3.27.3 This condition also sets out the process the Authority will follow when assessing the Price Control Deliverable.

### **Part A: Formula for calculating the South London mains Price Control Deliverable term (SLM<sub>t</sub>)**

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

$$\underline{SLM_t = SLMA_t - SLMR_t}$$

where:

SLMA<sub>t</sub> means the allowance in Appendix 1; and

SLMR<sub>t</sub> has the value zero unless otherwise directed by the Authority in accordance with Part C.

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

3.27.5 Appendix 1 specifies the outputs that the licensee is funded to deliver, the delivery dates for those outputs and the allowances provided.

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

3.27.6 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 SLMR<sub>t</sub> where the licensee has not Fully Delivered an output in Appendix 1.

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

3.27.7 Before making a direction under paragraph 3.27.6 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 in 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.

3.27.8 The direction will set out:

(a) the delivery status of the output that has not been Fully Delivered;

(b) any adjustments to the value of the SLMR<sub>t</sub> term and the Regulatory Years to which adjustment relates; and

(c) the methodology and data that has been used to decide the delivery status and value of any adjustments to the SLMR<sub>t</sub> term.

## **Appendix 1**

### **South London mains Price Control Deliverable outputs**

#### **Licensee: SGN Group**

<u>Field</u>	<u>Description</u>
<u>Project name:</u>	<u>South London Mains</u>
<u>Delivery date:</u>	<u>31 March 2031</u>
<u>Total allowance:</u>	<u>£28.55m</u>

<u>Field</u>	<u>Description</u>
<u>Outputs:</u>	<u>Replacement of the sections of 36-inch (Tier 3) cast iron mains specified in SGN's South London Mains EJP</u>

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### **South London mains Price Control Deliverable allowances by Regulatory Year (£m)**

<u>Distribution Network</u>	<u>26/27</u>	<u>27/28</u>	<u>28/29</u>	<u>29/30</u>	<u>30/31</u>	<u>Total (all years)</u>
<u>SGN So</u>	<u>5.83</u>	<u>5.77</u>	<u>5.71</u>	<u>5.65</u>	<u>5.60</u>	<u>28.55</u>
<u>SGN Sc</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>

### **Special Condition 3.28 Full site and system rebuilds Price Control Deliverable (FSR<sub>t</sub>) [SGN]**

#### **Introduction**

3.28.1 The purpose of this condition is to calculate the term FSR<sub>t</sub> (the Full site and system rebuilds Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.

3.28.2 explainsThe effect of this condition is to:

- (a) specify the outputs, delivery dates and associated allowances for the Full site and system rebuilds Price Control Deliverable; and
- (b) provide for an assessment of the Price Control Deliverable at the end of the Price Control Period.

~~3.28.2~~3.28.3 This condition also sets out the process the Authority will follow when assessing the Price Control Deliverable.

#### **Part A: Formula for calculating the ~~biomethane improved access rollout~~ Full site and system rebuilds Price Control Deliverable term (BMI<sub>t</sub>FSR<sub>t</sub>)**

~~3.28.3~~3.28.4 The value of BMI<sub>t</sub>FSR<sub>t</sub> is derived in accordance with the following formula:

$$\del{BMI_t = BMIA_t - BMIR_t}$$

$$\del{FSR_t = FSRA_t - FSRR_t}$$

where:

~~BMIA<sub>t</sub>~~FSRA<sub>t</sub> means the allowances in Appendix 1 ~~that relate to the licensee;~~  
and

~~BMIR<sub>t</sub>~~FSRR<sub>t</sub> has the value zero unless otherwise directed by the Authority  
~~directs otherwise~~ in accordance with Part C.

## **~~Part B: Biomethane improved access rollout outputs~~**

~~3.31.3—Appendix 1 specifies the outputs that the licensee is funded to deliver, the delivery dates for those outputs and the allowances provided.~~

~~3.31.4—When delivering the outputs specified in Appendix 1, the licensee must disseminate knowledge by:~~

~~(a) publishing details of the activities planned to deliver the outputs specified in Appendix 1 in the public domain, including on its website and a publicly available online learning portal; and~~

~~(b) publishing on its website and a publicly available online learning portal progress reports on activities related to the delivery of the outputs specified in Appendix 1 on or before 31 July in each Regulatory Year.~~

~~3.31.5—When delivering the outputs specified in Appendix 1, the licensee must act in accordance with Data Best Practice Guidance.~~

## **~~Part C: Assessment of the Price Control Deliverable (BMIR<sub>t</sub>)~~**

~~3.31.6—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 BMIR<sub>t</sub> where the licensee has not Fully Delivered an output in Appendix 1.~~

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

~~3.31.7—Before making a direction under paragraph 3.30.8 the Authority will publish on the Authority's Website:~~

~~(a) the text of the proposed direction;~~

~~(b)(a) 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.~~

~~3.31.8—A direction under paragraph 3.30.8 will set out:~~

~~(a) the delivery status of the output that has not been Fully Delivered;~~

~~(b) the value of the BMIR<sub>t</sub> term and the Regulatory Years to which that adjustment relates; and~~

~~3.31.9—the methodology and data that has been used to decide the delivery status and value of any adjustments to the BMIR<sub>t</sub> term.~~

## Appendix 1

### Biomethane improved access rollout Price Control Deliverable

Licensee	Site	Output	Delivery date	Allowance (£m)					Total allowance (All years) (£m)
				21/22	22/23	23/24	24/25	25/26	
Scotland Gas Networks plc	See Appendix 2	Rollout of the following projects at a minimum of three sites: (a) propane management solution; (b) reverse compression optimised capacity; or (c) smart control of biomethane in the network.	31 March 2026	0.01	0.00	0.72	1.07	1.76	3.55
Southern Gas Networks plc	See Appendix 3	Rollout of the following projects at a minimum of seven sites: (a) propane management solution; (b) reverse compression optimised capacity; or (c) smart control of biomethane in the network.	31 March 2026	0.01	0.00	1.22	1.82	3.00	6.05

## Appendix 2

### Potential sites for biomethane improved access rollout: Scotland Gas Networks plc

Licensee	Biomethane site
Scotland Gas Networks plc	Beyside
Scotland Gas Networks plc	Portside
Scotland Gas Networks plc	Morayhill Farm
Scotland Gas Networks plc	Riverside Distillery
Scotland Gas Networks plc	Savock Farm

Scotland Gas Networks plc	Peterhead Downiehills Farm
Scotland Gas Networks plc	Peacehill Farm
Scotland Gas Networks plc	Stracathr
Scotland Gas Networks plc	Carnside
Scotland Gas Networks plc	Coupar Angus
Scotland Gas Networks plc	Skeddoway Farm
Scotland Gas Networks plc	Dunnswood Rd
Scotland Gas Networks plc	Tambowie Farm
Scotland Gas Networks plc	TECA Aberdeen
Scotland Gas Networks plc	Crofthead Farm
Scotland Gas Networks plc	Girvan Distillery
Scotland Gas Networks plc	Other sites approved by the Authority, after notification by the licensee in writing.

### Appendix 3

#### Potential sites for biomethane improved access rollout: Southern Gas Networks plc

Licensee	Biomethane site
Southern Gas Networks plc	Poundbury
Southern Gas Networks plc	Apsley Farm
Southern Gas Networks plc	Icknield Farm
Southern Gas Networks plc	Isle of Wight
Southern Gas Networks plc	Helmdon Blackpitts
Southern Gas Networks plc	Olleco
Southern Gas Networks plc	Dunsfold
Southern Gas Networks plc	Kemsley Mill
Southern Gas Networks plc	Mitcham
Southern Gas Networks plc	St. Nicholas Court Farm
Southern Gas Networks plc	Ebbfleet
Southern Gas Networks plc	Court Lodge Farm
Southern Gas Networks plc	Hook Farm
Southern Gas Networks plc	Blaise Farm
Southern Gas Networks plc	Friday Farm
Southern Gas Networks plc	Other sites approved by the Authority, after notification by the licensee in writing.

#### Special Condition 3.32 Gas escape reduction Price Control Deliverable (GER<sub>t</sub>)

##### Introduction

3.32.1 The purpose of this condition is to calculate the term GER<sub>t</sub> (the gas escape reduction Price Control Deliverable term). This contributes to the calculation of the Totex Allowance.

3.32.2 The effect of this condition is to specify the outputs, delivery dates and associated allowances for the Price Control Deliverable.

3.32.3—This condition also explains the process the Authority will follow when assessing the Price Control Deliverable.

**Part A: Formula for calculating the gas escape reduction Price Control Deliverable term ( $GER_t$ )**

3.32.4—The value of  $GER_t$  is derived in accordance with the following formula:

$$GER_t = GERA_t - GERR_t$$

—where

$GERA_t$  means the sum of allowances in Appendix 1; and

$GERR_t$  has the value zero unless otherwise directed by the Authority in accordance with Part C.

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

3.28.4.3.28.5 Appendix 1 specifies the outputs that the licensee is funded to deliver, the delivery dates for those outputs and the allowances provided.

**Part C: Assessment of the Price Control Deliverable ( $GERR_t$ ,  $FSRR_t$ )**

3.28.5.3.28.6 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  $GERR_t$ ,  $FSRR_t$  where the licensee has not Fully Delivered an output in Appendix 1- of this condition.

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

3.28.6.3.28.7 Before making a direction under paragraph 3.31.28.6 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 text of the proposed Authority determines that a longer period is appropriate.

(b) The direction ; and

(c) the reasons for the proposed direction;

(d) a period during within which representations may be made on the proposed direction, which will not be less than 28 days.

3.28.7.3.28.8 A direction under paragraph 3.31.6 will set out:

(a) the delivery status of the output that has not been Fully Delivered;

(e) the delivery status of the output that has not been Fully Delivered;

(b) any adjustments to the value of the  $GERR_t$ ,  $FSRR_t$  term and the Regulatory Years to which that adjustment relates; and

(c) the methodology and data that has been used to decide the delivery status and value of any adjustments to the  $GERR_t$ FSRR<sub>t</sub> term.

### **Appendix 1**~~Gas escape reduction~~

#### **Full site and system rebuilds** ~~Price Control Deliverable: Scotland Gas Networks plc~~ outputs

<b>Output</b>	<b>Delivery Date</b>	<b>Allowance (£m)</b>					<b>All years</b>
2 sets of gas escape reduction equipment per depot, comprising: 1) High Volume Gas Escape Toolkit 2) Stent Bags	31 March 2026	0.73	0.00	0.00	0.00	0.00	0.73

#### Gas escape reduction

<b><u>Distribution Network</u></b>	<b><u>Field</u></b>	<b><u>Description</u></b>
<u>Scotland Gas Networks,</u> <u>Southern Gas Networks</u>	<u>Project name</u>	<u>Full Site and System Rebuilds programme.</u>
	<u>Delivery date</u>	<u>31 March 2031</u>
	<u>Total allowance</u>	<u>£45.26m</u>
	<u>Outputs</u>	<u>Full site rebuild of the following sites:</u> <u>Sc: Musselburgh, Kelso, Kemnay, Newtson Stewart, Linlithgow, Stirling.</u> <u>So: Crossbush, Hawkhurst, Littlemoor Road, Setley A, Nursling Street.</u> <u>Full system rebuild of the following sites:</u> <u>So: Hailsham, Braishfield B.</u>
<u>Scotland Gas Networks</u>	<u>Project name</u>	<u>Glenmavis System Rebuild and Rationalisation</u>
	<u>Delivery date</u>	<u>31 March 2031</u>
	<u>Total allowance</u>	<u>£5.45m</u>
	<u>Outputs</u>	<u>Rebuild, replacement and site rationalisation (removal of the site bypass and redundant assets) of the Glenmavis Offtake site.</u>
<u>Southern Gas Networks</u>	<u>Project name</u>	<u>Isle of Grain PRS – Full System Rebuild and Odorant System Replacement</u>
	<u>Delivery date</u>	<u>31 March 2031</u>
	<u>Total allowance</u>	<u>£8.76m</u>



<u>Distribution Network</u>	<u>Field</u>	<u>Description</u>
	<u>Outputs</u>	<u>Full system rebuild of Isle of Grain PRS including odorant system replacement within the current site boundary.</u>
<u>Southern Gas Networks</u>	<u>Project name</u>	<u>Welling PRS – Full Site Rebuild</u>
	<u>Delivery date</u>	<u>31 March 2031</u>
	<u>Total allowance</u>	<u>£8.35m</u>
	<u>Outputs</u>	<u>Full site rebuild and relocation of Welling PRS to a self-contained compound, including identifying and purchasing land for new site, installation of new PRS, and establishing necessary connections.</u>

**Full site and system rebuilds Price Control Deliverable: Southern Gas Networks plc allowances by Regulatory Year (£m)**

<u>Project name</u>	<u>Distribution Network</u>	<u>26/27</u>	<u>27/28</u>	<u>28/29</u>	<u>29/30</u>	<u>30/31</u>	<u>Total</u>
<u>Full site and system rebuilds programme</u>	<u>Sc</u>	<u>1.16</u>	<u>4.38</u>	<u>7.14</u>	<u>4.89</u>	<u>2.32</u>	<u>19.89</u>
	<u>So</u>	<u>3.94</u>	<u>5.43</u>	<u>6.67</u>	<u>7.43</u>	<u>1.90</u>	<u>25.36</u>
<u>Glenmavis</u>	<u>Sc</u>	<u>0.35</u>	<u>2.07</u>	<u>3.04</u>	<u>0.00</u>	<u>0.00</u>	<u>5.45</u>
<u>Isle of Grain</u>	<u>So</u>	<u>0.00</u>	<u>0.00</u>	<u>1.51</u>	<u>3.12</u>	<u>4.13</u>	<u>8.76</u>
<u>Welling</u>	<u>So</u>	<u>0.64</u>	<u>0.62</u>	<u>1.25</u>	<u>2.37</u>	<u>3.48</u>	<u>8.35</u>

**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 **the each** individual GD2/GD3 crossover adjustment terms 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:

$$\begin{aligned} GD2ACA_t = & GD2CROT_t + GD2CROTRE_t + GD2CRIT_t + GD2CRITRE_t \\ & + GD2NOITRE_t + GD2CAP_t + GD2OTC_t + GD2FPA_t + GD2CA_t \\ & + GD2STUB_t + GD2MOBS_t + GD2SMR_t + GD2GHRAR_t \\ & + GD2PWF_t \text{ (Cadent Only)} + GD2IPR_t \text{ (SGN Scotland Only)} \\ & + GD2RPM_t \text{ (SGN Southern only)} + GD2BMI_t \text{ (SGN Only)} \\ & + GD2GER_t \text{ (SGN Only)} + GD2LPT_t + GD2Hy_t \text{ (Cadent Only)} \\ & + \underline{\underline{GD2RDF_t + GD2NZ_t + GD2NZP_t - GD2R_t}} \end{aligned}$$

*where:*

<u>GD2CROT<sub>t</sub></u>	means the GD2/GD3 crossover adjustment relating to the Cyber resilience OT <b>Price Control Deliverable</b> 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 of the RIIO-GD2 licence in force from April 2021 to March 2026 [all licensees]
<u>GD2CROTRE<sub>t</sub></u>	means the GD2/GD3 crossover adjustment relating to the Cyber resilience OT <b>Use It Or Lose It</b> 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 of the RIIO-GD2 licence in force from April 2021 to March 2026 [all licensees]
<u>GD2CRIT<sub>t</sub></u>	means the GD2/GD3 crossover adjustment relating to the Cyber resilience IT <b>Re-opener</b> baseline term (CRIT <sub>t</sub> ) as specified in Special Condition 3.3 of this licence of the RIIO-GD2 licence as in force on 31 March 2026 of the RIIO-GD2 licence in force from April 2021 to March 2026 [all licensees]
<u>GD2CRITRE<sub>t</sub></u>	means the GD2/GD3 crossover adjustment relating to the Cyber resilience IT <b>Price Control Deliverable</b> non-baseline (CRITRE <sub>t</sub> ) as specified in Special Condition 3.3 of the RIIO-GD2 licence as in force on 31 March 2026 of the RIIO-GD2 licence in force from April 2021 to March 2026 [all licensees]
<u>GD2NOITRE<sub>t</sub></u>	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 of the RIIO-GD2 licence in force from April 2021 to March 2026 [all licensees]
<u>GD2CAP<sub>t</sub></u>	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 in

	force from April 2021 to March 2026 of the RIIO-GD2 licence as in force on 31 March 2026 [all licensees]
<u>GD2OTC<sub>t</sub></u>	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 of the RIIO-GD2 licence in force from April 2021 to March 2026 [all licensees]
<u>GD2FPA<sub>t</sub></u>	means the GD2/GD3 crossover adjustment relating to the Fuel Poor Network Extension Scheme Volume Driver term (FPA <sub>t</sub> ) as specified in Special Condition 3.14 of the RIIO-GD2 licence in force from April 2021 to March 2026 [all licensees]
<u>GD2CA<sub>t</sub></u>	means the GD2/GD3 crossover adjustment relating to the Domestic Connections Volume Driver term (CA <sub>t</sub> ) as specified in Special Condition 3.15 of the RIIO-GD2 licence in force from April 2021 to March 2026 [all licensees]
<u>GD2STUB<sub>t</sub></u>	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 of the RIIO-GD2 licence in force from April 2021 to March 2026 [all licensees]
<u>GD2MOBS<sub>t</sub></u>	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 of the RIIO-GD2 licence in force from April 2021 to March 2026 [all licensees]
<u>GD2SMR<sub>t</sub></u>	means the GD2/GD3 crossover adjustment relating to the Smart Metering Roll-Out Costs Re-opener (SMR <sub>t</sub> ) as specified in Special Condition 3.23 of the RIIO-GD2 licence in force from April 2021 to March 2026 [all licensees]
<u>GD2GHRAR<sub>t</sub></u>	means the GD2/GD3 crossover adjustment relating to the Gas Holder Demolitions Price Control Deliverable (GHRAR <sub>t</sub> ) as specified in Special Condition 3.25 of the RIIO-GD2 licence as in force on 31 March 2026 of the RIIO-GD2 licence in force from April 2021 to March 2026 [all licensees]
<u>GD2PWF<sub>t</sub></u> <u>[Cadent only]</u>	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 in force from April 2021 to March 2026 of the RIIO-GD2 licence as in force on 31 March 2026 [Cadent only]
<u>GD2IPR<sub>t</sub></u> [SGN <u>Scotland only]</u>	means the GD2/GD3 crossover adjustment relating to the Intermediate Pressure Configurations Price Control Deliverable (IPR <sub>t</sub> ) as specified in Special Condition 3.28 of the RIIO-GD2 licence as in force on 31 March 2026 of the RIIO-GD2 licence in force from April 2021 to March 2026 [SGN Scotland only]
<u>GD2RPM<sub>t</sub></u> [SGN <u>Southern only]</u>	means the GD2/GD3 crossover adjustment relating to the Remote Pressure Management Price Control Deliverable (RPM <sub>t</sub> )

	as specified in Special Condition 3.29 of the RIIO-GD2 licence in force from April 2021 to March 2026 of the RIIO-GD2 licence as in force on 31 March 2026 [SGN Southern only]
<u>GD2BMI<sub>t</sub> [SGN only]</u>	means the GD2/GD3 crossover adjustment relating to the Biomethane Improved Access Rollout Price Control Deliverable (BMI <sub>t</sub> ) as specified in Special Condition 3.30 of the RIIO-GD2 licence as in force on 31 March 2026 of the RIIO-GD2 licence in force from April 2021 to March 2026 [SGN only]
<u>GD2GER<sub>t</sub> [SGN only]</u>	means the GD2/GD3 crossover adjustment relating to the Gas Escape Reduction Price Control Deliverable (GER <sub>t</sub> ) as specified in Special Condition 3.31 of the RIIO-GD2 licence as in force on 31 March 2026 of the RIIO-GD2 licence in force from April 2021 to March 2026 [SGN only]
<u>GD2LPT<sub>t</sub></u>	means the GD2/GD3 crossover adjustment relating to the Legacy pass-through (LPT <sub>t</sub> ) as specified in Special Condition 7.2 of the RIIO-GD2 licence in force from April 2021 to March 2026 [all licensees]
<u>GD2Hy<sub>t</sub> [Cadent only]</u>	means the GD2/GD3 crossover adjustment relating to the HyNet Front End Engineering Design Price Control Deliverable (Hy <sub>t</sub> ) as specified in Special Condition 9.12 of the RIIO-GD2 licence in force from April 2021 to March 2026 [Cadent only]
<u>GD2RDF<sub>t</sub></u>	means the GD2/GD3 crossover adjustment relating to the Net Zero And Re-opener Development Fund use it or lose it allowance term (RDF <sub>t</sub> ) as specified in Special Condition 3.5 of the RIIO-GD2 licence as in force on 31 March 2026 of the RIIO-GD2 licence in force from April 2021 to March 2026 [all licensees]
<u>GD2NZ<sub>t</sub></u>	means the GD2/GD3 crossover adjustment relating to the Net zero Re-opener and Price Control Deliverable term (NZ <sub>t</sub> ) as specified in Special Condition 3.6 of the RIIO-GD2 licence as in force on 31 March 2026 of the RIIO-GD2 licence in force from April 2021 to March 2026 [all licensees]
<u>GD2NZP<sub>t</sub></u>	means the GD2/GD3 crossover adjustment relating to the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener term (NZP <sub>t</sub> ) as specified in Special Condition 3.9 of the RIIO-GD2 licence as in force on 31 March 2026 of the RIIO-GD2 licence in force from April 2021 to March 2026 [all licensees]
<u>GD2R<sub>t</sub></u>	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 terms that contributes to the calculation of GD2ACAt, 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 make modifications to 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 deciding whether to make a modification to any value in Appendix 1 and Appendix 2, and the value of such a modification, 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 ~~consider~~ the value of the Legacy adjustments to revenue (LART) Legacy Adjustment Term (LADJ<sub>t</sub>) term derived, or expected to be derived, in accordance with Special Condition 7.12 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 (LADJ<sub>t</sub>) in accordance with Special Condition 7.2 Legacy AIP Adjustment term (LADJ<sub>t</sub>) 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 if 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 (GD2Rt)**

