

Gas Distribution Price Control Revenue Reporting: Regulatory Instructions and Guidance Version 1 - Draft

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Overview:

This document has been issued pursuant to Special Condition (SC) E20 (Revenue Reporting and Associated Information to be provided to the Authority in connection with the Distribution Network transportation activity revenue restriction) of the gas transporter's licence.

The document sets out regulatory instructions and guidance to assist the GDNs with

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Context

The purpose of this document is to facilitate the collection of gas distribution revenue reporting information on a common basis, and to an appropriate degree of accuracy from each gas distribution network (GDN) to enable Ofgem to effectively monitor compliance with the price control revenue restriction conditions. This is the first draft of the revenue reporting RIGs and it will take effect for the detailed return due by July 2008 (relating to the relevant year 2007-08) and subsequent returns up to 2012-13. The revenue reporting RIGs may be modified in accordance with the change control procedures detailed in Special Condition E20 (Revenue Reporting and Associated Information to be provided to the Authority in connection with the Distribution Network transportation activity revenue restriction).

Associated Documents

- GDPCR Final Proposals Document, December 2007 (Ref. 285/07);
- GDPCR: Second Licence Drafting Consultation Document, December 2007 (Ref. 290/07);
- GDPCR Initial Licence Drafting Consultation, September 2007 (Ref. 221/07); and
- GDPCR One Year Control Final Proposals, December 2006 (Ref. 205/06).

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1. Introduction

Chapter Summary

This chapter sets out the purpose of the gas distribution revenue reporting regulatory instructions and guidance, provides some background and outlines the structure of the document.

Purpose of this document

1.1. In December 2006 we set out our final proposals for the gas distribution price control review (GDPCR) one year review to apply from 1 April 2007 and in December 2007 we set out our final proposals for GDPCR to apply for the five year period from 1 April 2008. The two price control reviews resulted in a number of amendments to the revenue restriction obligations.

1.2. The purpose of the RIGs is to provide a framework for the collection of accurate and consistent information from the GDNs, consistent with final proposals for the one year and five year reviews, to enable us to effectively monitor compliance with the price control obligations. The RIGs reduce the scope for inaccurate reporting and provides licensees with certainty about what they should be reporting. Robust reporting benefits all those with an interest in the regulation of GDNs.

1.3. The revenue reporting RIGs have been prepared and introduced pursuant to Special Condition (SC) E20 (Revenue Reporting and Associated Information to be provided to the Authority in connection with the Distribution Network transportation activity revenue restriction). Paragraph 2(a) of SC E20 sets out what is included in the RIGs.

1.4. For the avoidance of doubt this document is subordinate to those licence conditions that may apply to the determination of allowed revenues or which contain associated reporting obligations. This document will not change, alter or amend any definition or obligation contained within the distribution licence and, in the event of any inconsistency between the licence conditions and this document, the licence conditions will take precedence.

1.5. The revenue reporting RIGs may be modified, from time to time, in accordance with the change process set out in SC E20. Ofgem¹ recognises that any significant changes to the scope or form of the information that it requests from the GDNs could not only increase the regulatory burden upon

¹ Ofgem is the office of the Gas and Electricity Markets Authority and the terms 'Ofgem' and 'Authority' are used interchangeably in this document.

licensees but may also increase the perception of regulatory risk. Ofgem will take all reasonable steps to minimise the number of changes to the scope and form of the information it requests in relation to this document, consistent with the carrying out of its functions under the Gas Act 1986 and the Utilities Act 2000 as amended. Moreover, consistent with paragraph 14 of SC E20, the Authority can only make substantive changes to the RIGs with the consent of the licensee.

Structure of this document

1.6. This document is structured as follows:

- Chapter 2 sets out the definitions for the reporting of specified information for the formula year 2007-08;
- Chapter 3 sets out the definitions for the reporting of specified information for the formula years 2008-09 to 2012-13;
- Chapter 3 sets out the reporting arrangements;
- Chapter 4 sets out the additional guidance for the reporting of specified information in the templates; and
- Appendix 1 sets out the Authority's powers and duties.

