

# RIO-T1 and GD1: Draft licence conditions – First informal licence drafting consultation

## Consultation

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### Overview:

RIO-T1 and RIO-GD1 will be the first transmission and gas distribution price control reviews to reflect the new RIO (Revenue = Incentives + Innovation + Outputs) regulatory framework.

To give effect to the new RIO model, we will need to modify the licences of the gas and electricity transmission and gas distribution companies. We consider it important to engage with stakeholders at the earliest stage possible on these proposed changes. To that end, this is the first of two informal consultations on our proposed draft licence changes. The purpose of this document is to provide stakeholders with an early opportunity to comment on our proposed draft licence changes.

Within this document, we have outlined our proposed draft licence changes together with the reasons why we consider the changes are needed and their intended effect. Where possible, we have included working drafts of the proposed draft licence conditions to inform readers and for comment.

## Context

The gas and electricity transmission price controls (TPCR4) expired on 31 March 2012. We then implemented a one-year adapted rollover of TPCR4 from 1 April 2012 to 31 March 2013. The gas distribution price control review (GDPCR2) reset the revenue allowances for the Gas Distribution Networks (GDNs) for the period, 1 April 2008 to 31 March 2013. The next transmission (RIIO-T1) and gas distribution (RIIO-GD1) price controls will reflect the new RIIO (Revenue = Incentives + Innovation + Outputs) model for regulation and are due to apply from 1 April 2013 to 31 March 2021.

The business plans submitted by SP Transmission Ltd (SPTL) and Scottish Hydro Electric Transmission Ltd (SHETL) were suitable for fast-tracking and we have published Final Proposals<sup>1</sup> (FP Documents) for those companies. The business plans submitted by National Grid Electricity Transmission (NGET) and National Grid Gas, with respect to its gas transmission business (NGGT) were not considered suitable for fast-tracking. Initial Proposals for NGET and NGGT<sup>2</sup> (T1 IP Documents) have been published alongside this document. We intend to publish Final Proposals in December 2012.

In November 2011, the Gas Distribution Networks (GDNs) submitted their first business plans, and on 17 February 2012 we published our initial assessment of those plans<sup>3</sup>. We decided not to fast-track any of the GDNs, therefore as with NGGT and NGET, Initial Proposals for the GDNs<sup>4</sup> (GD1 IP Documents) have also been published alongside this document with Final Proposals to be published in December 2012.

### Timetable for RIIO-T1 and GD1 licence development and implementation

Stage	Date
Second informal licence drafting consultation (4 weeks)	Autumn 2012
Final Proposals <sup>5</sup> and 28 day statutory licence modification consultation and notices published	December 2012
Licence modification decision and modifications published	January 2013
Licence changes come into effect	April 2013

<sup>1</sup> RIIO-T1: Final Proposals for SP Transmission Ltd and Scottish Hydro Electric Transmission Ltd <http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIOT1/ConRes/Documents1/SPTSHETLFPsupport.pdf>.

<sup>2</sup> [RIIO-T1: Initial Proposals for NGGT and NGET - Overview](#)

<sup>3</sup> Initial Assessment of RIIO-GD1 business plans and proportionate treatment <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=352&refer=Networks/GasDistr/RIIO-GD1/ConRes>

<sup>4</sup> [RIIO-GD1: Initial Proposals - Overview](#)

<sup>5</sup> For NGET, NGGT and the GDNs

## Associated documents

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### Supporting Documents to this consultation

[Supporting Document 1: Draft RIIO-T1 Electricity Transmission licence changes](#)

[Supporting Document 2: Draft RIIO-T1 Gas Transmission licence changes](#)

[Supporting Document 3: Draft RIIO-GD1 Gas Distribution licence changes](#)

[Supporting Document 4: Response template for RIIO-T1 & GD1-First licence drafting consultation](#)

[RIIO ET1 Price Control Financial Handbook](#)

[RIIO GT1 Price Control Financial Handbook](#)

[RIIO GD1 Price Control Financial Handbook](#)

### Main Documents

[RIIO-GD1: Initial Proposals - Overview](#)

[RIIO-T1: Initial Proposals for NGGT and NGET - Overview](#)

[RIIO-T1: Final Proposals for SP Transmission Ltd and Scottish Hydro Electric Transmission Ltd](#)

### Supporting Documents (Initial Proposals) – RIIO-T1

[RIIO-T1: Initial Proposals for NGGT and NGET – Outputs, incentives and innovation](#)

[RIIO-T1: Initial Proposals for NGET and NGGT – Cost assessment and uncertainty](#)

[RIIO-T1: Initial Proposals for NGGT and NGET – Finance](#)

[RIIO-T1: Initial Proposals for NGGT and NGET – Impact Assessment](#)


### Supporting Documents (Initial Proposals) – RIIO-GD1

[RIIO-GD1: Initial Proposals – Supporting document – Outputs, incentives and innovation](#)

[RIIO-GD1: Initial Proposals – Supporting document – Cost efficiency](#)

[RIIO-GD1: Initial Proposals – Supporting document – Finance and uncertainty](#)

[RIIO-GD1: Initial Proposals – Impact assessment](#)



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Other key documents

[Decision on strategy for the next transmission price control – RIIO-T1](#)

[Decision on strategy for the next gas distribution price control – RIIO-GD1](#)

[Handbook for implementing the RIIO model - Ofgem, October 2010](#)

[Glossary for all the RIIO-T1 and RIIO-GD1 documents](#)

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## Executive Summary

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Britain's gas and electricity network companies face unprecedented challenges. They will need to invest over £30 billion over the next decade to develop smarter networks, to meet environmental challenges and to secure energy supplies. Against this backdrop, it is more important than ever that network companies can show consumers they are getting value for money.

RIIO-T1 and GD1 will be the first price controls to be conducted under our new RIIO model. Through RIIO-T1 and GD1, we are setting the regulatory framework to apply to Electricity and Gas Transmission (ET and GT) and Gas Distribution (GD) companies from 1 April 2013 to 31 March 2021.