**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 GD2Rt 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>Output</b>	<b>Delivery Date</b>	<b>Allowance (£m)</b>					<b>All years</b>
		<b>21/22</b>	<b>22/23</b>	<b>23/24</b>	<b>24/25</b>	<b>25/26</b>	
2-sets of gas escape reduction equipment per depot, comprising: 1) High Volume Gas Escape Toolkit 2) Stent Bags	31-March 2026	1.24	0.00	0.00	0.00	0.00	1.24

**(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<sub>t</sub> term.**

## **Appendix 1**

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

<b><u>Term</u></b>	<b><u>2026/27</u></b>	<b><u>2027/28</u></b>	<b><u>2028/29</u></b>	<b><u>2029/30</u></b>	<b><u>2030/31</u></b>	<b><u>RIIO-3 Total</u></b>
<u>GD2CROT<sub>t</sub></u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>GD2CROTRE<sub>t</sub></u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>GD2CRIT<sub>t</sub></u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>GD2CRITRE<sub>t</sub></u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>GD2NOITRE<sub>t</sub></u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>GD2CAP<sub>t</sub></u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>GD2OTC<sub>t</sub></u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>GD2FPA<sub>t</sub></u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>GD2CA<sub>t</sub></u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>GD2STUB<sub>t</sub></u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>GD2MOBS<sub>t</sub></u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

<u>Term</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>	<u>RIIO-3 Total</u>
<u>GD2SMR<sub>t</sub></u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>GD2GHRAR<sub>t</sub></u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>GD2PWF<sub>t</sub></u> <u>[Cadent</u> <u>only]</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>GD2IPR<sub>t</sub></u> <u>[SGN</u> <u>Scotland</u> <u>only]</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>GD2RPM<sub>t</sub></u> <u>[SGN</u> <u>Southern</u> <u>only]</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>GD2BMI<sub>t</sub></u> <u>[SGN only]</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>GD2GER<sub>t</sub></u> <u>[SGN only]</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>GD2LPT<sub>t</sub></u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>GD2Hy<sub>t</sub></u> <u>[Cadent</u> <u>only]</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>GD2RDF<sub>t</sub></u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>GD2NZ<sub>t</sub></u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>GD2NZP<sub>t</sub></u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

### **Appendix 2: Outputs - SGN**

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



## 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:

$$ODI_t = CS_t + \cancel{CM_t} + \cancel{SM_t} + \cancel{UIP_t} + \cancel{CSW_t}CM_t + UIP_t + CSW_t + STED_t$$

where:

- $CS_t$  is derived in accordance with Special Condition 4.2 (Customer Satisfaction Survey output delivery incentive);
- $\cancel{CM_t}CM_t$  is derived in accordance with Special Condition 4.3 (Complaints metric output delivery incentive);
- $\cancel{UIP_t}SM_t$  is derived in accordance with Special Condition 4.4 (~~Shrinkage Management~~ Unplanned Interruption Overall Mean Duration output delivery incentive);
- $\cancel{CSW_t}UIP_t$  is derived in accordance with Special Condition 4.5 (~~Unplanned Interruption Overall Mean Duration~~ Collaborative streetworks output delivery incentive); and
- $\cancel{STED_t}CSW_t$  is derived in accordance with Special Condition 4.6 (~~Collaborative streetworks~~ 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 B:~~ 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 C: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 ~~formula~~formulae:

$$CSA_t = \begin{cases} \min\left(\frac{CSAS_t - CSATU_t}{CSAMAX_t - CSATU_t}, 1\right) \frac{0.005}{3} EABR_t, & CSAS_t \geq CSATU_t \\ \max\left(\frac{CSAS_t - CSAT_t}{CSAT_t - CSAMIN_t}, -1\right) \frac{0.005}{3} EABR_t, & CSAS_t < CSAT_t \\ 0, & \text{Otherwise} \end{cases}$$

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 ~~8.34~~7.9;

$CSATU_t$  means the Planned Supply Interruptions Element score at which the reward will be applied, fixed at ~~8.69~~9.13;

$CSAMAX_t$  CA means the maximum reward in respect of the Planned Supply Interruptions Interruption Element performance score at

which the maximum level of reward will be applied, fixed at 9.13 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;

$CSAMIN_t$  means the maximum penalty in respect of the Planned Supply Interruptions Interruption Element performance score at which the maximum level of penalty will be applied, fixed at 7.90 of the Customer Satisfaction Survey for the licensee, as specified in Appendix 3; and

$EABR_t$  means Ex-Ante Base Revenue means the licensee's penalty incentive rate for the Planned Supply Interruption Element of the Customer Satisfaction Survey, as specified in Appendix 4.

#### **Part D: 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:

$$CSB_t = \begin{cases} \min\left(\frac{CSBS_t - CSBTU_t}{CSBMAX_t - CSBTU_t}, 1\right) \cdot 0.005/3 \cdot EABR_t, & CSBS_t \geq CSBTU_t \\ \max\left(\frac{CSBS_t - CSBT_t}{CSBT_t - CSBMIN_t}, -1\right) \cdot \frac{0.005}{3} \cdot EABR_t, & CSBS_t < CSBT_t \\ 0, & \text{Otherwise} \end{cases}$$

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 9.4369;

$\underline{CSBMAX_tCB}$ $\underline{MR_t}$	means the <u>maximum reward in respect of the Unplanned Supply Interruptions Element performance score at which the maximum level of reward will be applied; fixed at 9.58 of the Customer Satisfaction Survey for the licensee, as specified in Appendix 5;</u>
$\underline{CSBMIN_tBRI}$ $\underline{R_t}$	means the <u>licensee's reward incentive rate for the Unplanned Supply Interruptions Element performance score at which the maximum level of penalty will be applied; fixed at 8.85 of the Customer Satisfaction Survey, as specified in Appendix 6; and</u>
$\underline{EABR_tCBMP_t}$	<del>means Ex-Ante Base Revenue.</del> <u>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.</u>

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

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

$$CSC_t = \begin{cases} \min\left(\frac{CSCS_t - CSCTU_t}{CSCMAX_t - CSCTU_t}, 1\right) \cdot 0.005/3 \cdot EABR_t, & CSCS_t \geq CSCTU_t \\ \max\left(\frac{CSCS_t - CSCT_t}{CSCT_t - CSBMIN_t}, -1\right) \cdot \frac{0.005}{3} \cdot EABR_t, & CSCS_t < CSCT_t \end{cases} \text{ If } CSR_t < 200 \text{ then:} \\ 0, \text{ Otherwise}$$

200 then:

$$CSC_t = 0$$

If  $1500 \leq CSCJ_t$  then:

$$CSCMT = \min 1, \frac{(CSCJ_t - 0)}{1500}$$

If  $CSCT_t \leq CSCS_t \leq CSCTU_t$  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:

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

where:

$CSCS_t$  means the performance score for the Connections Element of the Customer Satisfaction Survey;

$CSC T_t$	means the Connections Element score at which the penalty will be applied, fixed at 8.1188;
$CSC T U_t$	means the Connections Element score at which the reward will be applied, fixed at 8.659.29;
$CSR_t$	means the number of responses received for the Connections Element of the Customer Satisfaction Survey in the Regulatory Year.
$CSC J_t$	means the number of eligible jobs completed in the relevant Regulatory Year;
$CSC MAX_t CCM R_t$	means the maximum reward in respect of the Connections Element performance score at which the maximum level of reward will be applied, fixed at 9.33 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;
$CSC MIN_t CCM P_t$	means the maximum penalty in respect of the Connections Element performance score at which the maximum level of penalty will be applied, fixed at 7.43; and of the Customer Satisfaction Survey for the licensee, as specified in Appendix 10;
$EABR_t C PIR_t$	means Ex-Ante Base Revenue means the licensee's penalty incentive rate for the Connections Element of the Customer Satisfaction Survey, as specified in Appendix 11; and
$CSC MT$	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)

<u>Distribution Network</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>
<u>EoE</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>
<u>Lon</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>
<u>NW</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>
<u>WM</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>
<u>Northern Gas Networks Ltd</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>

<u>Scotland Gas Networks plc</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>
<u>Southern Gas Networks plc</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>
<u>Wales &amp; West Utilities Ltd</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>

## **Appendix 2**

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

<b><u>Distribution Network</u></b>	<b><u>2026/27</u></b>	<b><u>2027/28</u></b>	<b><u>2028/29</u></b>	<b><u>2029/30</u></b>	<b><u>2030/31</u></b>
<u>EoE</u>	<u>18.75</u> <u>18.52</u>	<u>18.75</u> <u>18.52</u>	<u>18.75</u> <u>18.52</u>	<u>18.75</u> <u>18.52</u>	<u>18.75</u> <u>18.52</u>
<u>Lon</u>	<u>13.33</u> <u>13.35</u>	<u>13.33</u> <u>13.35</u>	<u>13.33</u> <u>13.35</u>	<u>13.33</u> <u>13.35</u>	<u>13.33</u> <u>13.35</u>
<u>NW</u>	<u>12.50</u> <u>12.68</u>	<u>12.50</u> <u>12.68</u>	<u>12.50</u> <u>12.68</u>	<u>12.50</u> <u>12.68</u>	<u>12.50</u> <u>12.68</u>
<u>WM</u>	<u>9.58</u> <u>9.60</u>	<u>9.58</u> <u>9.60</u>	<u>9.58</u> <u>9.60</u>	<u>9.58</u> <u>9.60</u>	<u>9.58</u> <u>9.60</u>
<u>Northern Gas Networks Ltd</u>	<u>12.50</u> <u>12.52</u>	<u>12.50</u> <u>12.52</u>	<u>12.50</u> <u>12.52</u>	<u>12.50</u> <u>12.52</u>	<u>12.50</u> <u>12.52</u>
<u>Scotland Gas Networks plc</u>	<u>10.00</u> <u>9.77</u>	<u>10.00</u> <u>9.77</u>	<u>10.00</u> <u>9.77</u>	<u>10.00</u> <u>9.77</u>	<u>10.00</u> <u>9.77</u>
<u>Southern Gas Networks plc</u>	<u>21.25</u> <u>20.80</u>	<u>21.25</u> <u>20.80</u>	<u>21.25</u> <u>20.80</u>	<u>21.25</u> <u>20.80</u>	<u>21.25</u> <u>20.80</u>
<u>Wales &amp; West Utilities Ltd</u>	<u>13.33</u> <u>13.20</u>	<u>13.33</u> <u>13.20</u>	<u>13.33</u> <u>13.20</u>	<u>13.33</u> <u>13.20</u>	<u>13.33</u> <u>13.20</u>

## **Appendix 3**

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

<b><u>Distribution Network</u></b>	<b><u>2026/27</u></b>	<b><u>2027/28</u></b>	<b><u>2028/29</u></b>	<b><u>2029/30</u></b>	<b><u>2030/31</u></b>
<u>EoE</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>
<u>Lon</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>
<u>NW</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>
<u>WM</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>
<u>Northern Gas Networks Ltd</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>
<u>Scotland Gas Networks plc</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>

<u>Distribution Network</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>
<u>Southern Gas Networks plc</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>
<u>Wales &amp; West Utilities Ltd</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>

#### **Appendix 4**

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

<u>Distribution Network</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>
<u>EoE</u>	<u>11.54</u> <u>11.40</u>	<u>11.54</u> <u>11.40</u>	<u>11.54</u> <u>11.40</u>	<u>11.54</u> <u>11.40</u>	<u>11.54</u> <u>11.40</u>
<u>Lon</u>	<u>8.21</u> <u>8.22</u>	<u>8.21</u> <u>8.22</u>	<u>8.21</u> <u>8.22</u>	<u>8.21</u> <u>8.22</u>	<u>8.21</u> <u>8.22</u>
<u>NW</u>	<u>7.69</u> <u>7.81</u>	<u>7.69</u> <u>7.81</u>	<u>7.69</u> <u>7.81</u>	<u>7.69</u> <u>7.81</u>	<u>7.69</u> <u>7.81</u>
<u>WM</u>	<u>5.90</u> <u>5.91</u>	<u>5.90</u> <u>5.91</u>	<u>5.90</u> <u>5.91</u>	<u>5.90</u> <u>5.91</u>	<u>5.90</u> <u>5.91</u>
<u>Northern Gas Networks Ltd</u>	<u>7.69</u> <u>7.70</u>	<u>7.69</u> <u>7.70</u>	<u>7.69</u> <u>7.70</u>	<u>7.69</u> <u>7.70</u>	<u>7.69</u> <u>7.70</u>
<u>Scotland Gas Networks plc</u>	<u>6.15</u> <u>6.01</u>	<u>6.15</u> <u>6.01</u>	<u>6.15</u> <u>6.01</u>	<u>6.15</u> <u>6.01</u>	<u>6.15</u> <u>6.01</u>
<u>Southern Gas Networks plc</u>	<u>13.08</u> <u>12.80</u>	<u>13.08</u> <u>12.80</u>	<u>13.08</u> <u>12.80</u>	<u>13.08</u> <u>12.80</u>	<u>13.08</u> <u>12.80</u>
<u>Wales &amp; West Utilities Ltd</u>	<u>8.21</u> <u>8.12</u>	<u>8.21</u> <u>8.12</u>	<u>8.21</u> <u>8.12</u>	<u>8.21</u> <u>8.12</u>	<u>8.21</u> <u>8.12</u>

#### **Appendix 5**

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

<u>Distribution Network</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>
<u>EoE</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>
<u>Lon</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>
<u>NW</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>
<u>WM</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>
<u>Northern Gas Networks Ltd</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>
<u>Scotland Gas Networks plc</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>

<u>Distribution Network</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>
<u>Southern Gas Networks plc</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>
<u>Wales &amp; West Utilities Ltd</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>

### **Appendix 6**

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

<u>Distribution Network</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>
<u>EoE</u>	<u>25.00</u> <u>24.69</u>	<u>25.00</u> <u>24.69</u>	<u>25.00</u> <u>24.69</u>	<u>25.00</u> <u>24.69</u>	<u>25.00</u> <u>24.69</u>
<u>Lon</u>	<u>17.78</u> <u>17.81</u>	<u>17.78</u> <u>17.81</u>	<u>17.78</u> <u>17.81</u>	<u>17.78</u> <u>17.81</u>	<u>17.78</u> <u>17.81</u>
<u>NW</u>	<u>16.67</u> <u>16.91</u>	<u>16.67</u> <u>16.91</u>	<u>16.67</u> <u>16.91</u>	<u>16.67</u> <u>16.91</u>	<u>16.67</u> <u>16.91</u>
<u>WM</u>	<u>12.78</u> <u>12.79</u>	<u>12.78</u> <u>12.79</u>	<u>12.78</u> <u>12.79</u>	<u>12.78</u> <u>12.79</u>	<u>12.78</u> <u>12.79</u>
<u>Northern Gas Networks Ltd</u>	<u>16.67</u> <u>16.69</u>	<u>16.67</u> <u>16.69</u>	<u>16.67</u> <u>16.69</u>	<u>16.67</u> <u>16.69</u>	<u>16.67</u> <u>16.69</u>
<u>Scotland Gas Networks plc</u>	<u>13.33</u> <u>13.03</u>	<u>13.33</u> <u>13.03</u>	<u>13.33</u> <u>13.03</u>	<u>13.33</u> <u>13.03</u>	<u>13.33</u> <u>13.03</u>
<u>Southern Gas Networks plc</u>	<u>28.33</u> <u>27.74</u>	<u>28.33</u> <u>27.74</u>	<u>28.33</u> <u>27.74</u>	<u>28.33</u> <u>27.74</u>	<u>28.33</u> <u>27.74</u>
<u>Wales &amp; West Utilities Ltd</u>	<u>17.78</u> <u>17.59</u>	<u>17.78</u> <u>17.59</u>	<u>17.78</u> <u>17.59</u>	<u>17.78</u> <u>17.59</u>	<u>17.78</u> <u>17.59</u>

### **Appendix 7**

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

<u>Distribution Network</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>
<u>EoE</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>
<u>Lon</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>
<u>NW</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>
<u>WM</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>
<u>Northern Gas Networks Ltd</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>
<u>Scotland Gas Networks plc</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>



<u>Distribution Network</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>
<u>Southern Gas Networks plc</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>
<u>Wales &amp; West Utilities Ltd</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>

### **Appendix 8**

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

<u>Distribution Network</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>
<u>EoE</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>
<u>Lon</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>
<u>NW</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>
<u>WM</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>
<u>Northern Gas Networks Ltd</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>
<u>Scotland Gas Networks plc</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>
<u>Southern Gas Networks plc</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>
<u>Wales &amp; West Utilities Ltd</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>