2. Definitions for the reporting of specified information in formula year 2007-8

→ This chapter sets out the categories of GDN activities that are included as specified information for the purposes of the revenue reporting RIGs for the formula year 2007-8 and a definition of the specified information to be collected.

All references in chapter 2 are to the gas transporter licence(s) in operation for the period 1 April 2007 to 31 March 2008.

Specified information

2.1. This section sets out the definitions for the reporting of specified information. Specified information means, for the GDN, information in respect of:

- the Distribution Network transportation activity revenue restriction and all subsidiary terms used in its calculation as set out in SC E2B (Restriction of revenue in respect of the Distribution Network Transportation Activity), in effect in the licence on 31 March 2008;
- excluded services activities as set out in SC E4 (Supplementary provisions of the revenue restrictions in respect of the Distribution Network) in effect in the licence on 31 March 2008;;
- metering and meter reading activities;
- de minimis activities and associated income; and
- services provided under consents given by Ofgem.

The Distribution Network transportation activity revenue restriction

2.2. The distribution network transportation activity revenue restriction is the principal revenue restriction set out in SC E2B Part 1b paragraphs 6-8. The purpose of this condition is to determine the revenue restrictions that determine the allowed revenue that may be recovered through distribution transportation charges by the licensee and to set out the obligations of the licensee in respect of the restriction.

2.3. The maximum distribution network transportation activity revenue (DNMR_t) is the total amount of revenue determined by the revenue restriction, as calculated by the following formula:

$$\text{DNMR}_t = \text{DNZ}_t + \text{DNF}_t + \text{DNE}_{x,t} + \text{DNIAE}_t - \text{DNMRA}_t + \text{DNSh}_t - \text{DNK}_t$$

2.4. Each of the terms is explained below including cross references to the relevant provisions in the licence conditions where the detailed terms are defined.

Base revenue (DNZt)

2.5. Base revenue (DNZt) is the baseline revenue allowance determined by the Authority in respect of the revenue restriction in 2005-06 prices, which means it must be adjusted for inflation. The allowance for each year of the price control can be found in sub-paragraph 1 of paragraph 8 of SC E2B Part 1b.

Pass through costs (DNFt)

2.6. Allowed pass-through items (DNFt) provides for adjustments to the maximum DN transportation activity revenue to reflect certain costs that can be passed through to customers of the licensee, determined in accordance with sub-paragraph 1 of paragraph 8 of SC E2B Part 1b, and is defined as the Distribution Network prescribed rates plus the Distribution Network licence fees plus the Distribution Network Pension Deficit Charge in formula year t; where each of the three terms are defined in that sub-paragraph.

DN exit capacity costs and incentive revenue (DNExCIRt)

2.7. The DN exit capacity incentive revenue DNExCIRt provides adjustments to the maximum DN transportation activity revenue to reflect DN exit capacity costs and to set out the incentive payments that adjust the maximum DN transportation activity revenue to reflect the performance of the licensee against the DN exit capacity incentive. It is determined in accordance with sub-paragraph 5 of paragraph 8 of SC E2B Part 1b using the following formula (from 1 June 2005):

If $DNExITt \geq DNExCpt$, then:

$$DNExCIRt = \text{MIN} ((DNExUSFt \times (DNExITt - DNExCpt)), DNExCAPt)$$

Otherwise:

$$DNExCIRt = \text{MAX} ((DNExDSFt \times (DNExITt - DNExCpt)), DNExCOLt)$$

where each of the terms and all subsequent terms are defined in that sub-paragraph.

Income Adjusting Events (DNIAEt)

2.8. The Income adjusting event (DNIAEt) term enables the licensee (and in the case of the exit income adjusting event, a shipper) to propose and to

provide for the Authority to determine whether any adjustment to the maximum DN transportation activity revenue is appropriate. It is determined in accordance with sub-paragraph 6 of paragraph 8 of SC E2B Part 1b. This term has zero value unless the Authority determines otherwise.