The objective of RIIO is to encourage network companies to play a full role in the delivery of a sustainable energy sector, and to do so in a way that delivers value for money for existing and future consumers.

We have already published our FP Documents for SPTL and SHETL.<sup>6</sup> Alongside this document we are also publishing our T1 IP Documents for NGET and NGGT with respect to RIIO-T1<sup>7</sup> and separately, our GD1 IP Documents for the GDNs with respect to RIIO-GD1.<sup>8</sup>

This document sets out our current thinking as to how the licences of the transmission companies and the GDNs should be amended to implement the RIIO-T1 and GD1 price controls. These conditions are working drafts and we recognise that further work will be required to ensure that the conditions are fully consistent as a package and appropriately reflect Final Proposals.

We have held a number of RIIO Licence Drafting Working Group meetings since May 2011 and worked closely with network companies throughout the licence drafting process to facilitate the development of these draft licence changes. We will continue this process for the remainder of 2012.

This is an informal eight week consultation which affords all interested parties an early opportunity, relative to previous price controls, to provide views on our working drafts of the proposed licence changes. Following consideration of respondents' views to this consultation, we intend to publish a second informal four week consultation (the Second Consultation) on our proposed changes in the autumn. We will then conduct the requisite 28 day statutory consultation in December 2012.

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<sup>6</sup> [RIIO-T1: Final Proposals for SP Transmission Ltd and Scottish Hydro Electric Transmission Ltd](#)

<sup>7</sup> [RIIO-T1: Initial Proposals for NGGT and NGET - Overview](#)

<sup>8</sup> [RIIO-GD1: Initial Proposals - Overview](#)

# 1. Introduction

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## Chapter Summary

This chapter sets out the purpose and structure of this document and identifies the scope of the licence changes proposed in this document. It also explains the differences between the different types of licence conditions.

### Purpose of this document

1.1. This document should be read alongside the T1 IP Documents for:

- National Grid Electricity Transmission (NGET) and National Grid Gas (NGGT) with respect to RIIO-T1
- the FP Documents for SP Transmission Ltd (SPTL) and Scottish Hydro Electric Transmission Ltd (SHETL) with respect to RIIO-T1
- the GD1 IP Documents for the GDNs with respect to RIIO-GD1.

1.2. This document sets out our current thinking as to how the licences of the transmission companies and GDNs should be amended to implement the RIIO-T1 and GD1 price controls. It is the first of two informal licence drafting consultations.

1.3. Following consideration of respondents' views, we intend to publish the Second Consultation this autumn. We will then conduct the requisite 28 statutory consultation in December 2012.

### Scope of proposed changes

1.4. This document focuses on our proposed changes to the gas transporter and the electricity transmission licences of the transmission companies for the RIIO-T1 price control. As well as our proposed changes to the gas transporter licences of the GDNs for the RIIO-GD1 price control.

1.5. Unless clearly stated otherwise, we are proposing changes to the following licences only:

1.6. For RIIO-T1 - the electricity transmission licences of NGET, SPTL and SHETL and the gas transporter licence of NGGT.

1.7. For RIIO-GD1 - the gas transporter licences of the following GDNs:

- NGG, with respect to its GDN business (NGGD)
- Wales and West Utilities Limited
- Scotland Gas Networks
- Northern Gas Networks Limited, and



- Southern Gas Networks

## Overview of licence conditions

1.8. There are three different types of licence conditions. We have summarised these different types below together with the licence types they apply to.

### Standard Licence Conditions (SLCs)

1.9. SLCs set out the duties and obligations applicable to holders of a particular type of licence. All transmission and gas distribution licences contain SLCs. Some of these SLCs are very similar across the different licence types.

1.10. The SLCs are grouped into different parts/sections that either apply or do not apply according to the activities carried out by the licence holder.

### Standard Special Conditions (SSCs)

1.11. SSCs are similar to SLCs but only apply to NGGT and the GDNs. As with SLCs, it should be noted that SSCs are grouped into different parts that, either apply or do not apply to NGGT or the GDNs, according to the activities being carried out by that Licensee.

1.12. In this consultation we are only proposing changes to:

- Part A: SSCs applicable to GDNs and NGGT
- Part D: SSCs applicable to GDNs only.

### Special Conditions (SpCs)

1.13. SpCs are conditions that apply to a particular Licensee and form part of its licence alongside any applicable SLCs and/or SSCs. All transmission and gas distribution licences contain SpCs. The majority of the changes set out in this document relate to SpCs.

## Approach to licence drafting for RIIO

1.14. During the course of the RIIO Licence Drafting Working Group meetings a number of issues have been raised and discussed with the network companies. We do not intend to highlight all of the issues that have been previously considered in these Working Group meetings in this document. However, where issues remain outstanding these will be highlighted together with a brief summary of our current position on that particular issue.

1.15. We set out below our general approach to RIIO licence drafting.

### **Definition of terms**

1.16. Companies have requested clarity over our approach to defining terms in the licence.

1.17. We consider that using capital letters to signify a defined term is the most appropriate approach. It makes it clear to the reader when they should refer to the definitions section for further information. This is consistent with our approach in the Electricity Distribution licences.

1.18. We ultimately intend to capitalise all defined terms in the licences. In the first instance we will adopt this approach for all licence conditions we are changing for RIIO-T1 and GD1. We recognise that such an approach will temporarily create inconsistencies in the licence. We would look to rectify these inconsistencies by reviewing the entire licence, for all sectors, and carrying out a housekeeping modification to make all defined terms capitalised.

### **Best/reasonable endeavours**

1.19. As part of the RIIO Licence Drafting Working Group we discussed using alternative terms such as to “take steps” in outlining the measures a licensee would be required to take to meet its licence obligations. However, having considered this matter further we consider that retaining the use of the terms “best/all reasonable/reasonable endeavours” in the context of licence obligations is more appropriate as these terms are better known and understood by licensees. We therefore propose to continue to use these terms in the RIIO licence drafting.