### **Appendix 9**

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

<u>Distribution Network</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>
<u>EoE</u>	<u>15.00</u> <u>14.82</u>	<u>15.00</u> <u>14.82</u>	<u>15.00</u> <u>14.82</u>	<u>15.00</u> <u>14.82</u>	<u>15.00</u> <u>14.82</u>
<u>Lon</u>	<u>10.67</u> <u>10.68</u>	<u>10.67</u> <u>10.68</u>	<u>10.67</u> <u>10.68</u>	<u>10.67</u> <u>10.68</u>	<u>10.67</u> <u>10.68</u>
<u>NW</u>	<u>10.00</u> <u>10.15</u>	<u>10.00</u> <u>10.15</u>	<u>10.00</u> <u>10.15</u>	<u>10.00</u> <u>10.15</u>	<u>10.00</u> <u>10.15</u>
<u>WM</u>	<u>7.67</u> <u>7.68</u>	<u>7.67</u> <u>7.68</u>	<u>7.67</u> <u>7.68</u>	<u>7.67</u> <u>7.68</u>	<u>7.67</u> <u>7.68</u>
<u>Northern Gas Networks Ltd</u>	<u>10.00</u> <u>10.01</u>	<u>10.00</u> <u>10.01</u>	<u>10.00</u> <u>10.01</u>	<u>10.00</u> <u>10.01</u>	<u>10.00</u> <u>10.01</u>
<u>Scotland Gas Networks plc</u>	<u>8.00</u> <u>7.82</u>	<u>8.00</u> <u>7.82</u>	<u>8.00</u> <u>7.82</u>	<u>8.00</u> <u>7.82</u>	<u>8.00</u> <u>7.82</u>

<u>Distribution Network</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>
<u>Southern Gas Networks plc</u>	<u>17.00</u> <u>16.64</u>	<u>17.00</u> <u>16.64</u>	<u>17.00</u> <u>16.64</u>	<u>17.00</u> <u>16.64</u>	<u>17.00</u> <u>16.64</u>
<u>Wales &amp; West Utilities Ltd</u>	<u>10.67</u> <u>10.56</u>	<u>10.67</u> <u>10.56</u>	<u>10.67</u> <u>10.56</u>	<u>10.67</u> <u>10.56</u>	<u>10.67</u> <u>10.56</u>

### Appendix 10

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

<u>Distribution Network</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>
<u>EoE</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>	<u>1.50</u> <u>1.48</u>
<u>Lon</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>	<u>1.07</u> <u>1.07</u>
<u>NW</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>	<u>1.00</u> <u>1.01</u>
<u>WM</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>	<u>0.77</u> <u>0.77</u>
<u>Northern Gas Networks Ltd</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>	<u>1.00</u> <u>1.00</u>
<u>Scotland Gas Networks plc</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>	<u>0.80</u> <u>0.78</u>
<u>Southern Gas Networks plc</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>	<u>1.70</u> <u>1.66</u>
<u>Wales &amp; West Utilities Ltd</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>	<u>1.07</u> <u>1.06</u>

### Appendix 11

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

<u>Distribution Network</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>
<u>EoE</u>	<u>10.00</u> <u>9.88</u>	<u>10.00</u> <u>9.88</u>	<u>10.00</u> <u>9.88</u>	<u>10.00</u> <u>9.88</u>	<u>10.00</u> <u>9.88</u>
<u>Lon</u>	<u>7.11</u> <u>7.12</u>	<u>7.11</u> <u>7.12</u>	<u>7.11</u> <u>7.12</u>	<u>7.11</u> <u>7.12</u>	<u>7.11</u> <u>7.12</u>
<u>NW</u>	<u>6.67</u> <u>6.76</u>	<u>6.67</u> <u>6.76</u>	<u>6.67</u> <u>6.76</u>	<u>6.67</u> <u>6.76</u>	<u>6.67</u> <u>6.76</u>
<u>WM</u>	<u>5.11</u> <u>5.12</u>	<u>5.11</u> <u>5.12</u>	<u>5.11</u> <u>5.12</u>	<u>5.11</u> <u>5.12</u>	<u>5.11</u> <u>5.12</u>
<u>Northern Gas Networks Ltd</u>	<u>6.67</u> <u>6.68</u>	<u>6.67</u> <u>6.68</u>	<u>6.67</u> <u>6.68</u>	<u>6.67</u> <u>6.68</u>	<u>6.67</u> <u>6.68</u>

<u>Distribution Network</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>
<u>Scotland Gas Networks plc</u>	<del>5.33</del> 5.21	<del>5.33</del> 5.21	<del>5.33</del> 5.21	<del>5.33</del> 5.21	<del>5.33</del> 5.21
<u>Southern Gas Networks plc</u>	<del>11.33</del> 11.10	<del>11.33</del> 11.10	<del>11.33</del> 11.10	<del>11.33</del> 11.10	<del>11.33</del> 11.10
<u>Wales &amp; West Utilities Ltd</u>	<del>7.11</del> 7.04	<del>7.11</del> 7.04	<del>7.11</del> 7.04	<del>7.11</del> 7.04	<del>7.11</del> 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 ODIt (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>)

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

$$CM_t = \begin{cases} 0, & CMS_t \leq CMT_t \\ \max\left(\frac{CMS_t - CMT_t}{CMT_t - CMMIN_t}, -1\right) 0.005 EABR_t, & CMS_t > CMT_t \end{cases}$$

If CMAS<sub>t</sub> ≤ CMT<sub>t</sub>, then:

$$CM_t = 0$$

If CMAS<sub>t</sub> > CMT<sub>t</sub>, then:

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

where:

CMS<sub>t</sub> CMAS<sub>t</sub> means the licensee's actual performance in relation to the complaints metric and is derived in accordance with Part B;

$CMT_t$	means the <u>minimum acceptable performance score for the complaints metric target score, fixed at and equals 3.5;</u>
$CMMIN_t$ <del><math>CMMP_t</math></del>	means the <u>maximum penalty in respect of the complaints metric performance score at which the maximum level of penalty will be applied, fixed at 10 for the licensee, as specified in Appendix 1;</u> and
<del><math>EABR_t</math></del> $IRCM_t$	<del>means Ex-Ante Base Revenue.</del> <u>means the licensee's incentive rate for the complaints metric, as specified in Appendix 2.</u>

## Part B: Complaints metric performance score

~~4.3.44.3.5~~ The value of the  $CMS_t$  ~~$CMAS_t$~~  term is derived in accordance with the following formula:

$$CMS_t\del{CMAS_t} = 10PCUDPO_t + 30PCUDPT_t + 50PRC_t + 10POF_t$$

where:

$PCUDPO_t$	means the percentage of Complaints <del>unresolved</del> <u>which are not Resolved Complaints</u> 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 <del>unresolved</del> <u>which are not Resolved Complaints</u> 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.

## ~~Special Condition 4.4 Shrinkage Management output delivery incentive ( $SM_t$ )~~

### ~~Introduction~~

~~The purpose of this condition is to calculate the term  $SM_t$  (the Shrinkage Management output delivery incentive term).~~

### Appendix 1

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

~~4.4.11.1.1 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 reward or penalise the licensee for its performance in reducing shrinkage of gas by means of pressure management and gas conditioning.~~

4.4.3—This condition also requires the licensee to:

- (a) ~~maintain and comply with the Shrinkage And Leakage Model; and~~
- (b) ~~report to the Authority on levels of Shrinkage.~~

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

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

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

—where:

<u>CBV<sub>t</sub>Distributio n Network</u>	means the Gas Conditioning Baseline Volume; <u>2026/2 7</u>	<u>2027/2</u> <u>8</u>	<u>2028/2</u> <u>9</u>	<u>2029/3</u> <u>0</u>	<u>2030/3</u> <u>1</u>
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AL<sub>t</sub> means the Actual Leakage Volume;

EABR means Ex-Ante Base Revenue;

<u>PIV<sub>t</sub>EoE</u>	means the Pressure Impact Volume, derived in accordance with paragraph 4.4.5; <u>4.50 4.45</u>	<u>4.50</u> <u>4.45</u>	<u>4.50</u> <u>4.45</u>	<u>4.50</u> <u>4.45</u>	<u>4.50</u> <u>4.45</u>
<u>GPRC<sub>t</sub>Lon</u>	is derived in accordance with Part B; <u>3.20 3.21</u>	<u>3.20</u> <u>3.21</u>	<u>3.20</u> <u>3.21</u>	<u>3.20</u> <u>3.21</u>	<u>3.20</u> <u>3.21</u>
<u>CC<sub>t</sub>NW</u>	means the Central Price of Carbon, multiplied by a GWh conversion factor of 1,226.42; and <u>3.00 3.04</u>	<u>3.00</u> <u>3.04</u>	<u>3.00</u> <u>3.04</u>	<u>3.00</u> <u>3.04</u>	<u>3.00</u> <u>3.04</u>

<u>TISWM</u>	means the Totex Incentive Strength. <u>2.30</u>	2.30	2.30	2.30	2.30
<u>Northern Gas Networks Ltd</u>	<u>3.00</u>	<u>3.00</u>	<u>3.00</u>	<u>3.00</u>	<u>3.00</u>
<u>Scotland Gas Networks plc</u>	<u>2.40</u> <u>2.35</u>	<u>2.40</u> <u>2.35</u>	<u>2.40</u> <u>2.35</u>	<u>2.40</u> <u>2.35</u>	<u>2.40</u> <u>2.35</u>
<u>Southern Gas Networks plc</u>	<u>5.10</u> <u>4.99</u>	<u>5.10</u> <u>4.99</u>	<u>5.10</u> <u>4.99</u>	<u>5.10</u> <u>4.99</u>	<u>5.10</u> <u>4.99</u>
<u>Wales &amp; West Utilities Ltd</u>	<u>3.20</u> <u>3.17</u>	<u>3.20</u> <u>3.17</u>	<u>3.20</u> <u>3.17</u>	<u>3.20</u> <u>3.17</u>	<u>3.20</u> <u>3.17</u>

4.4.5— The value of the term  $PIV_t$  is derived in accordance with the following formula:

$$PIV_t = \begin{cases} PLDV_t - AvPV_t & \text{if } AvPV_t < PLDV_t \\ PUDV_t - AvPV_t & \text{if } AvPV_t > PUDV_t \\ 0, & \text{otherwise} \end{cases}$$

where:

## Appendix 2

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

<u><math>PLDV_t</math> Distribution Network</u>	means the Pressure Lower Deadband Volume; <u>2026/27</u>	2027/28	2028/29	2029/30	2030/31
<u><math>AvPV_t</math> EoE</u>	means the Price Control Average Pressure Volume; and <u>3.00</u> <u>2.96</u>	means the Price Control Average Pressure Volume; and <u>3.00</u> <u>2.96</u>	means the Price Control Average Pressure Volume; and <u>3.00</u> <u>2.96</u>	means the Price Control Average Pressure Volume; and <u>3.00</u> <u>2.96</u>	means the Price Control Average Pressure Volume; and <u>3.00</u> <u>2.96</u>
<u><math>PUDV_t</math> Lon</u>	means the Pressure Upper Deadband Volume; <u>2.13</u> <u>2.14</u>	means the Pressure Upper Deadband	means the Pressure Upper Deadband	means the Pressure Upper Deadband	means the Pressure Upper Deadband

<u>PLDV Distribution Network</u>	means the Pressure Lower Deadband Volume; <u>2026/27</u>	2027/28	2028/29	2029/30	2030/31
		<u>d</u> <u>Volume.2.13</u> <u>2.14</u>	<u>d</u> <u>Volume.2.13</u> <u>2.14</u>	<u>d</u> <u>Volume.2.13</u> <u>2.14</u>	<u>d</u> <u>Volume.2.13</u> <u>2.14</u>
<u>NW</u>	<u>2.00</u> <u>2.03</u>	<u>2.00</u> <u>2.03</u>	<u>2.00</u> <u>2.03</u>	<u>2.00</u> <u>2.03</u>	<u>2.00</u> <u>2.03</u>
<u>WM</u>	<u>1.53</u> <u>1.54</u>	<u>1.53</u> <u>1.54</u>	<u>1.53</u> <u>1.54</u>	<u>1.53</u> <u>1.54</u>	<u>1.53</u> <u>1.54</u>
<u>Northern Gas Networks Ltd</u>	<u>2.00</u>	<u>2.00</u>	<u>2.00</u>	<u>2.00</u>	<u>2.00</u>
<u>Scotland Gas Networks plc</u>	<u>1.60</u> <u>1.56</u>	<u>1.60</u> <u>1.56</u>	<u>1.60</u> <u>1.56</u>	<u>1.60</u> <u>1.56</u>	<u>1.60</u> <u>1.56</u>
<u>Southern Gas Networks plc</u>	<u>3.40</u> <u>3.33</u>	<u>3.40</u> <u>3.33</u>	<u>3.40</u> <u>3.33</u>	<u>3.40</u> <u>3.33</u>	<u>3.40</u> <u>3.33</u>
<u>Wales &amp; West Utilities Ltd</u>	<u>2.13</u> <u>2.11</u>	<u>2.13</u> <u>2.11</u>	<u>2.13</u> <u>2.11</u>	<u>2.13</u> <u>2.11</u>	<u>2.13</u> <u>2.11</u>

**~~Part B: Part A: Formula for calculating the gas price reference cost (GPRC<sub>t</sub>)~~**

~~4.4.61.1.1 The value of the GPRC<sub>t</sub> term is derived in accordance with the following formula:~~

$$GPRC_t = CF \left( \frac{\sum_{d=1}^n GP_{d,t}}{n_t} \right) \cdot \frac{PI_{2018/19}}{PI_t}$$

~~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<sub>t</sub> means the total number of calendar days in Regulatory Year t;~~

~~$GP_{d,t}$~~  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); and

$PI_t$  means the price index derived in accordance with Part F of Special Condition 2.1.

### **~~Part C: Maintenance of the Shrinkage And Leakage Model~~**

~~4.4.7~~ The licensee, together with all other DN Operators, must have in place a Shrinkage And Leakage Model approved by the Authority.

~~4.4.81.1.1~~ 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.

~~4.4.91.1.1~~ The Shrinkage And Leakage Model and the licensee's methodology must be designed to facilitate the accurate calculation and reporting of Shrinkage and Leakage.

~~4.4.101.1.1~~ 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)(a) Actual Shrinkage Volumes as calculated in accordance with the Shrinkage And Leakage Model for each Distribution Network for the preceding Regulatory Year.~~

~~4.4.111.1.1~~ 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)(a) the licensee is complying with its methodology for the Shrinkage And Leakage Model.~~

~~4.4.12~~ 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 D.

~~4.4.13~~ 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 D.



**~~Part D: Part A: Modification of the Shrinkage And Leakage Model and methodology~~**

~~4.4.141.1.1 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.~~

~~4.4.151.1.1 The licensee, together with other DN Operators, must annually review their methodologies for the Shrinkage And Leakage Model to verify the comparability of the Shrinkage and Leakage volumes produced by each DN Operator.~~

~~4.4.161.1.1 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 4.4.14 and 4.4.15; and~~
- ~~(b)(a) any representations relating to the workings of the Shrinkage And Leakage Model that have been submitted by Gas Shippers and other interested parties.~~

~~4.4.171.1.1 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 4.4.9;~~
- ~~(b) allow them a period of not 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 4.4.9; and~~
- ~~(d)(a) 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 4.4.18;~~

~~4.4.181.1.1 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 4.4.17;~~
- ~~(b) any impact on RII0-GD2 Outputs;~~
- ~~(c)(a) 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)(a) either:~~

~~(e)(a) a copy of the independent expert's report required by paragraph 4.4.17(c); or~~

~~(f)(a) an explanation of why the DN Operators did not consider it appropriate to appoint an independent expert;~~

~~(g) an explanation of how the proposed modifications would better achieve the objective set out in paragraph 4.4.9; and~~

~~(h)(a) a timetable for implementing the proposed modifications, including the proposed date that they would take effect.~~

4.4.19—If requested by another person, the licensee must provide all the non-confidential information reasonably required to enable them 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 4.4.9.

~~4.4.201.1.1 The Authority will:~~

~~(a) approve the revisions proposed by the licensee;~~

~~(b)(a) reject the proposed revisions; or~~

~~(c)(a) reject the proposed revisions and give recommendations as to alternative revisions that it considers should be made.~~

#### **~~Part E: Part A: Review requirements in respect of modifications~~**

~~4.4.211.1.1 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.~~

4.4.22—The licensee must, together with other DN Operators, ensure that the independent expert's report prepared under paragraph 4.4.21 is made publicly available, and that a copy of that report is sent to the Authority.

### **~~Special Condition 4.5~~Special Condition 4.4 Unplanned Interruption Mean Duration output delivery incentive (UIP<sub>t</sub>)**

#### **Introduction**

#### **Introduction**

~~4.5.14.4.1~~ The purpose of this condition is to calculate the term UIP<sub>t</sub> (the Unplanned Interruption Interruptions 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).

~~4.5.24.4.2~~ The effect of this incentive is to penalise the licensee ~~should if it fail~~ 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.

4.5.34.4.4 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 ( $UIP_t$ )**

4.5.44.4.5 The value of the  $UIP_t$  term is derived in accordance with the following formula:

$$\begin{aligned}
 & UIP_t \\
 = & \begin{cases} 0, & UIMD_t \leq UIMS \\ \max\left(\frac{UIMD_t - UIMS}{UIMS - UIED}, -1\right)[0.005 EABR_t], & UIMD_t > UIMS \end{cases} \begin{cases} 0, & UIMMD_t \leq UIMMS \\ \max\left(\frac{UIMMD_t - UIMMS}{UIMMS - UIMED}, -1\right)[UIMPM], & UIMMD_t > UIMMS \end{cases} \\
 & + \begin{cases} 0, & UINMD_t \leq UINMS \\ \max\left(\frac{UINMD_t - UINMS}{UINMS - UINED}, -1\right)[UIMP_N], & UINMD_t > UINMS \end{cases}
 \end{aligned}$$

where:

~~$EABR_t$~~   $UIMMD_t$  means ~~Ex-Ante Base Revenue;~~ means the Unplanned Interruption Mean Duration relating to MOB Riser Interruptions, expressed in minutes;

$UIMMS$  means the Unplanned Interruption Minimum Performance Level relating to MOB Riser Interruptions set out in Appendix 2;

$UIMED$  means the Unplanned Interruptions Excessive Deterioration level relating to MOB Riser Interruptions set out in Appendix 2;

~~$UIMD_t$~~   $UINMD_t$  means the Unplanned Interruption Mean Duration relating to all Unplanned Interruptions other than MOB Riser Interruptions, expressed in minutes;

~~$UIMS$~~   $UINMS$  means the common Unplanned Interruption Minimum Performance Level; and relating to all Unplanned Interruptions other than those relating to MOB Riser Interruptions set out in Appendix 1;

~~$UIED$~~   
 $UINED$  means the common Unplanned Interruption 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**

~~4.5.54.4.6~~ If the Unplanned Interruption Mean Duration  $UIMMD_t$  exceeds the  
Unplanned Interruption Excessive Deterioration Level  $UIMED$ , or  $UINMD_t$   
exceeds  $UINED$ , for any Regulatory Year, the licensee must submit to the  
Authority a report setting out:

- c) an explanation of all relevant factors that have contributed to a the  
breach of the Unplanned Interruption Excessive Deterioration level; and
- d) 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.

~~4.5.64.4.7~~ The licensee must submit the report ~~before the end of~~ 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**

~~4.5.74.4.8~~ 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 ~~2019/20~~ 2025/26 remained in effect.