Mains and services replacement expenditure adjustment (DNMSRAt)

2.9. The mains and services replacement expenditure adjustment (DNMSRAt) provides adjustments to the maximum DN transportation activity revenue to reflect yearly variations in the mix of mains replaced. It is determined in accordance with sub-paragraphs 2 and 3 of paragraph 8 of SC E2B Part 1b using the following formula:

If $E_t > AM_t$, then:

$$DNMRA_t = (1 + A_t) \times J_t \times 1,000,000 - (0.5 \times E_t) - (0.5 \times AM_t)$$

Otherwise:

$$DNMRA_t = (1 + A_t) \times J_t \times 1,000,000 - (0.67 \times E_t) - (0.33 \times AM_t)$$

where each of the terms and all subsequent terms are defined in that condition.

Shrinkage allowance (DNSht)

2.10. The shrinkage allowance (DNSht) sets out the licensee's allowance for the cost of shrinkage gas which adjusts the maximum DN transportation activity revenue. It is determined in accordance with sub-paragraph 7 of paragraph 8 of SC E2B Part 1b using the following formula:

$$DNSht_t = \sum_{\text{all } i} GPRC_{t,m} \times \frac{SF_{t,i}}{100} \times ZTQ_{t,m,i}$$

where each of the terms and all subsequent terms are defined in that condition.

Revenue adjustment factor (DNKt)

2.11. The revenue adjustment factor provides for adjustments to the maximum DN transportation activity revenue to take account of any under or over recovery of DN transportation activity revenue from the previous year, $t-1$. It is determined in accordance with sub-paragraph 4 of paragraph 8 of SC E2B Part 1b, using the following formula:

$$DNK_t = (DNR_{t-1} - DNMR_{t-1}) \times \left(1 + \frac{I_t}{100} \right)$$

where each of the terms is defined in that condition.

Excluded services revenue

2.12. Excluded services are those services provided by the licensee as part of its transportation business the revenues of which are treated as excluded from the DN transportation activity revenue. The basis on which services may be treated as excluded services is set out in SC E4 (Supplementary provisions of the revenue restrictions in respect of the Distribution Network), (applicable in the licensee's licence on 31 March 2008) but include:

- Emergency services to or on behalf of another gas transporter;
- Connections income;
- Charges foregone as a result of gas illegally taken (as per standard condition 7);
- An amount equal to an increases in charges pursuant to paragraph 5 of Standard Special Condition A48 (Last Resort Supply: Payment Claims); and
- Other excluded services as approved by the Authority

Metering and meter reading revenue

2.13. There are currently tariff caps on certain metering and meter reading services. The relevant tariff caps on metering activities is set out in SC E5 (Restriction of prices in respect of tariff capped metering activities), (applicable in the licensee's licence on 31 March 2008), and include the maximum charges that may be levied by the licensee.

De minimis revenue

2.14. De minimis revenue is that earned in carrying out de minimis business as defined in Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing) and is subject to a threshold of 2.5 per cent of the aggregate turnover of the transportation, metering and meter reading businesses. Revenue from de minimis activities should be reported without any netting off of associated charges.

Revenue from activities to which the Authority has specifically consented under SSC A36 3(d)

2.15. There are a number of services that GDNs provide under contracts to meter asset managers, suppliers NGG NTS and other GDNs, to which the Authority has specifically consented, such that although they do not fall into

the definitions of transportation, metering and meter reading or excluded services, they are not counted towards de minimis limits.

3. Definitions for the reporting of specified information in 2008-9 to 2012-13

Summary

This chapter sets out the categories of GDN activities that are included as specified information for the purposes of the revenue reporting RIGs for the period 2008-9 to 2012-13 and a definition of the specified information to be collected.

Specified information

3.1. This section sets out the definitions for the reporting of specified information. Specified information means, for the GDN, information in respect of:

- the Distribution Network transportation activity revenue restriction and all subsidiary terms used in its calculation as set out in SCs E3 (Distribution Network allowed pass-through items (Ft)) to E12 (Distribution Loss of meter work revenue driver (LMt)) applicable in the licensee's gas transporter licence on and from 1 April 2008;
- excluded services activities as set out in SC E18 (Excluded Services) applicable in the licensee's gas transporter licence on and from 1 April 2008;
- metering and meter reading activities;
- de minimis activities and associated income; and
- services provided under consents given by Ofgem.