1.20. We welcome views on our proposed approach with respect to the use of these terms.

### **Condition numbering**

1.21. It should be noted that for both RIIO-T1 and GD1 we are not minded to alter the current structure of the SLCs or SSCs or amend the existing condition numbering. This is in order to minimise referencing issues that altering the SLCs or SSC numbers may create.

1.22. Where we consider an existing SLC or SSC to no longer be required, we propose to substitute the title and entire text of that condition with the words “Not Used”.

1.23. In contrast, given the extensive number of proposed changes to the SpCs we see no benefit in retaining the current numbering or structure for the SpCs.

Therefore, where we consider a SpC to no longer be required we propose to delete that condition in its entirety.

1.24. At this stage, no final condition numbers are used in the licence drafting. Each condition discussed in this consultation has a RIIO tracking number in square brackets (see below). This tracking number does not reflect the actual condition number that will be assigned to the final version of the licence conditions.

### **RIIO tracking numbers**

1.25. During the course of developing the proposed draft licence changes, a RIIO tracking number was assigned to each relevant condition in the following format:

- Electricity Transmission Condition [ETC X]
- Gas Transmission Condition [GTC X]
- Gas Distribution Condition [GDC X].

1.26. In recognition of the fact that key stakeholders have become familiar with these tracking numbers, and that the final structure of the licence may change, we have used them throughout this document. For each individual licence condition we have included a tracking reference number with the above prefixes to assist with identifying a particular condition.

1.27. It should be noted that these tracking numbers will not be part of the final licence and are part of the management of the licence drafting process.

### **Paragraph numbering**

1.28. We recognise that inconsistencies currently exist in the three Supporting Documents<sup>9</sup> with the way paragraphs are numbered. For instance, in the Supply and Electricity Distribution licences, the SLC paragraph numbers include the prefix of the relevant condition number. For example, the first paragraphs of SLC 26 would be numbered 26.1, 26.2 and so on. Whereas the paragraph numbers in other licence conditions start at paragraph number 1. Similar inconsistencies exist across the licences with the numbering of paragraphs in the SpCs.

1.29. In the RIIO licence drafting, for all SpCs we will ultimately look to include the condition prefix in the paragraph numbering.

1.30. For SLCs and SSCs we will revert to the existing format of paragraph numbering (and indeed 'house style' eg font size, type and list convention) for that condition.

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<sup>9</sup> Supporting Documents 1, 2 and 3 which have been published with this document provide the proposed licence drafting for ET, GT and GD respectively.

## **'House style' for all SpC**

1.31. We recognise that currently the template style of the new SpCs in the Supporting Documents is not consistent. We will aim to address this in the Second Consultation.

## **Modernising licence conditions**

1.32. In order to add clarity and in an effort to remove any ambiguity we have, where possible, taken steps to update the structure and wording of some existing conditions by replacing any unclear text with clear and plain English. This general exercise of making conditions more user-friendly is referred to as 'modernising' throughout this document.

1.33. The conditions under this informal consultation are working drafts which are still being developed in working groups. We are conscious that further development may be required to ensure that the drafting focuses on provisions which work within the context of a statutory enforcement regime focussed on the licensee's, rather than the Authority's, compliance with the terms of the licence, but at the same time provides clear, transparent and fair processes for the new mechanisms included under RIIO (for instance, the annual iteration process, Network Innovation Competition (NIC), Network Innovation Allowance (NIA) etc). This is work in progress and further, more careful consideration of conditions, including refinements to drafting will be worked up in consultation with licensees ahead of the Second Consultation.

## **Responding to this consultation**

1.34. We welcome responses in any format. However, for ease of reference, any interested parties with specific comments about the drafting of a particular condition(s) are requested to use the response template.<sup>10</sup> Where possible, specific comments on the licence drafting should include alternative wording.

1.35. The purpose of this consultation is to seek views on whether our proposed licence drafting reflects the policy position set out in the T1 IP Documents, the GD1 IP Documents and the FP Documents. This document is not seeking views on the policy itself. Views on any specific policy matters as set out in the T1 IP Documents or GD1 IP Documents should be sent to us as a response to the those consultations.

## **Proposed next steps**

1.36. We will conduct the Second Consultation in the autumn. Subject to that consultation, this will be followed by the requisite 28 day statutory consultation in December 2012.

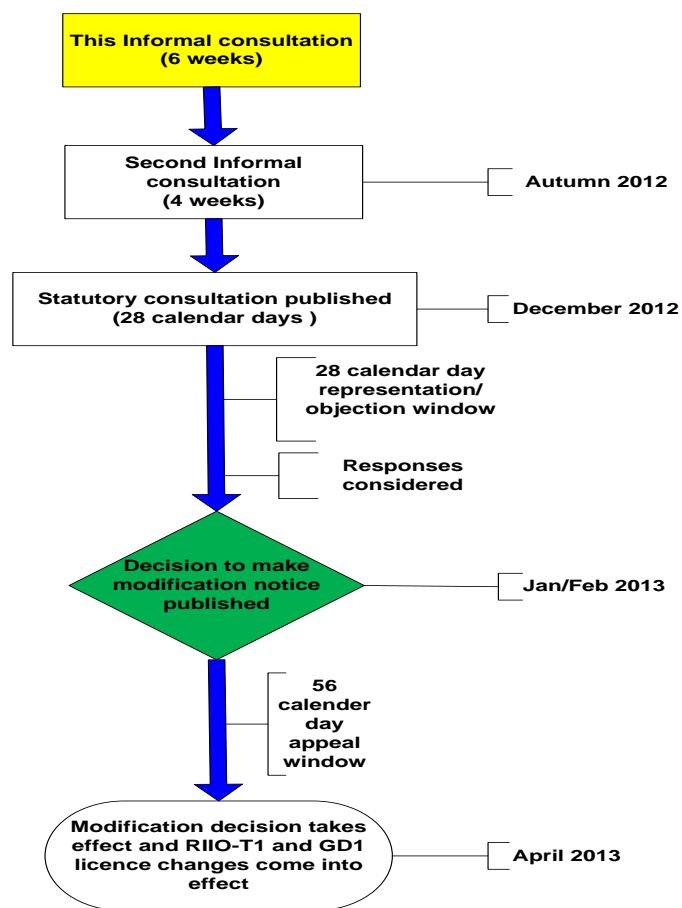
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<sup>10</sup> [Supporting Document 4: Response template for RIIO-T1 & GD1-First licence drafting consultation](#)