~~4.5.84.4.9~~ The licensee must submit ~~any~~ 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 levels** **level for all** **Unplanned Interruptions other than MOB Riser Interruptions (hours)**

Distribution Network	Unplanned Interruptions Minimum Performance Level (UIMS	Unplanned Interruptions Excessive Deterioration Level ( <del>UIED</del> (UINED)
-------------------------	--	--

	<b><u>(UINMS)</u></b>	
Northern Gas Networks Ltd FoE, NW, WM, NGN, Sc, WWU	1013	17.518
<b>Scotland Gas Networks plc 16 23.5</b> <b>Southern Gas Networks plc 26 33.5</b>		
Wales & West Utilities Ltd Lon, So	1315	20.5

## **Appendix 2**

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

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

## **Appendix 3**

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

<b><u>Licensee</u></b>	<b><u>Distribution Network</u></b>	<b><u>2026/27</u></b>	<b><u>2027/28</u></b>	<b><u>2028/29</u></b>	<b><u>2029/30</u></b>	<b><u>2030/31</u></b>
<u>Cadent</u>	<u>FoE</u>	<u>2.25</u> <u>2.22</u>	<u>2.25</u> <u>2.22</u>	<u>2.25</u> <u>2.22</u>	<u>2.25</u> <u>2.22</u>	<u>2.25</u> <u>2.22</u>
<u>Cadent</u>	<u>Lon</u>	<u>1.6</u> <u>1.60</u>	<u>1.6</u> <u>1.60</u>	<u>1.6</u> <u>1.60</u>	<u>1.6</u> <u>1.60</u>	<u>1.6</u> <u>1.60</u>
<u>Cadent</u>	<u>NW</u>	<u>1.5</u> <u>1.52</u>	<u>1.5</u> <u>1.52</u>	<u>1.5</u> <u>1.52</u>	<u>1.5</u> <u>1.52</u>	<u>1.5</u> <u>1.52</u>
<u>Cadent</u>	<u>WM</u>	<u>1.15</u>	<u>1.15</u>	<u>1.15</u>	<u>1.15</u>	<u>1.15</u>
<u>NGN</u>		<u>1.5</u> <u>1.50</u>	<u>1.5</u> <u>1.50</u>	<u>1.5</u> <u>1.50</u>	<u>1.5</u> <u>1.50</u>	<u>1.5</u> <u>1.50</u>

<u>SGN Se</u>	<u>Sc</u>	<u>1.2</u> <u>1.17</u>	<u>1.2</u> <u>1.17</u>	<u>1.2</u> <u>1.17</u>	<u>1.2</u> <u>1.17</u>	<u>1.2</u> <u>1.17</u>
<u>SGN Se</u>	<u>So</u>	<u>2.55</u> <u>2.50</u>	<u>2.55</u> <u>2.50</u>	<u>2.55</u> <u>2.50</u>	<u>2.55</u> <u>2.50</u>	<u>2.55</u> <u>2.50</u>
<u>WWU</u>		<u>1.6</u> <u>1.58</u>	<u>1.6</u> <u>1.58</u>	<u>1.6</u> <u>1.58</u>	<u>1.6</u> <u>1.58</u>	<u>1.6</u> <u>1.58</u>

#### **Appendix 4**

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

<u>Licensee</u>	<u>Distribution Network</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>
<u>Cadent</u>	<u>EoE</u>	<u>2.25</u> <u>2.22</u>	<u>2.25</u> <u>2.22</u>	<u>2.25</u> <u>2.22</u>	<u>2.25</u> <u>2.22</u>	<u>2.25</u> <u>2.22</u>
<u>Cadent</u>	<u>Lon</u>	<u>1.6</u> <u>1.60</u>	<u>1.6</u> <u>1.60</u>	<u>1.6</u> <u>1.60</u>	<u>1.6</u> <u>1.60</u>	<u>1.6</u> <u>1.60</u>
<u>Cadent</u>	<u>NW</u>	<u>1.5</u> <u>1.52</u>	<u>1.5</u> <u>1.52</u>	<u>1.5</u> <u>1.52</u>	<u>1.5</u> <u>1.52</u>	<u>1.5</u> <u>1.52</u>
<u>Cadent</u>	<u>WM</u>	<u>1.15</u>	<u>1.15</u>	<u>1.15</u>	<u>1.15</u>	<u>1.15</u>
<u>NGN</u>		<u>1.5</u> <u>1.50</u>	<u>1.5</u> <u>1.50</u>	<u>1.5</u> <u>1.50</u>	<u>1.5</u> <u>1.50</u>	<u>1.5</u> <u>1.50</u>
<u>SGN Se</u>	<u>Sc</u>	<u>1.2</u> <u>1.17</u>	<u>1.2</u> <u>1.17</u>	<u>1.2</u> <u>1.17</u>	<u>1.2</u> <u>1.17</u>	<u>1.2</u> <u>1.17</u>
<u>SGN Se</u>	<u>So</u>	<u>2.55</u> <u>2.50</u>	<u>2.55</u> <u>2.50</u>	<u>2.55</u> <u>2.50</u>	<u>2.55</u> <u>2.50</u>	<u>2.55</u> <u>2.50</u>
<u>WWU</u>		<u>1.6</u> <u>1.58</u>	<u>1.6</u> <u>1.58</u>	<u>1.6</u> <u>1.58</u>	<u>1.6</u> <u>1.58</u>	<u>1.6</u> <u>1.58</u>

#### **Special Condition 4.6**~~Special Condition 4.5~~ Collaborative streetworks output delivery incentive (CSW<sub>t</sub>)

##### **Introduction**

4.6.14.5.1 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).

4.6.24.5.2 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 ~~ENA Smarter~~ FEN Innovation Portal.

## **Part A: Licence status**

4.5.4 This condition will come into effect once a central ~~co-ordinator~~ 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.

~~4.6.34.5.5~~ The Cadent London and SGN Southern Distribution Networks Portal 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 ~~co-ordinator~~ coordinator, it will issue a direction formally appointing a central ~~co-ordinator~~ coordinator for the relevant regions.

4.5.8 The central ~~co-ordinator~~ 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 ~~co-ordinator~~ coordinator and of the licensee are set out in the Associated Document.

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

~~4.6.44.5.9~~ The value of the CSW<sub>t</sub> term is derived in accordance with the following formula:

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

$$\begin{aligned} \text{If } X_t > CSWPT, CSW_t \\ &= \min [(X_t \cdot CSWP), 0.005 \cdot EABR] \\ &\quad - (CSWMP \cdot MCSWP) + (CSWSP \cdot SCSWP), CSWC_t] \cdot TIS \end{aligned}$$

where:

X<sub>t</sub> 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;

X<sub>t</sub>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;

CSWP~~MCSWP~~ means a reward of £0.305m~~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

~~EABRC~~SWC<sub>t</sub> ~~means Ex-Ante Base Revenue.~~ means the maximum incentive cap as set out in Appendix 1.

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

4.5.10 The licensee must keep a central information source on the ~~ENA Smarter Networks~~FEN Innovation Portal in relation to the Collaborative Streetworks Project~~Projects~~ which may take the form of links to the relevant ~~Greater London~~central co-ordinator ~~co-ordinator~~ information.

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

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

~~4.6.54.5.12~~ The Authority ~~information portal~~ 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><u>Licensee</u></b>	<b><u>Distribution Network</u></b>	<b><u>2026/27 Maximum Reward</u></b>	<b><u>2027/28</u></b>	<b><u>2028/29</u></b>	<b><u>2029/30</u></b>	<b><u>2030/31</u></b>
<u>Cadent</u>	<u>EoE</u>	<u>4.50-22.23</u>	<u>4.50</u>	<u>4.50</u>	<u>4.50</u>	<u>4.50</u>
<u>Cadent</u>	<u>Lon</u>	<u>3.20-16.03</u>	<u>3.20</u>	<u>3.20</u>	<u>3.20</u>	<u>3.20</u>
<u>Cadent</u>	<u>NW</u>	<u>3.00-15.22</u>	<u>3.00</u>	<u>3.00</u>	<u>3.00</u>	<u>3.00</u>
<u>Cadent</u>	<u>WM</u>	<u>2.30-11.52</u>	<u>2.30</u>	<u>2.30</u>	<u>2.30</u>	<u>2.30</u>
<u>NGN</u>		<u>3.00-15.02</u>	<u>3.00</u>	<u>3.00</u>	<u>3.00</u>	<u>3.00</u>
<u>SGN Se</u>	<u>Sc</u>	<u>2.40-11.73</u>	<u>2.40</u>	<u>2.40</u>	<u>2.40</u>	<u>2.40</u>
<u>SGN Se</u>	<u>So</u>	<u>5.10-24.97</u>	<u>5.10</u>	<u>5.10</u>	<u>5.10</u>	<u>5.10</u>
<u>WWU</u>		<u>3.20-15.84</u>	<u>3.20</u>	<u>3.20</u>	<u>3.20</u>	<u>3.20</u>

## **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.

### **Special Condition 4.7 Table 1 Not used**

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

<u>Timeframe</u>	<u>Minimum percentage of outstanding repairs completed</u>
<u>7 days</u>	<u>75%</u>
<u>28 days</u>	<u>90%</u>

### **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  $SDRS_t \geq \leq SDR_t$ , then:

$$SDR_t = 0$$

If  $SDRS_t < > SDR_t$  then:

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

where:

SDRS<sub>t</sub> means the licensee's actual performance in percentage in relation to the Seven Day Repair Metric;

SDRT<sub>t</sub> means the minimum standard for 7 days, as set out in Table 1, and equals 75% of outstanding repairs completed within 7 days;

SDRMP<sub>t</sub> means the maximum penalty in respect of the 7 day minimum standard for the licensee, as specified in Appendix 1; and

SDRIR<sub>t</sub> 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<sub>t</sub> term is derived in accordance with the following formula:

If  $TDRS_t \geq \leq TDR_t$ , then:

$$TDR_t = 0$$

If  $TDRS_t < > TDR_t$  then:

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

where:

TDRS<sub>t</sub> means the licensee's actual performance in percentage in relation to the Twenty-Eight Day Repair Metric;

TDRT<sub>t</sub> means the minimum standard for 28 days, as set out in Table 1, and equals 90% of outstanding repairs completed within 28 days;

TDRMP<sub>t</sub> means the maximum penalty in respect of the 28 day minimum standard for the licensee, as specified in Appendix 3;

TDRIR<sub>t</sub> 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<sub>t</sub>) (£m)

<u>Distribution Network</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>
<u>EoE</u>	<u>2.25</u> <u>2.22</u>	<u>2.25</u> <u>2.22</u>	<u>2.25</u> <u>2.22</u>	<u>2.25</u> <u>2.22</u>	<u>2.25</u> <u>2.22</u>
<u>Lon</u>	<u>1.60</u>	<u>1.60</u>	<u>1.60</u>	<u>1.60</u>	<u>1.60</u>
<u>NW</u>	<u>1.50</u> <u>1.52</u>	<u>1.50</u> <u>1.52</u>	<u>1.50</u> <u>1.52</u>	<u>1.50</u> <u>1.52</u>	<u>1.50</u> <u>1.52</u>
<u>WM</u>	<u>1.15</u>	<u>1.15</u>	<u>1.15</u>	<u>1.15</u>	<u>1.15</u>
<u>Northern Gas Networks Ltd</u>	<u>1.50</u>	<u>1.50</u>	<u>1.50</u>	<u>1.50</u>	<u>1.50</u>
<u>Scotland Gas Networks plc</u>	<u>1.20</u> <u>1.17</u>	<u>1.20</u> <u>1.17</u>	<u>1.20</u> <u>1.17</u>	<u>1.20</u> <u>1.17</u>	<u>1.20</u> <u>1.17</u>
<u>Southern Gas Networks plc</u>	<u>2.55</u> <u>2.50</u>	<u>2.55</u> <u>2.50</u>	<u>2.55</u> <u>2.50</u>	<u>2.55</u> <u>2.50</u>	<u>2.55</u> <u>2.50</u>
<u>Wales &amp; West Utilities Ltd</u>	<u>1.60</u> <u>1.58</u>	<u>1.60</u> <u>1.58</u>	<u>1.60</u> <u>1.58</u>	<u>1.60</u> <u>1.58</u>	<u>1.60</u> <u>1.58</u>

### Appendix 2

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

<u>Distribution Network</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>
<u>EoE</u>	<u>22.50</u> <u>22.23</u>	<u>22.50</u> <u>22.23</u>	<u>22.50</u> <u>22.23</u>	<u>22.50</u> <u>22.23</u>	<u>22.50</u> <u>22.23</u>

<u>Distribution Network</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>
<u>Lon</u>	<u>16.00</u> <u>16.03</u>	<u>16.00</u> <u>16.03</u>	<u>16.00</u> <u>16.03</u>	<u>16.00</u> <u>16.03</u>	<u>16.00</u> <u>16.03</u>
<u>NW</u>	<u>15.00</u> <u>15.22</u>	<u>15.00</u> <u>15.22</u>	<u>15.00</u> <u>15.22</u>	<u>15.00</u> <u>15.22</u>	<u>15.00</u> <u>15.22</u>
<u>WM</u>	<u>11.50</u> <u>11.52</u>	<u>11.50</u> <u>11.52</u>	<u>11.50</u> <u>11.52</u>	<u>11.50</u> <u>11.52</u>	<u>11.50</u> <u>11.52</u>
<u>Northern Gas Networks Ltd</u>	<u>15.00</u> <u>15.02</u>	<u>15.00</u> <u>15.02</u>	<u>15.00</u> <u>15.02</u>	<u>15.00</u> <u>15.02</u>	<u>15.00</u> <u>15.02</u>
<u>Scotland Gas Networks plc</u>	<u>12.00</u> <u>11.73</u>	<u>12.00</u> <u>11.73</u>	<u>12.00</u> <u>11.73</u>	<u>12.00</u> <u>11.73</u>	<u>12.00</u> <u>11.73</u>
<u>Southern Gas Networks plc</u>	<u>25.50</u> <u>24.97</u>	<u>25.50</u> <u>24.97</u>	<u>25.50</u> <u>24.97</u>	<u>25.50</u> <u>24.97</u>	<u>25.50</u> <u>24.97</u>
<u>Wales &amp; West Utilities Ltd</u>	<u>16.00</u> <u>15.84</u>	<u>16.00</u> <u>15.84</u>	<u>16.00</u> <u>15.84</u>	<u>16.00</u> <u>15.84</u>	<u>16.00</u> <u>15.84</u>

### **Appendix 1Appendix 3**

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

<u>Distribution Network</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>
<u>EoE</u>	<u>2.25</u> <u>2.22</u>	<u>2.25</u> <u>2.22</u>	<u>2.25</u> <u>2.22</u>	<u>2.25</u> <u>2.22</u>	<u>2.25</u> <u>2.22</u>
<u>Lon</u>	<u>1.60</u>	<u>1.60</u>	<u>1.60</u>	<u>1.60</u>	<u>1.60</u>
<u>NW</u>	<u>1.50</u> <u>1.52</u>	<u>1.50</u> <u>1.52</u>	<u>1.50</u> <u>1.52</u>	<u>1.50</u> <u>1.52</u>	<u>1.50</u> <u>1.52</u>
<u>WM</u>	<u>1.15</u>	<u>1.15</u>	<u>1.15</u>	<u>1.15</u>	<u>1.15</u>
<u>Northern Gas Networks Ltd</u>	<u>1.50</u>	<u>1.50</u>	<u>1.50</u>	<u>1.50</u>	<u>1.50</u>
<u>Scotland Gas Networks plc</u>	<u>1.20</u> <u>1.17</u>	<u>1.20</u> <u>1.17</u>	<u>1.20</u> <u>1.17</u>	<u>1.20</u> <u>1.17</u>	<u>1.20</u> <u>1.17</u>
<u>Southern Gas Networks plc</u>	<u>2.55</u> <u>2.50</u>	<u>2.55</u> <u>2.50</u>	<u>2.55</u> <u>2.50</u>	<u>2.55</u> <u>2.50</u>	<u>2.55</u> <u>2.50</u>
<u>Wales &amp; West Utilities Ltd</u>	<u>1.60</u> <u>1.58</u>	<u>1.60</u> <u>1.58</u>	<u>1.60</u> <u>1.58</u>	<u>1.60</u> <u>1.58</u>	<u>1.60</u> <u>1.58</u>

## Appendix 2Appendix 4

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

<u>Distribution Network</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>
<u>EoE</u>	<u>37.50</u> <u>37.04</u>	<u>37.50</u> <u>37.04</u>	<u>37.50</u> <u>37.04</u>	<u>37.50</u> <u>37.04</u>	<u>37.50</u> <u>37.04</u>
<u>Lon</u>	<u>26.67</u> <u>26.71</u>	<u>26.67</u> <u>26.71</u>	<u>26.67</u> <u>26.71</u>	<u>26.67</u> <u>26.71</u>	<u>26.67</u> <u>26.71</u>
<u>NW</u>	<u>25.00</u> <u>25.37</u>	<u>25.00</u> <u>25.37</u>	<u>25.00</u> <u>25.37</u>	<u>25.00</u> <u>25.37</u>	<u>25.00</u> <u>25.37</u>
<u>WM</u>	<u>19.17</u> <u>19.19</u>	<u>19.17</u> <u>19.19</u>	<u>19.17</u> <u>19.19</u>	<u>19.17</u> <u>19.19</u>	<u>19.17</u> <u>19.19</u>
<u>Northern Gas Networks Ltd</u>	<u>25.00</u> <u>25.03</u>	<u>25.00</u> <u>25.03</u>	<u>25.00</u> <u>25.03</u>	<u>25.00</u> <u>25.03</u>	<u>25.00</u> <u>25.03</u>
<u>Scotland Gas Networks plc</u>	<u>20.00</u> <u>19.54</u>	<u>20.00</u> <u>19.54</u>	<u>20.00</u> <u>19.54</u>	<u>20.00</u> <u>19.54</u>	<u>20.00</u> <u>19.54</u>
<u>Southern Gas Networks plc</u>	<u>42.50</u> <u>41.61</u>	<u>42.50</u> <u>41.61</u>	<u>42.50</u> <u>41.61</u>	<u>42.50</u> <u>41.61</u>	<u>42.50</u> <u>41.61</u>
<u>Wales &amp; West Utilities Ltd</u>	<u>26.67</u> <u>26.39</u>	<u>26.67</u> <u>26.39</u>	<u>26.67</u> <u>26.39</u>	<u>26.67</u> <u>26.39</u>	<u>26.67</u> <u>26.39</u>

## 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-23 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-23 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 ~~network innovation allowance~~ NIA over the RIIO-23 Price Control Period is subject to the following cap:

$$\sum_{t=2024/22}^{2025/26} (NIA_t) + \sum_{t=2026/27}^{2030/31} (NIA_t) \leq (TNIA_t + HYIN_t)$$

where:

$NIA_t$  is derived in accordance with paragraph 5.2.4;

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

$HYIN_t$  means ~~hydrogen innovation funding and has the value zero unless otherwise directed by the Authority in accordance with Part B.~~

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: Hydrogen innovation funding (HYIN<sub>t</sub>)~~**

5.2.7 ~~The Authority will direct a positive value for HYIN<sub>t</sub> term where it has decided that the value of NIA<sub>t</sub> is insufficient to enable the licensee to proceed with hydrogen related innovation that the Authority considers:~~

~~(a) ought to proceed; and~~

~~(b) satisfy the eligibility criteria specified in The RIIO-23 NIA Governance Document.~~

5.2.8 ~~Before making a direction under paragraph 5.2.7 the Authority will:~~

~~(a) engage with the licensee and stakeholders which may include:~~

~~(b) the Net Zero Innovation Board; or~~

~~(c) the Net Zero Advisory Group; and~~

~~(d) publish on the Authority's Website;~~

~~(e) the text of the proposed direction;~~

~~(f) the reasons for the proposed direction; and~~

~~(g) a period during which representations may be made on the proposed direction, which will not be less than 28 days.~~

5.2.9 ~~A direction under paragraph 5.2.7 will set out the value of the HYIN<sub>t</sub> term and the Regulatory Years to which that adjustment relates.~~

#### **~~Part C:~~Part B: The RIIO-2 NIA Governance Document**

~~5.2.10~~5.2.7 The licensee must comply with the RIIO-23 NIA Governance Document.

~~5.2.11~~5.2.8 The Authority will issue and amend the RIIO-23 NIA Governance Document by direction.

~~5.2.12~~5.2.9 The Authority will publish the RIIO-23 NIA Governance Document on the Authority's Website.