The Distribution Network transportation activity revenue restriction

3.2. The distribution network transportation activity revenue restriction is the principal revenue restriction set out in SC E2 (Restriction of revenue in respect of the Distribution Network Transportation Activity), applicable in the licensee's gas transporter licence on and from 1 April 2008;. The purpose of this condition is to determine the revenue restrictions that determine the allowed revenue that may be recovered through distribution transportation charges by the licensee and to set out the obligations of the licensee in respect of the restriction.

3.3. The maximum distribution network transportation activity revenue (MR_t) is the total amount of revenue determined by the revenue restriction, as calculated by the following formula:

$$MR_t = (Z_t \times RPI_t) + F_t - K_t + MSRA_t + Ex_t + IAE_t + Sh_t + EE_t + DRS_t + IFISD_t + LM_t$$

3.4. Each of the terms is explained below including cross references to the relevant clauses in the licence conditions where the detailed terms are defined.

Base revenue (Z_t)

3.5. Base revenue (Z_t) is the baseline revenue allowance determined by the Authority in respect of the revenue restriction in 2005-06 prices, which means it must be adjusted for inflation. The allowance for each year of the price control can be found in Annex A to SC2.

Pass through costs (F_t)

3.6. Allowed pass-through items (F_t) provides for adjustments to the maximum DN transportation activity revenue to reflect certain costs that can be passed through to customers of the licensee, determined in accordance with SC E3, Distribution Network allowed pass-through items) using the following formula:

$$F_t = RB_t + LF_t + PD_t + TG_t + TPWI_t + MP_t$$

where each of the terms and all subsequent terms are defined in that condition.

DN exit capacity costs and incentive revenue (Ex_t)

3.7. The DN exit capacity costs (Ex_t) and incentive revenue provides adjustments to the maximum DN transportation activity revenue to reflect DN exit capacity costs and to set out the incentive payments that adjust the maximum DN transportation activity revenue to reflect the performance of the licensee against the DN exit capacity incentive. It is determined in accordance with SC E6 (Distribution Network Exit Capacity costs and incentive revenue) using the following formula:

$$Ex_t = ExCIR_t + ExIIC_t + ExC_t + CO_t$$

where each of the terms and all subsequent terms are defined in that condition. ExCIR_t applies up to 31 March 2011, ExIIC_t applies up to 1 October 2008 and ExC_t and CO_t apply from 1 April 2011.

Income Adjusting Events (IAE_t)

3.8. The Income adjusting event (IAE_t) provisions enables the licensee (and in the case of the exit income adjusting event, a shipper) to propose and to provide for the Authority to determine whether any adjustment to the maximum DN transportation activity revenue is appropriate. It is determined in accordance with SC E7 (Determination of any adjustment factor to be applied to MR_t (IAE_t)), using the following formula:

$$IAE_t = IE_t + ITMA_t + ITL_t$$

where each of the terms is defined in that condition.

Mains and services replacement expenditure adjustment (MSRA_t)

3.9. The mains and services replacement expenditure adjustment (MSRA_t) provides adjustments to the maximum DN transportation activity revenue to reflect yearly variations in mains and related services costs. It is determined in accordance with SC E5 (Mains and services replacement expenditure adjustment) using the following formula:

$$MSRA_t = (([1 - IQI_t] \times E_t) + ([IQI_t] \times AM_t)) - (RPI_t \times J_t) \times 1,000,000$$

where each of the terms and all subsequent terms are defined in that condition.

Shrinkage allowance (Sh_t)

3.10. The shrinkage allowance (Sh_t) sets out the licensee's allowance for the cost of shrinkage gas which adjusts the maximum DN transportation activity revenue. It is determined in accordance with SC E8 (Distribution Network shrinkage allowances). Up to 30 September 2008 the following formula applies:

$$Sh_t = \sum_{all\ i} \left(\sum_{m=1}^6 GPRC_{t,m} \times \frac{SF_{t,i}}{100} \times ZTQ_{t,m,i} \right)$$

where each of the terms and all subsequent terms are defined in that condition.