1.37. It should be noted that, following implementation of the Third Package Regulations<sup>11</sup> the procedure for making licence modifications has been amended. Under the revised procedures, any proposed licence changes no longer require Licensee consent, but can only come into effect at least 56 days after we have published our decision to make those licence changes.

1.38. At this time we expect to publish our decision on making the licence changes in January/February 2013. This is shortly after the close of the 28 day statutory consultation. Figure 1.1 below sets out an indicative diagram of the remaining key stages.

**Figure 1.1: Remaining stages of the licence modification process**



## Structure of this document

1.39. There is considerable overlap in the licence conditions of the Licensees operating in the GT, ET and GD sectors. To avoid unnecessary duplication of

<sup>11</sup> The Electricity and Gas (Internal Markets) Regulations 2011  
[http://www.legislation.gov.uk/uksi/2011/2704/pdfs/uksi\\_20112704\\_en.pdf](http://www.legislation.gov.uk/uksi/2011/2704/pdfs/uksi_20112704_en.pdf)

explanatory text and for ease of reference, this document has been structured to present proposed changes to licence conditions that are 'common' across all three energy sectors, together wherever possible. Any proposed changes that are specific to a particular sector or Licensee have been presented separately.

1.40. The following chapters set out our proposed licence changes and explain the reasons and intent behind those changes:

- Chapter 2 – Electricity Transmission - changes to SLCs and SpCs
- Chapter 3 – Gas Transmission - changes to SpCs
- Chapter 4 – Gas Distribution - changes SSCs (Part D) and SpCs
- Chapter 5 – GT and GD - changes to SLCs and SSCs (part A)
- Chapter 6 – The Annual Iteration Process for the Price Control Financial Model and updating of base revenue allowances
- Chapter 7 – Proposed changes to common ET, GT and GD licence conditions
- Chapter 8 – Associated RIIO documents.


1.41. This document also includes the following appendices which set out our first thoughts on the data that will be collected through the proposed new Regulatory Instructions and Guidance (RIGs) licence condition.

- Appendix 1: Sets out the data that will be required in the electricity transmission RIGs
- Appendix 2: Sets out the data that will be required in the gas transmission RIGs
- Appendix 3: Sets out the data that will be required in the gas distribution RIGs
- Appendix 4 - Indicative tables showing proposed changes to the price control related licence conditions within the GT licence.

1.42. Alongside this document we have also published the following three Supporting Documents which set out the proposed licence drafting for each sector:

- Supporting Document 1: Draft RIIO-T1 Electricity Transmission licence changes
- Supporting Document 2: Draft RIIO-T1 Gas Transmission licence changes
- Supporting Document 3: Draft RIIO-GD1 Gas Distribution licence changes.

1.43. The draft licence conditions in the above Supporting Documents have, as far as possible, been presented in the order we expect the licence conditions to finally reside in the licence. However, we note that this has unfortunately resulted in the RIIO tracking numbers assigned to the conditions not running in ascending order in the Supporting Documents.



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1.44. We expect to have actual licence numbers in place for the draft licence conditions by the Second Consultation.

1.45. A template for responses to our proposed licence drafting is provided at:

- Supporting Document 4: Response template for RIIO-T1 & GD1 - First licence drafting consultation.

1.46. We have also published the following Price Control Financial Handbooks (handbook) for each licence type:

- RIIO ET1 Price Control Financial Handbook
- RIIO GT1 Price Control Financial Handbook
- RIIO GD1 Price Control Financial Handbook

## 2. Electricity Transmission – Changes to SLCs and SpCs

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### Chapter Summary

This chapter sets out our proposed changes that are specific to ET Licensees. The proposed changes relate to amendments to existing, or the introduction of new, SLCs and SpCs. It also sets out our reasons for the proposed introduction/changes together with the intended effect.

**Question 1:** We invite stakeholders to comment on the proposed changes to the SLCs SpCs in NGET’s licence as outlined in this chapter and the actual licence drafting in Supporting Document 1.

**Question 2:** We invite stakeholder views as to whether SLC C18: Requirement to offer terms for connection or use of the GB transmission system during the transition period [ETC 92] remains relevant or should be removed.

**Question 3:** We invite stakeholders’ views as to whether SpC D15: Obligations relating to the preparation of TO offers during the transition period [ETC 92] remains relevant or should be removed.

**Question 4:** Relevant Licensees are requested to provide written evidence to support the position that arrangements set out within B14: BETTA run-off arrangements scheme [ETC 93] have come to an end and hence the condition may be removed.

2.1. We have outlined below our proposed changes to existing, or introduction of new, ET SLCs and SpCs, together with the reasons why we consider changes to be necessary and the intended effect of these changes. Similarly, we have also outlined changes for conditions that are broadly common in content across the ET, GT and GD sectors in Chapter 7: Proposed changes to common licence conditions.

### Overview of proposed changes to electricity transmission SLCs

2.2. The following are proposed changes to SLCs that currently reside in Sections A, B C and D of the electricity transmission licence. SLCs within sections A and B are applicable to all electricity transmission licence holders.<sup>12</sup> SLCs within section C are applicable to the System Operator only and SLCs within section D apply only to the Transmission Owner (TO).

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<sup>12</sup> Unless the Authority has directed otherwise.