~~5.2.13~~5.2.10 The RIIO-23 NIA Governance Document will make provision about the regulation, governance and administration of the NIA, including:

- (a) the definition of "unrecoverable NIA expenditure";
- (b) the eligibility criteria, which RIIO-23 NIA Projects must meet;
- (c) the information that is to be published by the licensee before RIIO-23 NIA Projects can begin;
- (d) the circumstances in which the licensee will require approval from the Authority before beginning a RIIO-23 NIA Project, and the processes and procedures for that approval;
- (e) arrangements for ensuring that learning from RIIO-23 NIA Projects can be captured and disseminated by the licensee to other Gas Transporter Licensees;
- (f) the reporting obligations in respect of RIIO-23 NIA Projects (which may include reporting in respect of the funding and the completion of such projects; and the provisions of the RIIO-2 NIA Governance Document); and
- (g) arrangements relating to the treatment of intellectual property rights in respect of RIIO-23 NIA Projects.

~~5.2.14~~5.2.11 Before directing that the RIIO-23 NIA Governance Document comes into effect, the Authority will publish on the Authority's Website:

- (a) the text of the proposed RIIO-23 NIA Governance Document;
- (b) the date on which the Authority intends the RIIO-23 NIA Governance Document to come into effect; and
- (c) a period during which representations may be made on the content of the RIIO-23 NIA Governance Document, which will not be less than up to 28 days unless the Authority determines that a longer period is appropriate.

~~5.2.15~~5.2.12 Before directing an amendment to the RIIO-23 NIA Governance Document, the Authority will publish on the Authority's Website:

- (a) the text of the amended proposed amendments to the RIIO-23 NIA Governance Document;
- ~~(b)(a) — the date on which the Authority intends the amended RIIO-2 NIA Governance Document to come into effect;~~
- (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-23 NIA Governance Document; and
- (d) a period during which representations may be made on the proposed amendments to the RIIO-23 NIA Governance Document, which will not be less than up to 28 days unless the Authority determines that a longer period is appropriate.



## Appendix 1

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

<u>Licensee</u>	<u>Value of TNIA</u> <u>(£m)</u>
<u>EE</u>	<u>12.00</u>
<u>Cadent</u>	<u>18.4</u>
<b>Lon</b>	<b>6.50</b>
<b>NW</b>	<b>8.00</b>
<b>WM</b>	<b>6.00</b>
<u>Northern Gas Networks Ltd</u>	<u>11.50</u>
<b>Scotland Gas Networks plc</b>	<b>11.00</b>
<u>Southern Gas Networks plc</u>	<u>24.60</u>
<u>Wales &amp; West Utilities Ltd</u>	<u>13.30</u>
<u>WWU</u>	<u>18.48</u>

## 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 RII0-1 Network Innovation Allowance<sub>2</sub> NIA funding.
- 5.3.3 This condition also ~~makes appropriate provision for~~ 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. The value of CTNIA is derived from the following formula:

$$CTNIA = (TNIA - \sum_{t=2021/22}^{2025/26} NIA_t) \times \frac{PI_{2023/24}}{PI_{2018/19}}$$

where:

TNIA — means the total NIA cap for the licensee, set out in Appendix 1 of the licence;

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

$\frac{PI_{2023/24}}{PI_{2018/19}}$  is the price index derived in accordance with Part E of Special Condition 2.1.

5.3.4 For the Regulatory Year period commencing on 1 April 2021/2026, and ending on 30 September 2027, the value of  $CNIA_t$  is derived in accordance with the following formula:

$$CNIA_t = (0.9 \cdot \min[ECNIA_t, CNIAV] - CNIA_{t-1}) \cdot \frac{PI_{2018/19}}{PI_t} \cdot \min(0.9 \times ECNIA_t, CTNIA - CNIA_{t-1}) - CNIA_{t-1}$$

where:

~~where:~~  $EC$  means the expenditure incurred by the licensee in respect of Eligible CNIA Projects as calculated by the licensee in accordance with the RIIO-1 NIA Governance Document and reported to the Authority in accordance with Standard Special Condition A40B15 (Regulatory Instructions and Guidance);

$CNIAV$  is derived means the value of  $CTNIA$  calculated in accordance with Part B the formula in 5.3.47;

$CNIA_{t-1}$  means an amount recovered by the licensee remaining CNIA allowance in relation to a Regulatory Year 2021/22 under For the RIIO-1 Network Innovation Allowance which Regulatory Year 2026/27 the Authority has directed value of  $CNIA_{t-1}$  is unrecoverable in accordance with the RIIO-1 NIA Governance Document zero; and

$PI_t$   $CNIA_{t-1}$  is the price index derived in accordance with Part F of Special Condition 2.1 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. For the Regulatory Year 2027/2028, this amount will be zero.

5.3.5 For Regulatory Years commencing on or In respect of any time after 1 April 2022/30 September 2027, the value of  $CNIA_t$  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.

## Part B: Formula for calculating the Carry-over Network Innovation Allowance value term ( $CNIAV$ )

5.3.7 The value of  $CNIAV$   $CTNIA$  is derived in accordance with from the following formula:

$$CNIAV = NIAV_{2020/21} \cdot BR_{2020/21} - (ENIA_{2020/21} + BPC_{2020/21})$$

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

**where:**

~~NIAV<sub>2020/21</sub>~~ ~~R2~~ ~~TNIA~~ is calculated in accordance with Part B of Special Condition 1H (The Network Innovation Allowance) of this licence as in force on 31 March 2021; **means the total RIIO-2 NIA cap for the licensee, including hydrogen innovation funding where applicable, set out in Appendix 1 of this condition;**

~~BR<sub>2020/21</sub>~~ ~~NIA<sub>t</sub>~~ is calculated in accordance with Part B of Special Condition 1H of this licence as in force on 31 March 2021; **means value of NIA in year 't'.**

~~ENIA<sub>2020/21</sub>~~ is calculated in accordance with Part B of Special Condition 1H of this licence as in force on 31 March 2021; and

~~BPC<sub>2020/21</sub>~~ is calculated in accordance with Part B of Special Condition 1H of this licence as in force on 31 March 2021.

### **Part C: ~~Part B:~~ The RIIO-42 NIA Governance Document**

- 5.3.8 The licensee must comply with the RIIO-42 NIA Governance Document.
- 5.3.9 The Authority will amend the RIIO-42 NIA Governance Document by direction.
- 5.3.10 The RIIO-42 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 can be 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-42 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 D: ~~Part C:~~ Procedure for amending the RIIO-42 NIA Governance Document**

- 5.3.11 Before amending the RIIO-42 NIA Governance Document by direction, the Authority will publish on the Authority's Website:
- (a) the text of the ~~amended~~ proposed amendments to the RIIO-42 NIA Governance Document;
  - (b) the date on which the Authority intends the amended RIIO-2 NIA Governance Document to come into effect;

- (b) ~~the date on which the Authority intends the amended RIIO-1 NIA Governance Document to come into effect;~~
- (c) ~~the reasons for the proposed amendments to the RIIO-12 NIA Governance Document; and~~
- (d) ~~a period during which representations may be made on the proposed amendments to the RIIO-12 NIA Governance Document, which will not be less than 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

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

## 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~~~~turn~~ feeds into the calculation of Calculated Revenue in Special Condition 2.1 (Revenue restriction).
- 5.4.2 This condition also ~~makes appropriate provision for~~~~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; ~~and~~

$VCML_t$  means the GDN Collaborative VCMA Project **ring-fenced expenditure** allowance that relates to the licensee; and  
 $VCMCU_t$  means the Cross-Utilities Collaborative VCMA Project **ring-fenced expenditure** allowance that relates to the licensee.

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

$$VMCS_t = \max \left[ \min \left( VCMCSE_t, VCMCSC - \sum_{k=2021/22}^{t-1} VCMCSE_k \right), 0 \right] \left[ \min \left( VCMCSE_t, VCMCSC - \sum_{k=2026/27}^{t-1} VCMCSE_k \right), 0 \right]$$

where:

$VCMCSE_t$  means the total expenditure on Company Specific VCMA Projects;

$VCMCSC$  means the value of the licensee's **capped expenditure cap allowance cap** for Company Specific VCMA Projects for the Price Control Period as set out in Appendix 1; and

$\sum_{k=2021/22}^{t-1} VCMCSE_k$  means the total expenditure on Company Specific VCMA Projects prior to Regulatory Year t.

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

$$VMCL_t = \max \left[ \min \left( VCMCLE_t, VCMCLC - \sum_{k=2021/22}^{t-1} VCMCLE_k \right), 0 \right]$$

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

where:

$VCMCLE_t$  means the total expenditure on GDN Collaborative VCMA Projects;

$VCMCLC$  means the value of the licensee's **ring-fenced expenditure cap allowance** for GDN Collaborative VCMA Projects for the

VCMCSC

$$\frac{\sum_{k=2021/22}^{t-1} VCMCUE_k}{\sum_{t=2026/27}^{2030/31} VCMCS_t} \sum_{k=2026/27}^{t-1} VCMCUE_k$$

Price Control Period as set out in Appendix 1; and  
means the value of the licensee's capped expenditure allowance cap for Company Specific VCMA Projects for the Price Control Period as set out in Appendix 1;  
means the total Company Specific VCMA Project allowance for RIIO-3 that relates to the licensee; and  
means the total expenditure on GDN Collaborative VCMA Projects prior to Regulatory Year t.

5.4.6 The VCMA 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<sub>t</sub> means the total expenditure on Cross-Utilities Collaborative VCMA Projects;

VCMCUC means the value of the licensee's ring-fenced expenditure allowance cap 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 cap for Company Specific VCMA Projects for the Price Control Period as set out in Appendix 1;  
means the total Company Specific VCMA Project allowance for RIIO-3 that relates to the licensee; and

$\sum_{t=2026/27}^{2030/31} VCMCS_t$  means the total expenditure on Cross-Utilities Collaborative VCMA Projects prior to Regulatory Year t.  
 $\sum_{k=2026/27}^{t-1} VCMCUE_k$

## Part B: The VCM Governance Document

5.4.65.4.7 The licensee must comply with the VCMA VCM Governance Document in its administration and delivery of the VCMA Projects, associated learning dissemination requirements and reporting requirements.

5.4.75.4.8 The Authority will issue and amend the VCMA VCM Governance Document by direction.

5.4.85.4.9 The Authority will publish the VCMA VCM Governance Document on the Authority's Website.

5.4.95.4.10 The VCMAVCMI 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.

5.4.105.4.11 Before issuing the VCMAVCMI Governance Document the Authority will publish on the Authority's Website:

- (a) the proposed text of the VCMAVCMI Governance Document;
- (b) the date on which the Authority intends the VCMAVCMI Governance Document to come into effect; and
- (c) a period during which representations may be made on the content of the VCMAVCMI Governance Document, which will not be less than up to 28 days unless the Authority determines that a longer period is appropriate.

5.4.115.4.12 Before directing an amendment to the VCMAVCMI Governance Document, the Authority will publish on the Authority's Website:

- (a) the text of the amended VCMA proposed amendments to the VCMI Governance Document;
- (b) the date on which the Authority intends the amended VCMAVCMI Governance Document to come into effect;
- (c) the reasons for the proposed amendment to the VCMAVCMI Governance Document; and
- (d) a period during which proposed representations may be made on the amendment to the VCMAVCMI Governance Document, which will not be less than up to 28 days unless the Authority determines that a longer period is appropriate.

## Appendix 1

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

<u>GDN Distribution Network</u>	<u>Allowance</u>	<u>Total</u>
EoE	Company Specific VCMA Project <u>capped</u> allowance	<u>23.50</u> <u>21.70</u>
EoE	<u>GDN</u> Collaborative VCMA Project <u>ring-fenced</u> allowance	<u>7.83</u> <u>53</u>
<u>EoE</u>	Cross-Utilities Collaborative VCMA Project <u>ring-fenced</u> allowance	<u>0.90</u>
Lon	Company Specific VCMA Project <u>capped</u> allowance	<u>13.14</u> <u>12.20</u>
Lon	<u>GDN</u> Collaborative VCMA Project <u>ring-fenced</u> allowance	<u>4.38</u> <u>24</u>
<u>Lon</u>	Cross-Utilities Collaborative VCMA Project <u>ring-fenced</u> allowance	<u>0.51</u>

<u>GDN Distribution Network</u>	<b>Allowance</b>	<b>Total</b>
NW	Company Specific VCMA Project capped allowance	<del>15.67</del> 14.46
NW	GDN Collaborative VCMA Project ring-fenced allowance	<del>5.22</del> 02
NW	Cross-Utilities Collaborative VCMA Project ring-fenced allowance	<del>0.60</del>
WM	Company Specific VCMA Project capped allowance	<del>11.43</del> 10.57
WM	GDN Collaborative VCMA Project ring-fenced allowance	<del>3.81</del> 67
WM	Cross-Utilities Collaborative VCMA Project ring-fenced allowance	<del>0.44</del>
Northern Gas Networks Ltd	Company Specific VCMA Project capped allowance	<del>14.75</del> 13.78
Northern Gas Networks Ltd	GDN Collaborative VCMA Project ring-fenced allowance	<del>4.92</del> 78
Northern Gas Networks Ltd	Cross-Utilities Collaborative VCMA Project ring-fenced allowance	<del>0.57</del>
Scotland Gas Networks plc	Company Specific VCMA Project capped allowance	<del>10.77</del> 9.96
Scotland Gas Networks plc	GDN Collaborative VCMA Project ring-fenced allowance	<del>3.59</del> 46
Scotland Gas Networks plc	Cross-Utilities Collaborative VCMA Project ring-fenced allowance	<del>0.41</del>
Southern Gas Networks plc	Company Specific VCMA Project capped allowance	<del>24.07</del> 22.29
Southern Gas Networks plc	GDN Collaborative VCMA Project ring-fenced allowance	<del>8.02</del> 7.74
Southern Gas Networks plc	Cross-Utilities Collaborative VCMA Project ring-fenced allowance	<del>0.93</del>
Wales & West Utilities Ltd	Company Specific VCMA Project capped allowance	<del>15.27</del> 13.85
Wales & West Utilities Ltd	GDN Collaborative VCMA Project ring-fenced allowance	<del>5.09</del> 4.81
Wales & West Utilities Ltd	Cross-Utilities Collaborative VCMA Project ring-fenced allowance	<del>0.58</del>



# 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>~~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:

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

where:

- RB<sub>t</sub>* means the amount levied on the licensee in respect of the Prescribed Rates or an amount directed under Part B;
- LF<sub>t</sub>* means the net payments made by the licensee in respect of Licensed Activity under Standard Condition 3 (Payments by the Licensee to the Authority);
- PD<sub>t</sub>* ~~means the payments made by the licensee to meet the Distribution Network Pension Deficit Charge, which is levied on the Distribution Network by the NTS Operator;~~
- EDE<sub>t</sub>* means the payments in relation to the Pension Scheme Established Deficit repair expenditure ~~for each Regulatory Year, as further explained and elaborated upon~~ set in the GD2 triennial review of Pension Scheme Established Deficit provided for in the GD3 Price Control Financial Handbook;
- TPWI<sub>t</sub>* means the Third Party Damage And Water Ingress Costs pass-through term and is derived in accordance with Part C;
- TG<sub>t</sub>* means the adjustment equal to any allowance made, in total, for reasonable costs incurred by a gas supplier pursuant to paragraphs 5, 6 and 13 of Standard Condition 7 (Provision of Information Relating to Gas Illegally Taken);
- MP<sub>t</sub>* means the adjustment equal to miscellaneous pass-through costs incurred by the licensee and not reflected in any other part of this condition, which the Authority has (following consultation with the licensee) directed the licensee to treat as part of ~~MP<sub>t</sub>~~MP<sub>t</sub>;
- CDSP<sub>t</sub>* means CDSP Costs;
- SL<sub>t</sub>* means the Shrinkage costs pass-through term and is derived in accordance with Part D; ~~and~~

- $EC_t$  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 ~~will~~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 6.1.4~~5~~, the Authority ~~will~~may adjust the value of  ~~$RB_t$~~  $RB_t$  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 ( $TPWI_t$ )

- ~~6.1.7~~6.1.9 Subject to paragraph 6.1.4~~0~~13, the  $TPWI_t$  term is derived in accordance with the following formula:

$$TPWI_t = \max[(0.95 \times TPWR_t) - (0.015 \times EABR_t), 0] \left[ (0.95 \times TPWR_t) - (0.015 \times EABR_t), 0 \right]$$

where:

TPWR<sub>t</sub> means Third Party Damage And Water Ingress Costs; and

EABR<sub>t</sub> means Ex-Ante Base Revenue.

~~6.1.8~~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.

~~6.1.9~~6.1.12 The Authority will review the action taken by the licensee to recoup Third Party Damage And Water Ingress Costs.

~~6.1.10~~6.1.13 If, after reviewing the licensee's actions, the Authority considers that the licensee has not complied with paragraph 6.1.811, the Authority will adjust the value of TPWI<sub>t</sub> by direction.

#### **Part D: Formula for calculating the Shrinkage costs pass-through term (SL<sub>t</sub>)**

~~6.1.11~~6.1.14 The value of SL<sub>t</sub> is derived in accordance with the following formula:

$$SL_t = ASV_t \cdot GPRC_t$$

where:

ASV<sub>t</sub> means the Actual Shrinkage Volume; and

GPRC<sub>t</sub> means the gas price reference cost, and is derived in accordance with Part B of Special Condition 4.4 (Shrinkage Management output delivery incentive). E.

#### **Part E: Formula for calculating the gas price reference cost (GPRC<sub>t</sub>)**

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

$$GPRC_t = CF \left( \frac{\sum_{d=1}^n GP_{d,t}}{n_t} \right) \cdot \frac{PI_{2023/24}}{PI_t}$$

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<sub>t</sub> means the total number of calendar days in Regulatory Year t; and

GP<sub>d,t</sub> 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); and

$PI_t$  means the price index derived in accordance with Part E of Special Condition 2.1.

# Chapter 7: Legacy adjustments

## Special Condition 7.1 Legacy adjustments to revenue (LAR<sub>t</sub>)

### Introduction

7.1.1 The purpose of this condition is to calculate the term LAR<sub>t</sub> (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<sub>t</sub> and its components are in nominal prices.