3.11. From 1 October 2008 the following formula applies for the shrinkage allowance:

$$Sh_t = \sum_{all\ i} GPRC_t \times SV_{t,i}$$

where each of the terms and all subsequent terms are defined in that condition.

Discretionary reward scheme revenue (DRS_t)

3.12. The discretionary reward scheme revenue (DRS_t) provides for adjustments in the DN transportation activity revenue to reward best practice by gas transporters in relation to reducing the environmental impact of gas distribution, facilitating gas network extensions and promoting gas safety. It is determined in accordance with SC E10 (Distribution Network discretionary reward scheme revenue). The revenue associated with the discretionary reward scheme for each licensee will be determined by the Authority the year after the relevant year in which the performance occurred, which will allow the licensee to collect their reward through their allowed revenue in the second year after the relevant year.

Innovation funding incentive for sustainable development scheme (IFISD_t)

3.13. The innovation funding incentive for sustainable development scheme (IFISD_t) provides for adjustments to the DN transportation activity revenue to reflect the performance of the licensee in relation to its investment in innovation for sustainable development. It is determined in accordance with SC E11 (Distribution Network innovation funding incentive for sustainable development scheme) using the following formula:

$$IFISD_t = 0.80 \times (\min(IFIE_t, ((0.005 \times Z_t) + KIFI_t)))$$

Environmental emissions incentive (EE_t) and compliance with the leakage model

3.14. The environmental emissions incentive (EE_t) sets out the total amount of incentive payments that adjust the maximum DN transportation activity revenue to reflect the licensee's performance in respect of the environmental emissions incentive. It is determined in accordance with SC E9, Distribution Network environmental emissions incentive revenue and compliance with the leakage model, using the following formula:

If $LB_{t,i} \geq LV_{t,i}$, then

$$EE_t = \sum_i \left[\left[\text{MIN}((LB_{t,i} - LV_{t,i}), (LB_{t,i} \times 0.1)) \right] \times CC_t \times RPI_t \right]$$

Otherwise:

$$EE_t = \sum_i \left[\left[\text{MAX}((LB_{t,i} - LV_{t,i}), (LB_{t,i} \times -0.1)) \right] \times CC_t \times RPI_t \right]$$

where each of the terms and all subsequent terms are defined in that condition.

3.15. SC E9 also includes obligations on the GDNs to secure the establishment of a leakage model on a common basis between the relevant gas transporters, and to an appropriate degree of accuracy, by the licensee.

Loss of meter work revenue driver (LM_t)

3.16. The loss of meter work revenue driver (LM_t) provides for adjustments to the maximum DN transportation activity revenue to reflect any stranded costs associated with the loss of meter work revenue which is incurred by the licensee in the provision of emergency services. It is determined in accordance with SC E12 (Distribution Network loss of meter work revenue driver) using the following formula:

If $MV_t \leq TPV$, then:

$$LM_t = (TPV - MV_t) \times (LMRD_t \times RPI_t)$$

Otherwise:

$$LM_t = 0$$

where each of the terms is defined in that condition.

Revenue adjustment factor (K_t)

3.17. The revenue adjustment factor provides for adjustments to the maximum DN transportation activity revenue to take account of any under or over recovery of DN transportation activity revenue from the previous year, $t-1$. It is determined in accordance with SC E4 (Distribution Network transportation activity revenue adjustment) using the following formula:

$$K_t = (R_{t-1} - MR_{t-1}) \times \left(1 + \frac{(I_t + PR_t)}{100} \right)$$

where each of the terms is defined in that condition.