### **SLCs to be considered further in the Second Consultation**

2.3. Given the ongoing development of licence drafting we consider it more appropriate to review the SLCs set out below at a later stage of the RIIO licence drafting process. We expect that some minor changes will be needed to the following SLCs (eg to update dates that currently relate to TPCR4 and defined terms) but will not consider these until the Second Consultation.

- A1: Definitions and interpretation [ETC 105]
- A2: Application of Section C [ETC 112]
- A3: Application of Section D [ETC 107]
- A5: Application of Section B [ETC 108]
- A6: Application of Section E [ETC 109]
- B2: Change of Financial Year [ETC 93]
- C1: Interpretation of Section C [ETC 110] (NGET only)
- D1: Interpretation of Section D [ETC 111] (SPTL/SHETL only)

#### **A4: Payments by the Licensee to the Authority [ETC 81]**

Drafting status: We will progress changes to this condition separately from RIIO. We will provide an update in the Second Consultation.

2.4. We propose to review this SLC collectively with equivalent conditions in other licences and amend these conditions separately to the work on RIIO licence changes. We expect to provide an update on progress in the Second Consultation.

2.5. As part of this separate review we also intend to consider what, if any, scope there is to add clarity to SLC A4 of the electricity transmission licence by making clear that only NGET pays the annual licence fee.

#### **B1: Regulatory Accounts [ETC 71]**

Drafting Status: Current working draft provided in Supporting Document 1.

2.6. The purpose of this condition is to ensure that the Licensee:

- (a) prepares and publishes Regulatory Accounts within the meaning of Part A of this SLC, and
- (b) maintains (and ensures that any affiliate or related undertaking of the Licensee maintains) such accounting records, other records, and reporting arrangements for the consolidated transmission business as are necessary to enable the Licensee to comply with that obligation.

2.7. We propose to amend this SLC as follows:

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- delete references to the earlier Companies Act 1985
- incorporate references to the Companies Act 2006
- introduce segmental reporting<sup>13</sup>, and
- make any necessary incidental or consequential changes to the condition.

2.8. The reason why we propose to make these changes is to introduce the requirements of the Companies Act 2006 which superseded the Companies Act 1985.

2.9. The effect of the proposed changes is to introduce segmental reporting, incorporate the reporting and record keeping requirements of the Companies Act 2006 and that the Licensee is to produce its regulatory accounts as if it is a quoted company whether or not it is such a company.

**B4: Provision of information to the Authority [ETC 75]**

Drafting status: Current working draft provided in Supporting Document 1.

2.10. This SLC places an obligation on transmission Licensees to provide such information and procure and provide such reports<sup>14</sup> that the Authority may reasonably require in order to perform its functions.

2.11. The intention of the proposed change to paragraph 1 of the current condition is for the revised condition to include all current relevant statutes and enactments and allow for any future statutes to be included.

**B13: BETTA implementation [ETC 93]**

Drafting status: To be removed by substituting the title and entire current text with the words "Not Used".

2.12. This SLC places an obligation on transmission Licensees to take certain steps and do certain things within its power which are necessary to or expedient for the purposes of implementing BETTA, on and from the BETTA go-live date.

2.13. The BETTA go live date was 1 April 2005. Paragraph 7 of this SLC provides that this condition will cease to have effect on 1 April 2006 or such earlier date as the Authority may specify.

2.14. The SLC is now time expired and has no operational effect in the transmission licence and we therefore propose that it can be removed from the licence.

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<sup>13</sup> A type of financial reporting in which the company discloses information by identifiable industry segments.

<sup>14</sup> In such manner and at such times as the Authority may reasonably require.

#### **B14: BETTA run-off arrangements scheme [ETC 93]**

Drafting status: Possible removal following consideration of responses – update to be provided in the Second Consultation.

2.15. This SLC requires a transmission Licensee to comply with the BETTA run-off arrangements scheme (the BETTA run-off scheme).

2.16. The BETTA run off scheme was designated by the Secretary of State on 22 December 2004 and put in place obligations on parties to run-off (ie bring to an end) non-GB transmission and trading arrangements that they were a party to which could prevent or hinder the successful and effective implementation of BETTA.

2.17. We note that TOs have previously expressed a view that this condition is redundant. Interested parties are requested to provide written evidence to support the position that these arrangements have come to an end.

2.18. Following consideration of responses, we may propose to remove this condition by substituting the title and entire current text with the words “Not Used”.

#### **B15: Price Control Review Information [ETC 74] and B16: Price Control Revenue Reporting and Associated Information [ETC 74]**

Drafting status: Existing SLC B15 to be replaced by proposed new SLC B15. Current working draft of proposed new SLC B15 provided in Supporting Document 1. SLC B16 to be removed by substituting the title and entire current text with the words “Not Used”. An outline of any consequential changes will be provided in the Second Consultation.

2.19. Our proposed changes to the above reporting related conditions for ET are in line with our proposed changes to similar provisions for GT and GD. For further details please see the ETC/GTC/GDC 74: Regulatory Instructions and Guidance (RIGs) condition in chapter 7.<sup>15</sup>

#### **B17: Network Output Measures [ETC 73]**

Drafting status: Current working draft provided in Supporting Document 1.

2.20. During TPCR4, Licensees developed methodologies for deriving and reporting Network Output Measures (NOMs). This was codified in current SLC B17.

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<sup>15</sup> Chapter 7: ETC/GTC/GDC 74.Regulatory Instructions and Guidance

2.21. The purpose of this condition<sup>16</sup> is to ensure that the methodology continues to meet its objectives, and provides for implementation and modification of the methodology.

2.22. As part of RIIO we have modernised the condition and removed the sections relating to the development of NOMs, as these are now in place. The reasons and effect of these proposed changes is to update the condition and provide clarity.