### Part A: Formula for calculating total legacy adjustments (LAR<sub>t</sub>)

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

$$LAR_t = \cancel{LPT_t} + \cancel{LMOD_t} + \cancel{LK_t} + \cancel{LTRU_t} + \cancel{NOCO_t} + \cancel{LDRW_t} + \cancel{LBM_t} + \cancel{LSHR_t} + \cancel{LEEI_t} + \cancel{LFPI_t} + \cancel{LEx_t} LADJ_t + LK_t$$

where:

<del><math>LPT_t</math></del>	<del>is derived in accordance with Special Condition 7.2 (Legacy pass-through</del> <del>AIP Adjustment term);</del>
<del><math>LMOD_t</math></del>	<del>is derived in accordance with Special Condition 7.3 (Legacy MOD);</del>
<del><math>LK_t</math></del>	<del>is derived in accordance with Special Condition 7.4</del> <del>3 (Legacy K correction);</del>
<del><math>LTRU_t</math></del>	<del>is derived in accordance with Special Condition 7.5 (Legacy TRU term);</del>
<del><math>NOCO_t</math></del>	<del>is derived in accordance with Special Condition 7.6 (Close out of the RHO-1 Network Outputs);</del>
<del><math>LDRW_t</math></del>	<del>is derived in accordance with Special Condition 7.8 (Close out of the RHO-GD1 Discretionary Reward Scheme);</del>
<del><math>LBM_t</math></del>	<del>is derived in accordance with Special Condition 7.9 (Close out of the RHO-GD1 Broad Measure of Customer Satisfaction Incentive);</del>
<del><math>LSHR_t</math></del>	<del>is derived in accordance with Special Condition 7.10 (Close out of the RHO-GD1 Shrinkage Allowance Revenue Adjustment);</del>
<del><math>LEEI_t</math></del>	<del>is derived in accordance with Special Condition 7.11 (Close out of the RHO-GD1 Environmental Emissions Incentive);</del>
<del><math>LFPI_t</math></del>	<del>is derived in accordance with Special Condition 7.12 (Close out of the RHO-GD1 Fuel Poor Network Extension Scheme Incentive Mechanism); and</del>
<del><math>LEx_t</math></del>	<del>is derived in accordance with Special Condition 7.13 (Close out of the RHO-GD1 Exit Capacity Cost Adjustment).</del>

## **Special Condition 7.2 Legacy pass-through (~~LPT<sub>t</sub>~~ AIP Adjustment term (LADJ<sub>t</sub>))**

### **Introduction**

- 7.2.1 The purpose of this condition is to ~~calculate the term LPT<sub>t</sub>~~ set out the process that the Authority will follow when directing values for the term LADJ<sub>t</sub> (the legacy pass-through AIP Adjustment term). This contributes to the calculation of the ~~term LAR<sub>t</sub> (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 close out the RHO-GD1 pass-through term such that revenue in the Regulatory Years commencing on 1 April 2021 and 1 April 2022 reflects pass-through item adjustments relating to the Regulatory Years commencing on 1 April 2019 and 1 April 2020 respectively.~~

### **Part A: Formula for calculating the legacy pass-through term (~~LPT<sub>t</sub>~~)**

- 7.2.3 ~~For the Regulatory Years commencing on 1 April 2021 and 1 April 2022, the value of LPT<sub>t</sub> has the value of PT as derived in accordance with Special Condition 1C (Distribution Network allowed pass-through items) of this licence as in force on 31 March 2021.~~
- 7.2.4 ~~The value of LPT<sub>t</sub> for Regulatory Years commencing on or after 1 April 2023 is zero.~~

## **Special Condition 7.3 Legacy MOD (~~LMOD<sub>t</sub>~~)**

### **Introduction**

- 7.3.1 ~~The purpose of this condition explains the process the Authority will follow when directing values for the term LMOD<sub>t</sub> (the legacy MOD term). This contributes to the calculation of the term LAR<sub>t</sub> (the legacy adjustments term), which in turn feeds into the Allowed Revenue in Special Condition 2.1 (Revenue restriction).~~
- 7.3.2 ~~The effect of this condition is to reflect the close out of the GD1GD2~~  
Legacy Price Control Financial Model.

### **Part A: Authority ~~Assessment~~ Assessment and direction**

- 7.3.3 ~~7.2.3~~ For Regulatory Years commencing on 1 April 2021 and 1 April 2022, The value of ~~LMOD<sub>t</sub>~~ LADJ<sub>t</sub> is derived in accordance with the following formula:

$$\begin{aligned} LMOD_t &= MOD_t \cdot RPIF_t \\ \text{—————} LADJ_t &= \frac{ADJ_{26/27}}{5} \cdot CWACC_t \end{aligned}$$

where:

~~$MOD_t$~~   $ADJ_2$  has the value ~~directed by the Authority coinciding with the Annual Iteration Process, related to revisions to the GD1 Price Control Financial Model, performed determined by the Authority in accordance with Chapter 8 (Legacy) of the GD2GD3 Price Control Financial Handbook and directed by the Authority in accordance with this condition; and~~

~~$RPIF_t$~~   $CWACC_t$  means compound WACC and has the value ~~of  $RPIF_t$  as determined derived in accordance with Part C of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) of this licence as in force on 31 March 2021B.~~

7.3.4 For Regulatory Years commencing on 1 April 2023, 1 April 2024, and 1 April 2025, the value of  $LMOD_t$  is derived in accordance with the following formula:

$$LMOD_t = \frac{COA}{3} \cdot CWACC_t \cdot \frac{PI_t}{PI_{2018/19}}$$

— where:

$COA$  means the closeout adjustment in 2018/19 prices, and has the value directed by the Authority in accordance with Chapter 8 (Legacy) of the GD2 Price Control Financial Handbook;

$CWACC_t$  means compound WACC and has the value derived in accordance with Part B;

$PI_t$  has the value given to it by Part F of Special Condition 2.1; and

$PI_{2018/19}$  has the value given to it by Part F of Special Condition 2.1 for the Regulatory Year commencing on 1 April 2018.

7.3.57.2.4 Before making a direction under paragraphs 7.3.3 and 7.3.4, 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 not be less than up to 28 days unless the Authority determines that a longer period is appropriate.

## Part B: Compound WACC

7.3.67.2.5 For the Regulatory Year commencing on 1 April 20212026,  $CWACC_t$  has the value of 1.

7.3.77.2.6 For Regulatory Years commencing on or after 1 April 20222027,  $CWACC_t$  is derived in accordance with the following formula:

$$CWACC_t = \prod_{t=2021/22}^{t-1} (1 + WACC_t)$$

$t-1$

$$CWACC_t = \prod_{t=2026/27} (1 + \text{nom}WACC_t)$$

where:

$\frac{WACC_t \text{ nom}}{WACC_t}$  means ~~vanilla~~ the nominal weighted average cost of capital, ~~set out and is defined in accordance with the GD2 Price Control Financial Handbook, Part F of Special Condition 2.1 (Revenue Restriction).~~

## **~~Special Condition 7.4~~ Special Condition 7.3 Legacy K correction (LK<sub>t</sub>)**

### **Introduction**

7.4.1—The purpose of this condition is to calculate the term LK<sub>t</sub> (the legacy correction term). This contributes to the calculation of the ~~term LAR<sub>t</sub> (the legacy adjustments term in Special Condition 7.1 (Legacy adjustments to revenue), which in turn feeds into the Allowed Revenue in Special Condition 2.1 (Revenue restriction).~~

7.4.2—The effect of this condition is to ~~close out the RHO-GD1 correction term such that revenue in the Regulatory Years commencing on 1 April 2021 reflects the correction value relating to the Regulatory Years commencing on 1 April 2019.~~

### **~~Part A: Formula for calculating the legacy correction term (LK<sub>t</sub>)~~**

7.4.3—For the Regulatory Years commencing on 1 April 2021, the value of LK<sub>t</sub> is derived in accordance with the following formula:

$$LK_t = -K_t$$

—Where

$K_t$  has the value of as determined in accordance with Part D of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) of this licence as in force on 31 March 2021.

7.4.4—The value of LK<sub>t</sub> for Regulatory Years commencing on or after 1 April 2022 is zero.

## **~~Special Condition 7.5~~ Legacy TRU term (LTRU<sub>t</sub>)**

### **Introduction**

7.5.1—The purpose of this condition is to calculate the term LTRU<sub>t</sub> (the legacy TRU term). This contributes to the calculation of the ~~term LAR<sub>t</sub> (the legacy adjustments term), which in turn feeds into the Allowed Revenue in Special Condition 2.1 (Revenue restriction).~~



7.5.2 — The effect of this condition is to close out the RHO-GD1 TRU term such that revenue in the Regulatory Years commencing on 1 April 2021 to 1 April 2024 reflects TRU adjustments relating to inflation forecasts used in the Regulatory Years commencing on 1 April 2017 to 1 April 2020 respectively.

**Part A: Formula for calculating the legacy TRU term (LTRU<sub>t</sub>)**

7.5.3 — For the Regulatory Years commencing on 1 April 2021 to 1 April 2022, the value of LTRU<sub>t</sub> is derived in accordance with the following formula:

$$LTRU_t = TRU_t \cdot RPIF_t$$

— where:

*TRU<sub>t</sub>* is equivalent to TRU<sub>t</sub> as determined in accordance with Part C of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) of this licence as in force on 31 March 2021; and

*RPIF<sub>t</sub>* has the value of RPIF<sub>t</sub> as determined in accordance with Part C of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) of this licence as in force on 31 March 2021.

7.5.4 — For the Regulatory Years commencing on 1 April 2023 to 1 April 2024, the value of LTRU<sub>t</sub> is derived in accordance with the following formula:

$$LTRU_t = \left[ \frac{RPIA_{t-2} - RPIF_{t-2}}{RPIA_{t-2}} \right] \cdot LPVF_{t-2} \cdot LPVF_{t-1} \cdot REV_{t-2} \cdot \frac{PI_t}{PI_{2009/10}}$$

— where:

*RPIA<sub>t</sub>* has the value given to it by Part C of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) of this licence as in force on 31 March 2021;

*RPIF<sub>t</sub>* has the value of RPIF<sub>t</sub> as determined in accordance with Part C of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) of this licence as in force on 31 March 2021.

*REV<sub>t-2</sub>* has the value of REV<sub>t-2</sub> as determined in accordance with Part C of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) of this licence as in force on 31 March 2021. For this calculation the component PU (Opening Base Revenue Allowance) is zero.

*LPVF<sub>t</sub>* has the value derived in accordance with paragraph 7.5.5.

*PI<sub>t</sub>* has the value given to it by Part F of Special Condition 2.1; and

*PI<sub>2009/10</sub>* has the value given to it by Part F of Special Condition 2.1 for the Regulatory Year commencing on 1 April 2009.

~~7.5.5 The value of  $LPVF_t$  is derived in accordance with the following formula:~~

$$LPVF_t = 1 + WACC_t$$

~~where:~~

~~$WACC_t$  means vanilla weighted average cost of capital, set out in accordance with the GD2 Price Control Financial Handbook.~~

~~7.5.6 The value of  $LTRU_t$  for Regulatory Years commencing on or after 1 April 2025 is zero.~~

## **Special Condition 7.6 Close out of the RIIO-1 Network Outputs (NOCO<sub>t</sub>)**

### **Introduction**

~~7.6.1 The purpose of this condition is to set out the process for deciding the term NOCO<sub>t</sub> (the RIIO-1 Network Outputs close out term). This contributes to the calculation of the  $LAR_t$  term (the legacy adjustment term), which in turn feeds into Allowed Revenue in Special Condition 2.1 (Revenue restriction).~~

~~7.6.2 The effect of this condition is to adjust the licensee's revenue to reflect its RIIO-1 Network Outputs delivery.~~

### **Part A: RIIO-1 Network Outputs information to be provided by the licensee**

~~7.6.3 By 31 July 2021, or such later date directed by the Authority, the licensee must provide to the Authority a report consistent with the requirements of the NOMs Incentive Methodology which sets out why it considers that it has delivered:~~

- ~~(a) any RIIO-1 Network Output in accordance with the relevant specifications;~~
- ~~and~~
- ~~(b) any RIIO-1 Materially Equivalent Outputs.~~

~~7.6.4 By 1 December 2021, or such later date directed by the Authority, the licensee must provide to the Authority a report consistent with the requirements of the NOMs Incentive Methodology which sets out why it considers that it has delivered:~~

- ~~(a) any RIIO-1 Justified Material Over-delivery; or~~
- ~~(b) any RIIO-1 Justified Material Under-delivery.~~

### **Part B: Process for modifying the NOMs Incentive Methodology**

~~7.6.5 The Authority will modify the NOMs Incentive Methodology by direction.~~

~~7.6.6 Before making a direction under paragraph 7.6.5, 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 not be less than 28 days.~~

**Part C: Process for directing the RIIO-1 Network Outputs close out term (NOCO<sub>t</sub>)**

7.6.7—The Authority will assess the licensee's RIIO-1 Network Outputs delivery in accordance with the principles in Appendix 1, which are further clarified and supplemented by the NOMs Incentive Methodology.

7.6.8—Before directing the value of NOCO<sub>t</sub>, the Authority will publish on the Authority's Website:

- ~~(a) the text of the proposed direction;~~  
~~(b)(a) 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 not be less than 56 days.~~

**Appendix 1**

**Treatment of under-delivery and over-delivery of RIIO-1 Network Outputs**

<b>Incentives</b>	<b>Justified</b>	<b>Unjustified</b>
Over-delivery	Cost of over-delivery will be included in the licensee's revenue. The financing cost incurred by the licensee in advancing investment will be reimbursed. Reward of 2.5 per cent of the additional costs associated with the material over-delivery.	Cost of over-delivery will be included in the licensee's revenue. The licensee will incur the financing cost of earlier investment.
Under-delivery	Cost of under-delivery will be excluded from the licensee's revenue. The licensee will benefit from the financing cost of delayed investment.	Cost of under-delivery will be excluded from the licensee's revenue. The benefit arising to the licensee from the financing cost of delayed investment will be clawed back. Penalty of 2.5 per cent of the avoided costs associated with the material under-delivery.

## **Special Condition 7.7 RIIO-GD1 network innovation competition**

### **Introduction**

- 7.7.1—The NIC ran during the RIIO-GD1 price control period to fund innovative low carbon or environmental projects. Although it will no longer run for the licensee from 1 April 2021, this condition makes provision for arrangements relating to the regulation, administration and governance of NIC Funding.
- 7.7.2—Parts A and D are supplemented by the relevant provisions of the NIC Governance Document.

### **Part A: The Funding Return Mechanism**

- 7.7.3—The Authority may direct how Returned Project Revenues should be paid to customers through the Funding Return Mechanism, or where the Authority considers it appropriate, how they should be retained by the licensee.
- 7.7.4—In each Regulatory Year, in accordance with the appropriate provisions of the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee, specify:
- (a) the amount of any Funding Return that the licensee must pay to the NTS Operator; and
  - (b) the manner in which and the timescale over which the licensee must pay that amount.

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

- 7.7.5—The licensee must comply with the NIC Governance Document.
- 7.7.6—The Authority will amend the NIC Governance Document by direction.
- 7.7.7—The Authority will publish the NIC Governance Document on the Authority's Website.
- 7.7.8—The NIC Governance Document makes and will continue to make provision about:
- (a) the process and procedures that will be in place for the assessment, approval and financing of project funding (where necessary);
  - (b) arrangements to ensure that relevant matters the licensee learned from the implementation of Eligible NIC Projects can be captured and disseminated by the licensee to other Gas Transporter Licensees;
  - (c) 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 NIC Governance Document);
  - (d) arrangements relating to the treatment of intellectual property rights including Returned Royalty Income in respect of Eligible NIC Projects; and
  - (e) any other matters relating to the governance of the NIC.

## **Part C: Procedure for amending the NIC Governance Document**

7.7.9—Before amending the NIC Governance Document by direction, the Authority will publish on the Authority's Website:

- (a) the text of the amended NIC Governance Document;
- (b) the date on which the Authority intends the amended NIC Governance Document to come into effect;
- (c) the reasons for the amendments to the NIC Governance Document; and
- (d) a period during which representations may be made on the amendments to the NIC Governance Document, which will not be less than 28 days.

## **Part D: Successful Delivery Reward**

7.7.10—The Authority may direct that the NTS Operator pay the licensee a Successful Delivery Reward, in accordance with the provisions of the NIC Governance Document.

## **Special Condition 7.8 Close out of the RHO-GD1 Discretionary Reward Scheme (LDRW<sub>t</sub>)**

### **Introduction**

- 7.8.1—The purpose of this condition is to calculate the term LDRW<sub>t</sub> (the RHO-GD1 Discretionary Reward Scheme close out term). This contributes to the calculation of the LAR<sub>t</sub> term (the legacy adjustments term), which in turn feeds into Allowed Revenue in Special Condition 2.1 (Revenue restriction).
- 7.8.2—The effect of this condition is to close out the RHO-GD1 Discretionary Reward Scheme, such that revenue in the Regulatory Years commencing 1 April 2021 and 1 April 2022 reflects the licensee's performance under the scheme.

## **Part A: Formula for calculating the RHO-GD1 Discretionary Reward Scheme close out term (LDRW<sub>t</sub>)**

- 7.8.3—For the Regulatory Year commencing on 1 April 2021, the value of LDRW<sub>t</sub> is zero.
- 7.8.4—For the Regulatory Year commencing on 1 April 2022, the value of the LDRW<sub>t</sub> term is derived in accordance with the following formula:

$$LDRW_{2022/23} = DRWX \cdot DRWSF$$

where:

DRWX means the positive amount (if any) as may be determined by the Authority in respect of the licensee's performance under the RHO-GD1 Discretionary Reward Scheme in relation to each of the Regulatory Years 2018/19, 2019/20 and 2020/21; and

DRWSF means the scaling factor applied to DRWX on the basis of the proportion of the licensee's meter points in Regulatory Year 2020/21 that are located in the relevant Distribution Network.

7.8.5 The value of LDRW<sub>t</sub> for Regulatory Years commencing on or after 1 April 2023 is zero.

## **Special Condition 7.9 Close out of the RIIO-GD1 Broad Measure of Customer Satisfaction Incentive (LBM<sub>t</sub>)**

### **Introduction**

7.9.1 The purpose of this condition is to direct the term LBM<sub>t</sub> (the RIIO-GD1 Broad Measure of Customer Satisfaction Incentive close out term). This contributes to the calculation of the LAR<sub>t</sub> term (the legacy adjustments term), which in turn feeds into Allowed Revenue in Special Condition 2.1 (Revenue restriction).

7.9.2 The effect of this condition is to close out the RIIO-GD1 Broad Measure of Customer Satisfaction Incentive, such that revenue in the Regulatory Years commencing 1 April 2021 and 1 April 2022 reflects the licensee's performance under the incentive.

7.9.3 This condition also sets out the process the Authority will follow when amending the Stakeholder Engagement Incentive Guidance.

### **Part A: The RIIO-GD1 Broad Measure of Customer Satisfaction Incentive close out term (LBM<sub>t</sub>)**

7.9.4 For the Regulatory Years commencing on 1 April 2021 and 1 April 2022, the value of LBM has the value of BM as determined in accordance with Part B of Special Condition 1E (Incentive adjustment in respect of the Broad Measure of Customer Satisfaction) of this licence as in force on 31 March 2021.

7.9.5 The maximum value of LBM<sub>t</sub> that the Authority will direct is equal to 1 per cent of Base Distribution Network Transportation Activity Revenue in Regulatory Year 2020/21 as calculated in accordance with Part C of Special Condition 1B (Restriction of revenue in respect of the Distribution Network Transportation Activity) of this licence as in force on 31 March 2021.

7.9.6 The value of LBM<sub>t</sub> for Regulatory Years commencing on or after 1 April 2023 is zero.

### **Part B: Amendments to the Stakeholder Engagement Incentive Guidance**

The Authority will amend the Stakeholder Engagement Incentive Guidance by direction.