Excluded services revenue

3.18. Excluded services are those services provided by the licensee as part of its transportation business the revenues of which are treated as excluded from the DN transportation activity revenue. The basis on which services may

be treated as excluded services is set out in SC E18 (Excluded services), but includes:

- Emergency services to or on behalf of another gas transporter;
- Connections income;
- Services provided by xoserve on a "user pays" basis;
- Independent systems revenue recovered from the NTS; and
- Other excluded services as approved by the Authority

Metering and meter reading revenue

3.19. There are currently tariff caps on certain metering and meter reading services. The tariff caps on metering activities is set out in SC E19, Restriction of prices in respect of tariff capped metering activities, and includes the maximum charges that may be levied by the licensee.

De minimis revenue

3.20. De minimis revenue is that earned in carrying out de minimis business as defined in Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing) and is subject to a threshold of 2.5 per cent of the aggregate turnover of the transportation, metering and meter reading businesses. Revenue from de minimis activities should be reported without any netting off of associated charges.

Revenue from activities to which the Authority has specifically consented under SSC A36 3(d)

3.21. There are a number of services that GDNs provide under contracts to meter asset managers, suppliers NGG NTS and other GDNs, to which the Authority has specifically consented, such that although they do not fall into the definitions of transportation, metering and meter reading or excluded services, they are not counted towards de minimis limits.

4. Reporting Arrangements

Summary

This chapter details the procedures for reporting revenue which enables GDNs to report revenues accurately and on a consistent basis. The chapter sets out details of the revenue reporting pack, the additional reporting obligations associated with the leakage model, further guidance on the innovation funding incentive for sustainable development (IFI/SD), the audit requirements and Ofgem's role in revenue reporting.

Revenue reporting pack

4.1. For the purposes of providing the revenue reporting information in a consistent manner and to an appropriate level of accuracy to the Authority, we have provided a revenue reporting pack. GDNs will be required to complete the input page of the revenue reporting pack, which takes the form of a spreadsheet template with multiple worksheets. Each GDN will receive the same template so that the data is collected on a conformed basis. To ensure the integrity of the RRP the sheets are locked except for the light green cells which the GDNs need to complete. The licence conditions page is consistent with the data in SC Part E and will be pre-filled by Ofgem.

4.2. The provision of a model promotes transparency between Ofgem and the licensees. In using the model we would anticipate an effective and efficient process for monitoring the determination of allowances.

Sheet 1: Input Page

4.3. The light green cells represent the data that GDNs need to complete. Macroeconomic data, such as the specified interest rate and RPI, will be pre-filled by Ofgem for the detailed return.

Sheet 2: Licence Condition Values

4.4. This contains the key licence parameters required to calculate allowed revenue, and is pre-filled by Ofgem. The data is derived principally from the annexes to Special Conditions 2 to 12 of the gas transporter licence applicable to the GDNs.

Sheet 3: NTS charges

4.5. This sheet contains details of charges for each NTS exit zone and any changes over the period, for the purposes of calculating NTSIC_{hE}, ExCD_{Ct} and ExFFD_{Ct}. It is to be pre-filled by Ofgem.

Sheet 4: Gas prices

4.6. This sheet contains details of wholesale gas prices as reported by an approved market price report, for the purposes of calculating FPM-3,d, Wdy and Wed. It is to be pre-filled by Ofgem.

Sheet 5: Workings

4.7. This sheet contains a number of intermediate workings used to determine the values in the return based on the values entered in sheets 1-4.

Sheet 6: Trans Act Forecast Return

4.8. This sheet contains the information required for the forecast return on transportation activity. It contains all the components of Zt, as set out in SC E2.

Sheet 7: Trans Act Detailed Return

4.9. This sheet contains the information required for the detailed return on transportation activity. It contains all the components of Zt, as set out in SC E2.

Sheet 8: Other revenue

4.10. This sheet contains information on revenue other than transportation revenue and is part of the detailed return.

Sheet 9: Reconciliation to statutory accounts

4.11. This sheet reconciles transportation and other revenue items as reported in sheets 6, 7 and 8 to the turnover figure in the accounts.