### **[ETC 76]: Data Assurance**

2.23. We propose to introduce a new SLC relating to Data Assurance across all three sectors. The purpose of this proposed new condition, our reasons for introducing it, together with their intended effect are described further in chapter 7.<sup>17</sup>

## **Proposed changes to SLCs applicable to NGET only**

### **C18: Requirement to offer terms for connection or use of the GB transmission system during the transition period [ETC 92]**

Drafting status: Views are invited as to whether the condition remains relevant or should be removed. We will provide an update in the Second Consultation.

2.24. The main aims of this condition are to ensure that, to the extent possible, the Licensee shall, in accordance with the requirements of this condition:

- have in place agreements governing connection to, or use of, the GB transmission system with all existing users by the BETTA go-live date, and
- make offers for connection to or use of the GB transmission system to all applicants in accordance with the timescales specified in the condition.

2.25. We note that the condition also contains provisions<sup>18</sup> that allow the Authority to settle any terms in dispute<sup>19</sup> in circumstances where the Licensee and any applicant or existing user fail to agree upon the terms of an agreement based upon an offer made pursuant to this condition.

2.26. We invite views as to whether this SLC remains relevant given the 'connect and manage conditions' and if the provisions within this SLC should be removed by substituting the title and entire current text of this SLC with the words "Not Used".

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<sup>16</sup> Similar changes proposed for equivalent gas transmission condition - Special Condition C13: Network Output Measures [GTC 73].

<sup>17</sup> Chapter 7: [ETC/GTC/GDC 76]Data Assurance

<sup>18</sup> Paragraph 10 & 13 of this condition

<sup>19</sup> s 7(3)(c) of the Electricity Act 1989 and on application of the Licensee, an applicant or an existing user

## Proposed changes to SLCs applicable to SPTL and SHETL only

### **D12: Scottish Settlement Agreement [ETC 93]**

Drafting status: Proposal to remove by substituting the title and entire current text with the words "Not Used".

2.27. This condition requires a transmission Licensee, that transmits electricity to any premises in Scotland, or where the Settlement Agreement for Scotland (SAS) applies, to comply with the obligations in the SAS.

2.28. Under BETTA, the SAS energy and reconciliation rules were superseded by the GB Balancing and Settlement Code (BSC). The SAS rules continued in force for a period of time following the implementation of BETTA (the "SAS run-off period"), in order to facilitate the full reconciliation of energy traded on days prior to BETTA's implementation, and to allow an appropriate period of time for the resolution of any disputes in relation to such trading days.

2.29. The SAS run-off period has now passed and we therefore propose this SLC can therefore be removed from the licence.

### **D15: Obligations relating to the preparation of TO offers during the transition period [ETC 92]**

Drafting status: Views invited as to whether this condition remains relevant or should be removed. An update will be provided in the Second Consultation.

2.30. The main aim of this condition is to require the Licensee to make TO offers to the system operator for the purposes of supporting the system operator in its achievement of the principal objectives specified in SLC C18 above.

2.31. We note that the condition also contains provisions<sup>20</sup> that allow the Authority to settle any terms in dispute<sup>21</sup> in circumstances where the Licensee and any applicant or existing user fail to agree upon the terms of an agreement based upon an offer made pursuant to this condition.

2.32. As with SLC C18 above, we invite views as to whether this SLC remains relevant given the 'connect and manage conditions'. Further, if the SLC is no longer applicable whether the provisions within this SLC should be removed by substituting the title and entire current text with the words "Not Used".

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<sup>20</sup> Paragraph 10 & 13 of this condition.

<sup>21</sup> Pursuant to section 7(3)(c) of the Electricity Act 1989 and on application of the Licensee, an applicant or an existing user.

## Overview of proposed changes to electricity transmission Special Conditions (SpCs)

### Existing SpCs to be considered further later in RIIO drafting process

2.33. Given the ongoing development of licence drafting we consider it appropriate to review the following SpCs later in the RIIO licence drafting process. We are not therefore consulting on any changes to the following SpCs at this time and will revisit in time for the Second Consultation.

- Special Condition A: Definitions and interpretation [ETC 129]
- Special Condition D1 (NGET) and J1 for SPTL and SHETL: Transmission Network Revenue Restriction: Definitions [ETC 19]
- Special Condition AA5: Definitions (NGET only) [ETC 130]

2.34. We also propose to amend the following SpCs of the transmission licences. Where the condition reference is different between NGET and SHETL/SPTL, the relevant SpC reference for SPTL/SHETL is shown in brackets.

### **Special Condition D2 (J2 for SPTL and SHETL): Restriction on Transmission Network Revenue [ETC 20]**

Drafting status: Current working draft provided in Supporting Document 1.

2.35. This SpC calculates the maximum revenue the Licensee is allowed to recover from customers by bringing together terms from other licence conditions. It also sets out the calculation of the price index adjustment term used throughout the licence and calculates the correction factor (K) for the treatment of over/under recovery of revenue.

2.36. We have updated the methodology for calculating the price index adjustment term. This is consistent with the policy as set out in our decision on RPI indexation in July 2011.<sup>22</sup> We have also updated the defined terms to introduce a consistent approach across the transmission Licensees.

2.37. We have also incorporated the calculation of the correction factor (K) into the licence condition. This removes the need for the SpCs outlined in Table 1.

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<sup>22</sup> Decision on RPI indexation method:  
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=117&refer=Networks/Trans/PriceControls/RIIO-T1/ConRes>

**Table 2.1: SpCs to be removed by ETC 20**

<b>Licence type</b>	<b>Condition number</b>	<b>RIIO Tracking number</b>
Electricity transmission	SpC J6: Adjustments to Transmission Network Revenue (NGET)	ETC 42
Electricity transmission	SpC D6: Adjustments to Transmission Network Revenue (SPTL/SHETL)	ETC 42

2.38. There have been no significant changes to the intent of this condition. Our current view is not to alter the broad purpose of the existing special condition, which is to bring together the elements of allowed revenue calculated in other licence conditions. There may be a need to add/remove terms once other licence conditions are finalised.