7.9.7 ~~Before amending the Stakeholder Engagement Incentive Guidance by direction the Authority will publish on the Authority's Website:~~

~~(a) the text of the amended Stakeholder Engagement Incentive Guidance;~~

- ~~(b) the date on which the Authority intends the amended Stakeholder Engagement Incentive Guidance to come into effect;~~
- ~~(c) the reasons for the amendments to the Stakeholder Engagement Incentive Guidance; and~~
- ~~(d) a period during which representations may be made on the amendments to the Stakeholder Engagement Incentive Guidance, which will not be less than 28 days.~~

## **~~Special Condition 7.10 Close out of the RIIO-GD1 Shrinkage Allowance Revenue Adjustment (LSHR<sub>t</sub>)~~**

### **~~Introduction~~**

- ~~7.10.1 The purpose of this condition is to direct the term LSHR<sub>t</sub> (the RIIO-GD1 Shrinkage Allowance Revenue Adjustment close out term). This contributes to the calculation of the LAR<sub>t</sub> term (the legacy adjustments term), which in turn feeds into Allowed Revenue in Special Condition 2.1 (Revenue restriction).~~
- ~~7.10.2 The effect of this condition is to close out the RIIO-GD1 Shrinkage Allowance Revenue Adjustment, such that revenue in the Regulatory Years commencing 1 April 2021, 1 April 2022 and 1 April 2023 reflect the licensee's performance under the scheme.~~

### **~~Part A: The RIIO-GD1 Shrinkage Allowance Revenue Adjustment close out term (LSHR<sub>t</sub>)~~**

- ~~7.10.3 For the Regulatory Years commencing on 1 April 2021 and 1 April 2022, the value of LSHR has the value of SHR as determined in accordance with Part A of Special Condition 1F (Revenue adjustments for performance in respect of gas Shrinkage and environmental emissions) of this licence as in force on 31 March 2021.~~
- ~~7.10.4 For the Regulatory Year commencing on 1 April 2023 the value of LSHR has the value of PRGSAS as determined in accordance with Part A of Special Condition 1F (Revenue adjustments for performance in respect of gas Shrinkage and environmental emissions) of this licence as in force on 31 March 2021.~~
- ~~7.10.5 The value of LSHR<sub>t</sub> for Regulatory Years commencing on or after 1 April 2024 is zero.~~

## **~~Special Condition 7.11 Close out of the RIIO-GD1 Environmental Emissions Incentive (LEEL<sub>t</sub>)~~**

### **~~Introduction~~**

- ~~7.11.17.3.1 The purpose of this condition is to direct the term LEEL<sub>t</sub> (the RIIO-GD1 Environmental Emissions Incentive close out term). This contributes to the calculation of the LAR<sub>t</sub> term (the legacy adjustments term), which in turn feeds into Allowed Revenue in Special Condition 2.1 (Revenue restriction).~~

7.11.2—The effect of this condition is to close out the RIIO-GD1 Environmental Emissions Incentive, such that revenue in the Regulatory Years commencing 1 April 2021, 1 April 2022 and 1 April 2023 reflect the licensee's performance under the incentive.

7.11.3 7.3.2—The RIIO-GD1 Environmental Emissions Incentive close-out GD2 correction term ( $LEEI_t$ ).

7.11.4—For the Regulatory Years commencing on 1 April 2021 and 1 April 2022, the value of  $LEEI_t$  has the value of EEI as determined in accordance with Part C of Special Condition 1F (Revenue adjustments for performance in respect of gas Shrinkage and environmental emissions) of this licence as in force on 31 March 2021.

7.11.5—For the Regulatory Year commencing on 1 April 2023, the value of  $LEEI_t$  has the value of PRGAS as determined in accordance Part C of Special Condition 1F (Revenue adjustments for performance in respect of gas Shrinkage and environmental emissions) of this licence as in force on 31 March 2021.

7.11.6—The value of  $LEEI_t$  for Regulatory Years commencing on or after 1 April 2024 is zero.

## **Special Condition 7.12 Close out of the RIIO-GD1 Fuel Poor Network Extension Scheme Incentive ( $LFPI_t$ )**

### **Introduction**

7.12.1—The purpose of this condition is to calculate the term  $LFPI_t$  (the Fuel Poor Network Extension Scheme Incentive close out term). This contributes to the calculation of the  $LAR_t$  term (the legacy adjustments term), which in turn feeds into Allowed Revenue in Special Condition 2.1 (Revenue restriction).

7.12.2—The effect of this condition is to close out the RIIO-GD1 Fuel Poor Network Extension Scheme Incentive, which provided a reward or penalty associated with over or under delivery of the RIIO-GD1 FPNES Connection Targets.

7.12.3—This condition also places reporting requirements on the licensee in relation to FPNES Connection Targets.

### **Part A: Formula for calculating the Fuel Poor Network Extension Scheme Incentive close out term ( $LFPI_t$ ) legacy correction term ( $LK_t$ )**

7.3.3—The value of  $LFPI_t$   $LK_t$  is derived in accordance with the following formula, but only applies:

$$LK_t = \frac{K_{26/27}}{5} \cdot CWACC_t$$

where the Authority so directs:

$$LFPI_t = FPO_t + FPU_t$$



where:

$FPO_{t,K_{26/27}}$  means the positive adjustment equal to 2.5 per cent of the additional efficient costs associated with the justified over-delivery of the RHO-GD1 FPNES Connection Targets; and 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; and

$FPU_{t,CWA}$  means the negative adjustment equal to 2.5 per cent of the avoided efficient costs associated with the unjustified under-delivery of the RHO-GD1 FPNES Connection Targets; means compound WACC and has the value derived in accordance with Part B of Special Condition 7.2 Legacy AIP Adjustment term ( $LADJ_t$ ).

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**

### **Part B: Introduction Requirement to report on RHO-GD1 FPNES Connection Targets**

7.12.4—On or before 31 July 2021, the licensee must provide a report to the Authority setting out the extent to which it has achieved the RHO-GD1 FPNES Connection Targets and provide details of its performance.

7.12.5—The licensee's report must include detailed explanations together with detailed supporting evidence as to why the licensee reasonably considers that it has achieved Between 1 April 2013 and 31 March 2021:

- (a) the RHO-GD1 FPNES Connection Targets; and
- (b) any justified over delivery, or under delivery, in accordance with the RHO Principles.

### **Part C: Process for directing the application of the RHO-GD1 Fuel Poor Network Extension Scheme Incentive close out term**

#### **Before issuing a direction under paragraph 7.12.4**

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<sub>t</sub>)**

7.4.3 The Authority will determine the value of LRAV<sub>t</sub> 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<sub>t</sub>, OSRP<sub>t</sub>, OSBP<sub>t</sub>, ODRP<sub>t</sub>, LOSBP<sub>t</sub>, LODRP<sub>t</sub> and OTL<sub>t</sub> 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**

7.12.67.4.5 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 not be less than 28 days up to 28 days unless the Authority determines that a longer period is appropriate.

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

**Appendix 1**

**~~RHO-GD1 FPNES Connection Targets~~**

<b><del>Licensee</del></b>	<b><del>Scheme Connection Targets from 1 April 2013 to 31 March 2021</del></b>
<del>EOE</del>	<del>12,046</del>
<del>Lon</del>	<del>2,880</del>
<del>NW</del>	<del>13,330</del>
<del>WM</del>	<del>8,360</del>
<del>Northern Gas Networks Ltd</del>	<del>14,500</del>
<del>Scotland Gas Networks plc</del>	<del>17,130</del>
<del>Southern Gas Networks plc</del>	<del>10,367</del>
<del>Wales &amp; West Utilities Ltd</del>	<del>12,590</del>

## **Special Condition 7.13 Close out of the RHO-GD1 Exit Capacity Cost Adjustment ( $LEX_t$ )**

### **Introduction**

7.13.1—The purpose of this condition is to calculate the  $LEX_t$  term (the RHO-GD1 Exit Capacity Cost Adjustment close out term). This contributes to the calculation of the  $LAR_t$  term (the legacy adjustments term), which in turn feeds into Allowed Revenue in Special Condition 2.1 (Revenue restriction).

7.13.2—The effect of this condition is to close out the RHO-GD1 Exit Capacity Cost Adjustment, such that revenue in the Regulatory Years commencing 1 April 2021 and 1 April 2022 reflects the licensee's performance under the scheme.

### **Part A: Formula for calculating the RHO-GD1 Exit Capacity Cost Adjustment close out term ( $LEX_t$ )**

7.13.3—For the Regulatory Years commencing on 1 April 2021 and 1 April 2022 the value of  $LEX_t$  will be calculated in accordance with Parts A, B and C of Special Condition 1D (NTS Exit Capacity Cost Adjustment) of this licence as in force on 31 March 2021.

7.13.4—The value of  $LEX_t$  for Regulatory Years commencing on or after 1 April 2023 is zero.

## **Special Condition 7.14 Legacy net RAV additions ( $LRAV_t$ )**

### **Introduction**

7.14.1—This condition explains the process the Authority will follow when directing values for the term  $LRAV_t$  (the legacy net RAV additions term). This contributes to the calculation of the term  $DPN_t$  (the depreciation term as calculated by the GD2 Price Control Financial Model), which in turn feeds into the Calculated Revenue in Special Condition 2.1 (Revenue restriction).

7.14.2—The effect is to reflect the close out of the RHO-GD1 Price Control Financial Model, in respect of legacy net RAV additions.

### **Part A: Authority assessment and direction**

7.14.3—The Authority will direct revisions to  $LRAV_t$ , coinciding with the Annual Iteration Process, and following implementation of closeout methodologies set out in the GD2 Price Control Financial Handbook.

7.14.4—Before making a direction under paragraph 7.14.3 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 not be less than 28 days.

## Chapter 8: Governance

### Special Condition 8.1 Governance of the ~~GD2~~GD3 Price Control Financial Instruments

#### Introduction

8.1.1 The purpose of this condition is to establish:

- (a) the ~~GD2~~GD3 Price Control Financial Instruments; and
- (b) a robust and transparent change control framework for the ~~GD2~~GD3 Price Control Financial Instruments.

#### Part A: The ~~GD2~~GD3 Price Control Financial Instruments

8.1.2 Each of the following ~~GD2~~GD3 Price Control Financial Instruments forms part of this condition:

- (a) the ~~GD2~~GD3 Price Control Financial Handbook; and
- (b) the ~~GD2~~GD3 Price Control Financial Model.

#### Part B: Modification of the ~~GD2~~GD3 Price Control Financial Instruments

8.1.3 The Authority may ~~directly~~ by direction make modifications to the ~~GD2~~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 ~~GD2~~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 ~~modifications~~ 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 GD2GD3 Price Control Financial Instruments and between the GD2GD3 Price Control Financial Instruments and the other special conditions.

8.1.6 ~~Circumstances in which~~The following do not constitute a modification ~~may be made 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 ~~any views expressed and representations made by the GD2GD3 Price Control Financial Model Working Group in relation to modifications of the type set out in paragraphs~~ paragraph 8.1.5(a) to (e);; and

(b) publish on the Authority's Website:

i.ii. the text of the proposed direction;

ii.iii. 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.iv. a period during which representations may be made on the proposed direction, which will not be less than 28 daysbe 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 GD2GD3 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 C:Part D: Availability and updating of GD2GD3 Price Control Financial Instruments**

8.1.9 ~~This Part has effect in relation to~~The Authority will maintain on the publication and availability~~Authority's Website an up-to-date copy of the GD2GD3 Price Control Financial Handbook, and~~Instruments throughout the GD2-Price Control Financial Model~~Period.~~

8.1.10 The Authority will ensure that any modifications of the GD2GD3 Price Control Financial Instruments, whether under Part B of this condition or otherwise, are promptly incorporated into a consolidated version ~~of the GD2 Price Control Financial Instruments~~ maintained on the Authority's Website.

8.1.11 ~~Without limiting the general effect of paragraph 8.1.10, the Authority will:~~

- ~~(a) publish on the Authority's Website, the version of the GD2 Price Control Financial Model that will be used to calculate the value of the terms  $ADJR_t$  and  $AR_t$  in accordance with the calculation set out in Part C of Special Condition 2.1 (Revenue restriction), ahead of each Annual Iteration Process; and,~~
- ~~(b) publish on the Authority's Website, the version of the GD2 Price Control Financial Model used to calculate and publish the value of the terms  $ADJR_t$  and  $AR_t$  in accordance with the calculation set out in Part C of Special Condition 2.1 (Revenue restriction);~~

~~8.1.12 — The first Regulatory Year in which The Authority will publish on the Authority's Website a consolidated version of the GD2GD3 Price Control Financial Model on containing the Authority's Website for the purposes of paragraph 8.1.11 will be Regulatory Year 2021/22 and the last Regulatory Year will be 2024/25.~~

## **~~Special Condition 8.2 Annual Iteration Process for the GD2 Price Control Financial Model~~**

### **~~Introduction~~**

- ~~8.2.1 — The purpose of this condition is to set out the steps of the Annual Iteration Process that will be carried out by the licensee and the Authority each year in relation to the GD2 Price Control Financial Model, in order to calculate and publish the updated value of the terms  $ADJR_t$  and  $AR_t$  in accordance with Special Condition 2.1 (Revenue restriction).~~
- ~~8.2.2 — This condition also explains the process the Authority will follow in issuing and amending the PCFM Guidance.~~

### **~~Part A: Steps comprising the Annual Iteration Process~~**

- ~~8.2.3 — The paragraphs in this Part set out the steps that comprise the Annual Iteration Process.~~
- ~~8.2.4 — Step 1: The licensee must, by 30 September prior to each Regulatory Year:
 
  - ~~(a) use the version of the GD2 Price Control Financial Model published by the Authority in accordance with paragraph 8.1.10a to complete the PCFM Variable Values table with the PCFM Variable Values in accordance with the PCFM Guidance;~~
  - ~~(b) run the macro on the "UserInterface" sheet of the GD2 Price Control Financial Model to calculate the terms  $ADJR_t$  and  $AR_t$ ;~~
  - ~~(c) save the GD2 Price Control Financial Model; and~~
  - ~~(d) submit the GD2 Price Control Financial Model to the Authority.~~~~
- ~~8.2.5 — Step 2: The Authority will, taking into account any decisions made by it in relation to PCFM Variable Values under Chapters 2 to 7 of this licence:
 
  - ~~(a) review the GD2 Price Control Financial Model submitted by the licensee and confirm or amend any PCFM Variable Values; or~~~~

~~(b) where the licensee has not complied with Step 1, complete the PCFM Variable Values table.~~

8.2.6—Step 3: The Authority will run the macro on the “UserInterface” sheet of the GD2 Price Control Financial Model to calculate the value of the terms  $ADJR_t$  and  $AR_t$ .

8.2.7—Step 4: The Authority will publish the value of the terms  $ADJR_t$  and  $AR_t$  on the Authority’s Website in accordance with Part B.

8.2.8—In relation to Step 1 in paragraph 8.2.4:

~~(a) where a PCFM Variable Value is not known at the time of submission, the licensee must calculate that value in accordance with the GD2 Price Control Financial Handbook or the PCFM Guidance, as applicable and otherwise provide its best estimate using the information available at the time; and~~

~~(b) where any PCFM Variable Value relies on a third-party publication that ceases to be published or no longer contains the value required, the value from the most recent publication that did contain the value, or an alternate input agreed to by the Authority must be used.~~

#### **Part B: Publication of the value of the terms $ADJR_t$ and $AR_t$**

8.2.9—The value of the terms  $ADJR_t$  and  $AR_t$  will be published by the Authority no later than 31 January prior to each Regulatory Year.

8.2.10—Before publishing the value of the terms  $ADJR_t$  and  $AR_t$ , the Authority will:

~~(a) send to the licensee:~~

~~(b) a notice stating the value for the terms  $ADJR_t$  and  $AR_t$  that it proposes to publish;~~

~~(c) a copy of the GD2 Price Control Financial Model, which will contain the data used to calculate the value proposed for the terms  $ADJR_t$  and  $AR_t$ ; and~~

~~(d) specify a period during which representations may be made on the value of the terms  $ADJR_t$  and  $AR_t$ , which will not be less than 14 days.~~

#### **Part C: What if the Annual Iteration Process is not completed by 31 January?**

8.2.11—If the Authority does not publish a value for the terms  $ADJR_t$  and  $AR_t$  by 31 January prior to any Regulatory Year, then the Annual Iteration Process will not have been completed and the provisions set out in paragraphs 8.2.12 and 8.2.13 will apply.

8.2.12—The Authority will complete the Annual Iteration Process as soon as is reasonably practicable after 31 January by publishing a value for the terms  $ADJR_t$  and  $AR_t$ .

8.2.13—In the intervening period (Between the 31 January and the date on which the value of the terms  $ADJR_t$  and  $AR_t$  is published under paragraph 8.2.12), the value of the terms  $ADJR_t$  and  $AR_t$  will be held to be equal to a value ascertained by:

~~8.2.148.1.11 taking a copy of the GD2 Price Control Financial Model in its state following the last completed Annual Iteration Process which, for licensee's annual publication of the avoidance of doubt, will exclude the effect of any functional modificationsGD3 Price Control Financial Model under paragraph 82.1.5 of Special Condition 8.1 (Governance of GD2 Price Control Financial Instruments) made after the completion of that Annual Iteration Process; 2.1 (Revenue restriction).~~

~~(a) using the selection facilities on the "UserInterface" sheet contained in that copy of the GD2 Price Control Financial Model to select:~~

~~i. the name of the licensee; and~~

~~ii. the Regulatory Year equating to the Regulatory Year  $t$ ;~~

~~(b) pressing the "Run for One" macro button on the "UserInterface" sheet; and~~

~~(c) recording the value of the terms  $ADJR_t$  and  $AR_t$  for the licensee that is shown as an output value in the "SavedResults" sheet.~~

#### **Part D: The final year of the GD2 Annual Iteration Process and other clarifications**

~~8.2.15—The last Regulatory Year in which there will be an Annual Iteration Process for the GD2 Price Control Financial Model is 2024/2025 for the purpose of determining the value of the term  $ADJR_t$  for Regulatory Year 2025/26.~~

~~8.2.16—For the avoidance of doubt, neither:~~

~~(a) an Annual Iteration Process for the GD2 Price Control Financial Model carried out in accordance with this condition, including in particular the steps set out in Part A; nor~~

~~(b) a change to the Regulatory Year included in the name of and text within the GD2 Price Control Financial Model,~~

~~will constitute a modification of the GD2 Price Control Financial Model within the meaning of Part C of Special Condition 8.1.~~

~~8.2.17—Where any PCFM Variable Values are revised for years earlier than Regulatory Year  $t$ , the effect of using those revised values in the Annual Iteration Process will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the terms  $ADJR_t$  and  $AR_t$  for Regulatory Year  $t$  and, for the avoidance of doubt, it will not have any retrospective effect on a previously published value of the term  $ADJR_t$ .~~

#### **Part E: The PCFM Guidance**

~~8.2.18—The licensee must comply with the PCFM Guidance when completing the Annual Iteration Process.~~

~~8.2.19—The Authority will issue and amend the PCFM Guidance by direction.~~

~~8.2.20—The Authority will publish the PCFM Guidance on the Authority's Website by the PCFM functional change cut-off date set out in the GD2 Price Control Financial Handbook.~~



8.2.21 — ~~The PCFM Guidance will make provision about:~~

- ~~(a) instructions and guidance on how to populate the PCFM Variable Values for submission for an Annual Iteration Process;~~
- ~~(b) instructions and guidance on the process and timeframe for reporting and submitting the required data; and~~
- ~~(c) any requirements for supporting information, documentation or commentary that are to be submitted.~~

8.2.22 — ~~Before issuing the PCFM Guidance by direction, the Authority will publish on the Authority's Website:~~

- ~~(a) the text of the proposed PCFM Guidance;~~
- ~~(b) the date on which the Authority intends the PCFM Guidance to come into effect; and~~
- ~~(c) a period during which representations may be made on the content of the PCFM Guidance, which will not be less than 28 days.~~

8.2.23 — ~~Before amending the PCFM Guidance by direction, the Authority will publish on the Authority's Website:~~

- ~~(a) the text of the proposed amended PCFM Guidance;~~
- ~~(b) the date on which the Authority intends the amended PCFM Guidance to come into effect;~~
- ~~(c) the reasons for the amendments to the PCFM Guidance; and~~
- ~~(d) a period during which representations may be made on the amendments to the PCFM Guidance, which will not be less than 28 days.~~

# 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, ~~which,~~
- ~~9.1.3~~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

- ~~9.1.4~~9.1.5 The licensee must prepare an Annual Environmental Report in accordance with the Environmental Reporting Guidance.
- ~~9.1.5~~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.
- ~~9.1.6~~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** KPI 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

- ~~9.1.7~~9.1.10 The Authority will issue and amend the Environmental Reporting Guidance by direction.
- ~~9.1.8~~9.1.11 The Authority will publish the Environmental Reporting Guidance on the Authority's Website.
- ~~9.1.9~~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; and
- (c) the format for submitting information to the Authority **as required under paragraphs 9.1.8 and 9.1.9;** 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.