Submission dates for the revenue reporting pack

4.12. As required by SC E20 the licensee will provide:

- a detailed return of the revenue reporting pack including a signed off "Transportation Activity Detailed Return" sheet for the relevant year t by 31 July following the end of year t;
- a forecast return of the revenue reporting pack for the current year and following year including a signed off "Transportation Activity Forecast Return" sheet by no later than 150 days before the licensee intends to change charges; and

- a forecast return of the revenue reporting pack current year and following year including a signed off "Transportation Activity Forecast Return" sheet by no later than 2 months before the licensee intends to change charges.

4.13. The timings of the provision of a forecast return are consistent with:

- the obligation for licensees to give the Authority notice of proposals to change charges together with an estimate of the effect of the proposals on those charges 150 days before a change to charges can take effect. This forecast return will enable us to consider the impact that the changes to charges may have on the terms in the principal formula set out in paragraph 5 of SC E2; and
- the obligation under the Network Code for licensees to provide a notice of the decision to implement any proposals two months before the change in charges takes effect. This forecast return will provide an update of the impact the changes to charges may have on the terms in the principal formula.

Further guidance on reporting for the Innovation Funding Incentive

4.14. The normal reporting year for the provision of information required under the IFI/SD will be a period of 12 months beginning on 1 April of each year and ending on 31 March of the following year.

4.15. GDNs will be required to provide the following information on or before 1 March of each reporting year:

- estimated turnover;
- IFI/SD budget;
- IFI/SD internal budget;
- IFI/SD carry forward; and
- project schedule.

4.16. By the following 14 March, Ofgem will either acknowledge receipt of the information listed above and confirm its acceptability or inform the GDN of any deficiencies.

4.17. In the event that Ofgem informs the GDN of deficiencies in the submitted information the GDN will be granted a period of 10 working days to address the deficiencies to Ofgem's satisfaction which Ofgem will record in writing.

4.18. GDNs will normally be required to provide the following information at the end of the reporting year and by no later than the immediately following 31 July:

- eligible IFI/SD expenditure;
- eligible IFI/SD internal expenditure;
- actual turnover; and
- the IFI/SD annual report, as detailed in the good practice guide.

4.19. The date specified in the paragraph above is the earliest that information can be requested for submission. Ofgem could specify a later date if it considers that it is appropriate. Once the GDNs have submitted the information to Ofgem, Ofgem could appoint auditors to undertake an audit of the information over the course of the subsequent months following the submission.

Audit requirements

4.20. Paragraph 8 of SC E20 requires the licensee to provide an auditor's report of its detailed return unless the Authority otherwise consents. This document should be sent to the Authority in conjunction with a hard copy of the detailed return.

4.21. For the purposes of paragraph 8 of SC E20 the following sections of the detailed return should be audited:

- the input page;
- the reconciliation to statutory accounts page; and
- the gas prices page.

Ofgem's role in reporting

4.22. The provision of the regulatory returns, both forecast and detailed, will be scrutinised by Ofgem to ensure that the GDNs are in compliance with the revenue restriction conditions. Ofgem will undertake as much analysis as is deemed necessary to ensure that this objective is satisfied.

4.23. Ofgem reserves the right to audit the information used by GDNs in compiling their regulatory return. The information to be audited will be set out in a subsequent audit review document.

4.24. Ofgem will provide third party numbers used within the regulatory return such as gas price information for the shrinkage incentive. Where Ofgem provides data the responsibility for validating the data sits with the relevant GDN.

Data Publication

4.25. Ofgem reserves the right to publish the maximum distribution network transportation activity revenue (MRt) and each of its component terms.

5. Additional guidance for the reporting of specified information in the templates

Summary

This chapter sets out guidance for the reporting of specified information contained within the revenue reporting pack and the level of accuracy required.