2.39. The correction factor calculation is subject to policy change once a decision has been made in relation to our consultation on mitigating network charging volatility.<sup>23</sup> We expect to provide an update on this issue in the Second Consultation.

**Special Condition D3 (J3 for SPTL and SHETL): Adjustment to the Transmission Network Revenue Restriction due to Transmission Investment for Renewable Generation [ETC 15]**

Drafting status: We will provide a draft of this condition in the Second Consultation.

2.40. SpCs J3 (SHETL and SPETL) and D3 (NGET) are the existing SpCs that govern the Transmission Investment for Renewable Generation (TIRG) funding mechanism (the TIRG licence condition).

2.41. The mechanism provides the three electricity transmission licensees with revenue allowances to facilitate the connection of renewable generation outside the price control provisions. This section covers the proposed changes to the TIRG licence condition for all three electricity transmission licensees.

2.42. The changes proposed to the TIRG licence condition are expected to be minimal and are broadly to update the condition such that it is compatible with the rest of the updated RIIO licence. This is expected to include:

- changing the condition number and the current title of the condition to “Restriction of transmission charges: Transmission Investment for Renewable Generation”, and
- changing references to other licence conditions, eg SpC J2/D2.

<sup>23</sup> Mitigating network charging volatility arising from the price control settlement:  
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=368&refer=Networks/Policy>

2.43. The effect of the above is to ensure the continuity of the TIRG funding mechanism during RIIO and we do not expect the changes to materially alter the existing TIRG licence condition and its purpose.

2.44. As part of discussions with the network companies we identified the ATIRG term, which forms part of the TIRG revenue formula, and its role during the post-incentive period shadow-RAV to RAV transfer.

2.45. We will consider the transfer methodology in more detail in due course. However, at this time, we consider that the existing licence provisions would not automatically allow for the update of the transfer value in line with the approved income and asset value adjusting events.

2.46. We propose to amend the TIRG condition accordingly to facilitate transfer of approved adjusting events as part of RAV transfer process. We intend to consult specifically on TIRG shortly.

2.47. It should be noted that we are not currently proposing any changes to the associated Annex or Schedule.<sup>24</sup>

#### **Special Condition D4 (J4 for SPTL and SHETL): Pass Through Items [ETC 21]**

Drafting status: Current working draft provided in Supporting Document 1.

2.48. Our proposed changes to this condition for ET are in line with our proposed changes to similar provisions for GT and GD. We have therefore outlined our proposed changes to these common conditions in chapter 7.<sup>25</sup>

#### **Special Condition D5 (J5 for SPTL and SHETL): Incentive Payments [ETC 23]**

Drafting status: Proposal to delete.

2.49. We propose to delete this condition as provisions and terms within it have either been moved to other parts of the licence or can be removed as superfluous.

2.50. The provisions relating to efficiently mitigating the leakage of sulphur hexafluoride are now contained within ETC25: Incentive to Reduce Sulphur Hexafluoride Emissions<sup>26</sup> and provisions with respect to energy not supplied will be contained within ETC2: Reliability Incentive Adjustment in Respect of Energy Not Supplied.<sup>27</sup>

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<sup>24</sup> Annex to SpC D3 (NGET) and Schedule C to J3 for both SPTL and SHETL).

<sup>25</sup> Chapter 7: [GDC/ETC/GTC 21]. Allowed pass through items

<sup>26</sup> See ETC 25: Incentive to Reduce Sulphur Hexafluoride Emissions below for further details.

<sup>27</sup> See ETC 2: Incentive Adjustment in Respect of Energy Not Supplied below for further details.



2.51. The terms below can be removed as they are not part of the RIIO incentive package:

- IFI
- RevApOx
- RevDrvSP (SpC J5 only)
- RevDrvSHE(SpC J5 only)
- RCI (SpC J5 only)

**Special Condition D6 (J6 for SPTL and SHETL): Adjustments to Transmission Network Revenue [ETC 42]**

Drafting Status: Proposal to delete and replace by ETC20: Restriction on Transmission Network Revenue

2.52. This condition contains provisions relating to Correction Factor (K) which will remain under RIIO. However, this condition is being merged with Special Condition D2 (J2 for SPTL and SHETL) into ETC20: Restriction on Transmission Network Revenue. We therefore propose to delete this condition.

**Special Condition D7 (J11 for SPTL and SHETL): Allowance in Respect of Security Costs [ETC 128]**

Drafting Status: To be considered further and update to be provided in the Second Consultation.

2.53. We will consider further what, if any, changes are required to this condition and provide an update in the Second Consultation.

**Special Condition D8 (J9 for SPTL and SHETL): Duration of the Transmission Network Revenue Restriction [ETC 29]**

Drafting status: We will progress changes to this condition separately from RIIO. We will provide an update in the Second Consultation.

2.54. We intend to conduct a separate review of the disapplication conditions for all network licences. We do not therefore propose to make any changes to this condition at this time. Further details of our intention to review the disapplication provisions across all network licences can be found in Chapter 7.<sup>28</sup>

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<sup>28</sup> Chapter 7: Disapplication

**Special Condition D9 (J7 for SPTL and SHETL): Capital Expenditure Incentive and Safety Net) [ETC 70]**

Drafting status: Proposal to delete.

2.55. TPCR4 and TPCR4 Adapted Rollover capital expenditure incentive revenue adjustment (sometimes referred to as Work in Progress (WIP)) will form part of the calculations made in ETC 64: Legacy price control adjustments – Transmission Owner. As such, any adjustment to allowed revenue will be via the Annual Iteration of the Price Control Financial Model (PCFM).

2.56. We expect the capital expenditure incentive revenue adjustments to be calculated in line with the policy set out in the TPCR4<sup>29</sup> and Rollover<sup>30</sup> Final Proposals documents, and based on the approach set out in licence conditions<sup>31</sup> that were in force at 31 March 2012.

2.57. We therefore propose to delete this condition. The close out of this scheme will be handled through the new special condition ETC 64: Legacy price control adjustments – Transmission Owner.