~~9.1.10~~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 ~~not be less than 28 days.~~ be up to 28 days unless the Authority determines that a longer period is appropriate.
- (d) Before amending the Environmental Reporting Guidance by direction, the Authority will publish on the Authority's Website:
- (e) the text of the ~~amended~~ proposed amendments to the Environmental Reporting Guidance;
- (f) 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 ~~next~~ subsequent Regulatory Year **following publication,** whichever is later;
- (g) the reasons for the proposed amendments to the Environmental Reporting Guidance;
- (h) how the proposed reporting requirements provide an appropriate balance **between the** ~~the~~ costs of reporting and ~~the~~ benefit of **the** information created; and
- (i) a period during which representations may be made on the proposed amendments to the Environmental Reporting Guidance, which will ~~not be less than~~ 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 ~~The purpose of~~ This condition is to ~~set~~sets out:

- (a) the requirements on the licensee in respect of the NARM Methodology-;  
It also sets out the requirements on the licensee to work with all DN Operators to develop and maintain a Common NARM Methodology;
- (b) the NARM Objectives;
- ~~(b)~~(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 appropriate the licensee has similar assets, to develop 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 NOMs~~NARM Methodology in effect on 31 March 2021approved by the Authority and effective from 1 April 2026 is deemed to be the NARM Methodology ~~in effect from 1 April 2021~~ 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 at all times, 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:
  - (b) assess its NARM assets against the Network Asset Risk Metric;
  - (c) report in accordance with the RIGs; and
  - (d) assess its performance against the Baseline Network Risk Output;
  - (e) be consistent with the GD NARM Methodology.

9.2.7 The licensee must at all times, at least once every year, keep review its own methodology for implementing the GD NARM Methodology under review and modify it as necessary to ensure it complies with the requirements of paragraph 9.2.6.

## **Part B: The NARM objectives**

9.2.49.2.8 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; and

- 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: Modification of Modifications to the NARM Methodology that have a material impact on the Baseline Network Risk Output**

~~9.2.5~~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.

~~9.2.6~~9.2.10 Where the licensee has identified scope for modifications that would 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.

~~9.2.7~~9.2.11 Where the licensee proposes a modification to the NARM Methodology under this Part, it must:

- (a) consult with 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:
- (c) a statement explaining the proposed modification to the NARM Methodology; and
- (d) an explanation of how, in the licensee's opinion, the proposed modification, if made, would better facilitate the achievement of the NARM Objectives;
- (e) submit to the Authority a draft NARM Methodology that incorporates the proposed modification;
- (f) submit to the Authority any relevant subsidiary or supporting documents, data files, or quantitative models;
- (g) 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;
- (h) 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;
- (i) 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;
- (j) 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

(k) 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.

~~9.2.8~~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.

~~9.2.9~~9.2.13 In the case of paragraph 9.2.~~9~~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).

~~9.2.10~~9.2.14 The licensee must implement the modification directed under paragraph 9.2.~~9~~12(a) or (b) by such date as may be set out in that direction.

~~9.2.11~~9.2.15 Before issuing a direction under paragraph 9.2.~~9~~12, the Authority will publish on ~~the Authority's~~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 not be less than 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;
- (d) Baseline Network Risk Output; or
- (e) 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 ~~a plan (the "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.

The Authority, after reviewing the Information Gathering Plan submitted to it under 9.2.21 and having consulted the licensee and any other interested parties that the Authority considers it appropriate to consult, may:

- (c) approve the plan without modification if satisfied that complies with the provisions set out in 9.2.22; or
- (d) direct the licensee to modify the Information Gathering Plan, in such manner, to such extent, and with effect from such date as may be specified



in the direction, so that it will, in the Authority's opinion, having considered any representations received, enable the licensee to so report.

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.

(a) keep the Information Gathering Plan under review and in particular must conduct a review when directed to do so by the Authority, and

(b) modify the Information Gathering Plan, where necessary 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 appropriate 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 key 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 for regulatory approval 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 and data inputs 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.

The Authority, after reviewing the GD Engineering Guidance Document submitted to it under 9.2.26, and having consulted the licensee and any other interested parties that the Authority considers it appropriate to consult, may:

(d) approve the GD Engineering Guidance Document without modification if it is satisfied that it facilitates the objectives set out in 9.2.27; or

(e) direct the licensees to modify the GD Engineering Guidance Document, in such manner, to such extent, and with effect from such date as may be specified in the direction, so that it will, in the Authority's opinion, having considered any representations received, facilitates the objectives set out in 9.2.27.

9.2.27 The licensee must keep the Engineering Guidance Document under review, at least once every year, review the GD Engineering Guidance Document to identify scope for modifications and where necessary modify it, subject to the Authority's consent, to ensure that it continues to meet the objectives set out in paragraph 9.2.27 9.2.26.

## Special Condition 9.3 Price Control Deliverable assessment principles and reporting requirements

### Introduction

#### 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 Price Control Deliverable (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 ~~to adjust allowances where an Evaluative PCD has not been Fully Delivered~~ 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:
  - (c) the licensee demonstrates that any overspend against the associated allowances was efficiently incurred; and
  - (d) the licensee provides a justified estimate of 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;
  - ~~(b)~~(e) 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;
  - ~~(c)~~(f) 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;

~~(d)~~(g) where the output is Partially Delivered or Partially Delivered With Alternative Specification, and;

~~(e)~~(h) the licensee demonstrates that any underspend against the associated allowances are attributable to Efficiency or Innovation; and

~~(f)~~(i) the licensee provides a justified estimate of 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:

*Adjustment to allowances = ((1 - proportion of output or Consumer Outcome delivered)\* associated allowance)*

~~(g)~~(j) where none of the circumstances described in sub-paragraphs ~~(b)~~ 9.3.3 (a) to ~~(d)~~ 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:

~~(h)~~(k) have due regard to the particular characteristics of the output;

~~(i)~~(l) 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 DeliverDelivered the output; and

~~(j)~~(m) establish efficient costs using the following methods:

(A) ~~(AA)~~ where these are available, using benchmarking against historical cost data; or

(B) ~~(BB)~~ where historical cost data is not available, using bespoke engineering and cost assessment, employing qualitative techniques to supplement technical methods;

~~(k)~~(n) the Authority will not direct an increase to allowances for an Evaluative PCD that has not been Fully Delivered; or Fully Delivered With An Alternative Specification in accordance with 9.3.3 (b); 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);

~~(l)~~(o) 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

~~(m)~~(p) the split between fast money and the RAV for any adjustments will be as set out in the ~~GD2~~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-output 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;
  - (c) whether to direct a value to reduce allowances for Price Control Deliverables that have not been Fully Delivered; and
  - (d) 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 not be less than 28 days, 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 not be less than 28 days 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 Theis purpose of this condition ~~requires~~is to require the licensee to prepare any applications for Re-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-Re-openers in accordance with ~~any~~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:
- (b) establishing a Re-opener application pipeline log for prospective applications;
- (c) pre-application engagement between the licensee and the Authority;
- (d) pre-acceptance screening of applications;
- (e) a process for supplementary questions;

- (f) a proportionate approach to using assessment tiers with differing levels of scrutiny for individual applications; and
- (g) how the Authority would instigate a Re-opener; and
- (a)(h) \_\_\_\_\_ will set out how the licensee must prepare its applications for Re-openers, including the following:
  - (b)(i) \_\_\_\_\_ the Re-openers to which the document applies;
  - (c)(j) \_\_\_\_\_ the level of detail required in the application;
  - (d)(k) \_\_\_\_\_ any requirement to publish the application; and
  - (e) when it is appropriate to make redactions in published applications; and
  - (f)(l) any requirement for assurance.

9.4.6~~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; and
- (c) a period during which representations may be made on the content of the Re-opener Guidance and Application Requirements Document, which will not be less than 28 days.

9.4.7 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 not be less than 28 days~~ 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 ~~2022~~2028.
- 9.5.4 The licensee must review the progress it has made against its Digitalisation Strategy, and update its Digitalisation Strategy, ~~at intervals specified in the DSAP Guidance.~~ 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 ~~2021~~2026.
- 9.5.7 The licensee must review the progress it has made against and update its Digitalisation Action Plan ~~at the intervals specified in the DSAP Guidance.~~ 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:
  - (d) the structure, content and level of detail of each;
  - (e) the types of activities that should be covered in each; and
  - (f) any required information associated with those activities; and
  - (g) 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, ~~must~~ 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 not be less than 28 days, 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 not be less than 28 days, be up to 28 days unless the Authority determines that a longer period is appropriate.

## Special Condition 9.6 Disapplication of Relevant Special Conditions and Relevant Metering Special Condition

### 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 ~~or Relevant Metering Special Condition~~ (in whole or in part) and for such provisions to be disappplied 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 Relevant Metering Special Condition~~ (or any part or parts of them) the request relates to;
- (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 ~~that is mentioned in Part 6B~~); 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 ~~only~~ 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 ~~of this condition~~, it may subsequently give the Authority a Disapplication Notice:

(a) in the ~~circumstance~~ circumstances described in Part D; or

(b) in the ~~circumstance~~ 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 ~~circumstance~~ circumstances referred to in paragraph 9.6.9(a) ~~is~~ 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 Relevant Metering Special Condition (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 ~~circumstance~~circumstances referred to in paragraph 9.6.9(b) ~~is~~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:
- (c) quashed the Authority's decision, and
- (d) 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
- (e) 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 9.6.112(b) above.) (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 ~~Service~~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 ÷

~~(a) Network Charges; and~~

- ~~9.7.99.7.8 charges arising from any activity carried out under the provisions of Special Condition 7.7 (RIIO GD-1 network innovation competition) which results in Returned Royalty Income for the licensee.~~

## **Part C: Categories of Directly Remunerated Service**

- ~~9.7.109.7.9~~ 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.

- ~~9.7.119.7.10~~ 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) Network Innovation Funding: Payments made by the NTS Operator to the licensee in respect of NIC Funding in accordance with Special Condition 7.7 (RIIO-GD1 network innovation competition).

~~9.7.12—DRS10. Value Added Services: (Not applicable)~~

~~9.7.13—DRS11. Top-up, standby, and enhanced system security: (Not applicable)~~

(j) DRS12

(a)(k) DRS11. Revenue protection services: (Not applicable)

(b)(l) DRS13 DRS12. Metering Services: (Not applicable)

(c)(m) DRS14 DRS13. Smart Meter Roll-out rechargeable services: (Not applicable)

(d)(n) DRS15 DRS14. Miscellaneous: This category consists of the provision of any other service (including the provision of gas pipes or plant) that:

(e)(o) is for the specific benefit of any third party who requests it;

(f)(p) is not made available by the licensee as a normal part of its Licensed Activities.

## **Part D: Procedure for issuing directions**

~~9.7.14~~ 9.7.11 Before issuing a direction under Part A the Authority will ~~consider~~have regard to the general principle in Part B.

~~9.7.15~~ 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 ~~send~~submit to the Authority an annual Tax Reconciliation assurance statement ~~in relation to the Tax Reconciliation template~~ 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 ~~starting on or after 01 April 2023, send~~submit to the Authority ~~an~~ a Tax Reconciliation assurance statement, relating to Regulatory Year t-2 that:

- (a) has been approved by a resolution of the licensee's board of directors;
- (b) is signed by a director of the licensee pursuant to the resolution in sub-paragraph (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}~~ ("SGN Southern" ("the licensee")) hereby certify that for the Regulatory Year [Regulatory Year t-2],:

In their opinion:

- (a) , the values reported in the Tax Reconciliation template 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:
- (c) the licensee's most recent CT600 as submitted to His Majesty's Revenue and Customs; for the Regulatory Year [Regulatory Year t-2];
- (d) the licensee's most recently submitted Senior Accounting Officer ~~(SAO2)~~ certificate as per ~~(b)~~i.; and (SAO2), which covers the Regulatory Year [Regulatory Year t-2];
- (e) the licensee's previously published Tax Strategy; which the Regulatory Year [Regulatory Year t-2]; and
- (f) 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].
- ~~(f)(g)~~ where appropriate, further information has also been provided to support and explain reconciling items in accordance with the RII0-23 Regulatory Financial Performance Reporting RIGS;

~~(g)~~(h) all adjustments made have been appropriately explained in the Tax Reconciliation supporting commentary; and

~~(h)~~(i) 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 ~~GD2GD3~~ 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 ~~for~~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]~~ ("SGN Southern ("the licensee") hereby certify that for the Regulatory Year [Regulatory Year t-2],:

In their opinion:

(a) , the values ~~reported~~inreported in the Tax Reconciliation template have resulted in a material, unexplained variance in the reconciliation of the licensee's adjusted Actual Corporation Tax Liability as shown in the licensee's Company Tax Return (CT600) to the Calculated Tax Allowance;

(b) the Tax Reconciliation ~~has been~~will, by 30 September [Regulatory Year t], be submitted to the Authority along with a copy of the following documents:

(c) the licensee's most recent CT600 as submitted to His Majesty's Revenue and Customs; for the Regulatory Year [Regulatory Year t-2];

(d) the licensee's most recently submitted Senior Accounting Officer (~~SAO2~~) certificate as per ~~(b)~~i.; and, (SAO2), which covers the Regulatory Year [Regulatory Year t-2];

(e) the licensee's previously published Tax Strategy; which covers the Regulatory Year [Regulatory Year t-2]; and

(f) 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].

~~(f)~~(g) where appropriate, further information has ~~also~~been provided to support and explain reconciling items in accordance with the RII0-23 Regulatory Financial Performance Reporting RIGs;

~~(g)~~(h) all adjustments made have been appropriately explained in the Tax Reconciliation supporting commentary, however there remain unexplained differences, which are considered material; and

~~(h)~~(i) a notification has been ~~made~~given in writing to the Authority under Chapter 6 of the ~~GD2GD3~~ 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 Restriction of prices in respect of Tariff Capped Metering Activities**

### **Introduction**

9.10.1 The purpose of this condition is to set out the tariff caps on certain metering activities.

### **Part A: Principal restriction**

~~Appendix 2~~Appendix 1The licensee in setting its charges for each of its Tariff Capped Metering Activities in any Regulatory Year must not exceed the maximum tariff cap  $M_t^A$  in respect of that metering activity in that Regulatory Year.

### **Part B: Maximum tariff caps ( $M_t^A$ )**

9.10.2 For the Regulatory Year commencing on 1 April 2021, the maximum tariff caps have the values set out in the following table.

Activity	Description	Maximum tariff caps ( $M_t^A$ ) for 2021/22 (£ nominal)
$M^{A=1}$	Annual charge for providing and maintaining the assets that form a Domestic Credit Meter Installation, per meter per annum.	£17.70
$M^{A=2}$	Annual charge for providing and maintaining the assets that form a Prepayment Meter Installation, per meter per annum.	£44.27
$M^{A=3}$	Annual charge for providing a daily meter reading for Daily Metered Supply Meter Points, per supply meter point per annum.	£602.71
$M^{A=4}$	Carrying out work to replace a Domestic Credit Meter with a Prepayment Meter, per job undertaken.	£94.81

9.10.3 For each subsequent Regulatory Year, the maximum tariff caps have the value derived in accordance with the following formula:

$$M_t^A = M_{t-1}^A \times RPI_t$$

—where

$RPI_t$  means the arithmetic average of the Retail Prices Index with respect to each of the six months from June to November in Regulatory Year  $t-1$  divided by the arithmetic average of the Retail Price Index numbers with respect to the period from June to November in Regulatory Year  $t-2$ .

### **Part C: Departure from published statements of charges in respect of Tariff Capped Metering Activities**

9.10.4—This paragraph applies where:

- ~~(a) the licensee proposes to depart from its published statement of charges;~~
- ~~(b) the departure would include increasing the licensee's charges to a supplier to a level which would in any Regulatory Year result in a breach of the licensee's obligations under paragraph 9.10.2; and~~
- ~~(c) the departure arises either:~~
  - ~~i. because of the supplier having wholly or partly disposed of its meters;~~
  - ~~or~~
  - ~~ii. because the licensee considers the departure necessary to comply with the duty in paragraph 1A of Standard Special Condition D18 (Provision of Metering and Meter Reading Services).~~

9.10.5—Where paragraph 9.10.4 applies the licensee must make a written application to the Authority:

- ~~(a) specifying why the change is proposed;~~
- ~~(b) specifying the metering activities to be provided to that supplier;~~
- ~~(c) specifying the proposed level of charges broken down between the different types of metering activities to be provided to that supplier; and~~
- ~~(d) including such other information to support its application as the Authority may reasonably specify in writing.~~

9.10.6—In paragraph 9.16.5 the reference to the statement of charges is a reference to the statement prepared in accordance with Standard Special Condition D18 (Provision of Metering and Meter Reading Services) in respect of the provision of Tariff Capped Metering Activities.

9.10.7—The licensee may, with effect from the date of the application, levy the charges specified in that application in respect of that supplier if:

- ~~(a) the Authority confirms in writing that it consents to such charges with or without amendment and to such extent, and on the basis of such terms and conditions, as the Authority may specify (in which case the licensee must apply the charges with any such amendment and only to such extent, and must comply with those terms and conditions); or~~
- ~~(b) the Authority has not issued a direction to the licensee requiring the licensee not to exceed the maximum tariff cap within the period of 90 days beginning with the date of receipt of the application.~~

9.10.8—Subject to any direction given by the Authority, this condition will cease to have effect on 31 December 2024.

## ~~Special Condition 9.11~~Special Condition 9.10 Not Used

## ~~Special Condition 9.12~~ Not used

## ~~Special Condition 9.13~~Special Condition 9.11 The strategic innovation fund (SIF<sub>t</sub>)

### Introduction

~~9.13.19.11.1~~ 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>.

~~9.13.29.11.2~~ 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.

~~9.13.39.11.3~~ 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

~~9.13.49.11.4~~ 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.

~~9.13.59.11.5~~ 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<sub>t</sub> 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

~~9.13.69.11.6~~ 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.

~~9.13.79.11.7~~ 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) ~~(a)~~ the amount of any SIF Funding Return that the licensee must pay to the NTS Operator; and
- (b) ~~(b)~~ the manner in which and the timescale over which that amount is to be paid.

~~9.13.89.11.8~~ The licensee must comply with any direction that is issued by the Authority under paragraph ~~9.13.11.7~~.

### **Part C: The SIF Governance Document**

~~9.13.99.11.9~~ The licensee must comply with the SIF Governance Document.

~~9.13.109.11.10~~ The Authority will issue and amend the SIF Governance Document by direction.

~~9.13.119.11.11~~ The Authority will publish the SIF Governance Document on the Authority's Website.

~~9.13.129.11.12~~ 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**

~~9.13.139.11.13~~ 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 not be less than 28 days up to 28 days unless the Authority determines that a longer period is appropriate.

9.13.149.11.14 Before directing an amendment to the SIF Governance Document, the Authority will publish on the Authority's Website:

- (a) ~~(a)~~ the text of the amended SIF Governance Document;
- (b) ~~(b)~~ the date on which the Authority intends the amended SIF Governance Document to come into effect;
- (c) ~~(c)~~ the reasons for the amendment to the SIF Governance Document; and
- (d) ~~(d)~~ a period during which representations may be made on the amendment to the SIF Governance Document, which will not be less than up to 28 days unless the Authority determines that a longer period is appropriate.

9.13.159.11.15 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 RII0-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:
  - (e) a copy of the independent expert's report required by paragraph 9.12.11(c); or
  - (f) an explanation of why the DN Operators did not consider it appropriate to appoint an independent expert;
  - (g) an explanation of how the proposed modifications would better achieve the objective set out in paragraph 9.12.3; and
  - (h) 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 9.14****Special Condition 9.13 Not Used**