Accuracy of data

5.1. Data should be entered to the following levels of accuracy:

Items	Level of disclosure
Unit costs	In £ to 2 d.p.
All other costs and revenues	In £m to 2 d.p.
Volume items	In GWh to 2 d.p.
RPI	As a factor (i.e. 1 + inflation), to 4 d.p.
Interest rates	As a percentage, to 2 d.p.
Length of mains replaced	In km to 3 d.p.
Number of jobs (e.g. metering, services replaced)	Actual number of jobs

Gas prices	In p/therm to 2 d.p.
NTS exit charges	In p/kWh to 4 d.p.
Other items, e.g. incentive factors	To level of accuracy given in licence

5.2. The expression "to x d.p." in this document means rounded to x decimal places, for example:

5.2.1. £1.2898 million to 3 decimal places is £1.290 million (or £1290 thousand)

5.2.2. 3.3417 GWh to 2 decimal places is 3.34 GWh

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Appendices

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Appendix 1 – The Authority’s Powers and Duties

1.1. Ofgem is the Office of Gas and Electricity Markets which supports the Gas and Electricity Markets Authority (“the Authority”), the regulator of the gas and electricity industries in Great Britain. This Appendix summarises the primary powers and duties of the Authority. It is not comprehensive and is not a substitute to reference to the relevant legal instruments (including, but not limited to, those referred to below).

1.2. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002 and the Energy Act 2004, as well as arising from directly effective European Community legislation. The Authority also has other statutory duties in respect of the environment, as set out in various other Acts.² References to the Gas Act and the Electricity Act in this Appendix are to Part 1 of each of those Acts.³

1.3. Duties and functions relating to gas are set out in the Gas Act and those relating to electricity are set out in the Electricity Act. This Appendix must be read accordingly⁴.

1.4. The Authority’s principal objective when carrying out certain of its functions under each of the Gas Act and the Electricity Act is to protect the interests of consumers, present and future, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas conveyed through pipes, and the generation, transmission, distribution or supply of electricity or the provision or use of electricity interconnectors.

1.5. The Authority must when carrying out those functions have regard to:

- The need to secure that, so far as it is economical to meet them, all reasonable demands in Great Britain for gas conveyed through pipes are met;
- The need to secure that all reasonable demands for electricity are met;
- The need to secure that licence holders are able to finance the activities which are the subject of obligations on them⁵; and

² For example, the Environment Act 1995 and the Countryside and Rights of Way Act 2000.

³ entitled “Gas Supply” and “Electricity Supply” respectively.

⁴ However, in exercising a function under the Electricity Act the Authority may have regard to the interests of consumers in relation to gas conveyed through pipes and vice versa in the case of it exercising a function under the Gas Act.

⁵ under the Gas Act and the Utilities Act, in the case of Gas Act functions, or the Electricity Act, the Utilities Act and certain parts of the Energy Act in the case of Electricity Act functions.

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- The interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.⁶

1.6. Subject to the above, the Authority is required to carry out the functions referred to in the manner which it considers is best calculated to:

- Promote efficiency and economy on the part of those licensed⁷ under the relevant Act and the efficient use of gas conveyed through pipes and electricity conveyed by distribution systems or transmission systems;
- Protect the public from dangers arising from the conveyance of gas through pipes or the use of gas conveyed through pipes and from the generation, transmission, distribution or supply of electricity;
- Contribute to the achievement of sustainable development; and
- Secure a diverse and viable long-term energy supply.

1.7. In carrying out the functions referred to, the Authority must also have regard, to:

- The effect on the environment of activities connected with the conveyance of gas through pipes or with the generation, transmission, distribution or supply of electricity;
- The principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed and any other principles that appear to it to represent the best regulatory practice; and
- Certain statutory guidance on social and environmental matters issued by the Secretary of State.

1.8. The Authority has powers under the Competition Act to investigate suspected anti-competitive activity and take action for breaches of the prohibitions in the legislation in respect of the gas and electricity sectors in Great Britain and is a designated National Competition Authority under the EC Modernisation Regulation⁸ and therefore part of the European Competition Network. The Authority also has concurrent powers with the Office of Fair Trading in respect of market investigation references to the Competition Commission.

1.9. The Authority has regard to all of its duties when carrying out its functions.

⁶ The Authority may have regard to other descriptions of consumers.

⁷ or persons authorised by exemptions to carry on any activity.

⁸ Council Regulation (EC) 1/2003