**Special Condition D11 (J12 for SPTL and SHETL): Adjustment to the Transmission Network Revenue Restriction due to Transmission Asset Owner Incentives [ETC 52]**

Drafting status: We will provide a working draft in the Second Consultation.

2.58. SpCs D11 (NGET) and J12 (SHETL and SPETL) are the existing SpCs that govern the Transmission Investment Incentives (TII) framework (the TII condition). This section covers the proposed changes to the TII licence condition for all three electricity transmission Licensees.

2.59. The TII condition was introduced into the licence on 1 April 2010 to reflect the TII framework for providing project-specific, interim funding for critical large-scale investments within TPCR4. The TII condition was subsequently modified for application in the TPCR4 rollover year 2012-13.

2.60. The TII condition provides for cost recovery by the three electricity transmission Licensees in relation to specific pre-construction and construction works for which the Authority determines capital expenditure allowances covering planned expenditure in one or more financial years up to and including 201/13. It also includes mechanisms for adjusting allowances, and associated deliverables, and for

<sup>29</sup> Transmission Price Control Review: Final Proposals, Ref: 206/06, December 2006  
[http://www.ofgem.gov.uk/Networks/Trans/Archive/TPCR4/ConsultationDecisionsResponses/Documents1/16342-20061201\\_TPCR%20Final%20Proposals\\_in\\_v71%206%20Final.pdf](http://www.ofgem.gov.uk/Networks/Trans/Archive/TPCR4/ConsultationDecisionsResponses/Documents1/16342-20061201_TPCR%20Final%20Proposals_in_v71%206%20Final.pdf)

<sup>30</sup> TPCR4 Rollover: Final Proposals, November 2011,  
[http://www.ofgem.gov.uk/Networks/Trans/PriceControls/TPCR4Roll-over/Documents1/TPCR4\\_Rollover\\_Final\\_Proposals.pdf](http://www.ofgem.gov.uk/Networks/Trans/PriceControls/TPCR4Roll-over/Documents1/TPCR4_Rollover_Final_Proposals.pdf)

<sup>31</sup> Special Condition J7 and D9 for SPTL, SHETL and NGET respectively.

annual reporting on expenditure against allowances and progress against deliverables.

2.61. The TII framework is being superseded by the arrangements for Wider Works under RIIO-T1. The Wider Works arrangements are covered separately in the new SpCs discussed below.

2.62. However, certain provisions within the current TII condition will need to be retained under RIIO-T1, specifically:

- the adjustment mechanisms and reporting arrangements, as they apply to relevant works undertaken in 2012/13, and
- the provisions, which were introduced as part of the modifications to this condition for 2012/13, for future revenue adjustments to be made under RIIO-T1.

2.63. The future revenue adjustments referred to above relate to the:

- “true-up” of revenues to account for the final values (including any adjustments under the above mechanism) of the relevant capital expenditure allowances where those differ from the values assumed or taken into account in setting the allowed revenue for the relevant year, and
- application of the capital efficiency incentive to the relevant works.

2.64. Therefore, we will retain an amended version of the TII condition into RIIO-T1 which will reflect the above and include a process for closing TII projects. Based on this process, a value will be determined which then, through a separate licence condition<sup>32</sup>, would adjust allowed revenue via the annual iteration of the PCFM.

### **Special Condition AA5A: Balancing Services Activity Revenue Restriction [ETC 12] [NGET only]**

Drafting status: Current working draft provided in Supporting Document 1.

2.65. This condition calculates maximum SO revenue the Licensee is allowed to recover from customers.

2.66. We propose to change the title of this condition from ‘Balancing Services Activity Revenue Restriction’ to ‘Restriction on System Operator Internal Revenue’.

2.67. In order to improve readability we have split this condition into internal and external revenues and propose to restructure (see Table 2 below).

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<sup>32</sup> ETC 64: Legacy price control adjustments – Transmission Owner.

2.68. Our intention is not to alter the broad purpose of the existing condition.

2.69. The purpose of this new draft condition (replacing Part 2 (ii) of SpC AA5A) is to provide for the funding of the baseline revenue that we propose to allow for the System Operator internal costs. This is the capital expenditure that enables the SO to carry out its role in operating the system. This condition brings together the elements of SO internal allowed revenue calculated in other licence conditions. Therefore, there may be a need to add in/remove terms once other licence conditions are finalised.

2.70. The new specific SO external cost condition (ETC 127) will be developed as part of the review of external SO incentives for 2013.

**Table 2.2: Proposed new structure of SpC AA5A under RIIO**

Existing condition reference	Proposed new structure	In conjunction with
Part 1	Remove – no substantive reason to retain.	RIIO-T1
Part 2 (i) – SO external costs	Propose to introduce a separate condition for SO external costs (ETC127).	SO 2013 <sup>33</sup>
Part 2 (ii) – SO internal costs	Remains within this licence condition (ETC12 ) with the existing income adjusting event term (IAT) being moved to a specific condition ETC117: Arrangements for the recovery of SO uncertain costs	RIIO-T1
Part 2 (iii) Information on balancing services	Move the data reporting requirements into the RIGs and then remove from face of the licence.	RIIO-T1/SO 2013
Part 2 (iv) TO incentives	Incorporate within the created SO external costs condition along with definition of 'ON' and 'IONT' from Part 2 (ii).	SO 2013

**Special Condition AA5C: Information to be Provided to the Authority in Connection with the Transmission Network Revenue Restriction (NGET), and Special Condition L2: Transmission losses reporting (SPTL and SHETL) [ETC45]**

Drafting status: Proposal to remove and be replaced by ETC45:Transmission losses. Current working draft provided in Supporting Document 1.

2.71. The purpose of this condition is to set requirements for the Licensee to report to stakeholders annually in relation to transmission losses on the Licensee's transmission system and the steps the Licensee is taking to contribute to a lower level of transmission losses on the Licensee's transmission system.

<sup>33</sup> System Operator incentive schemes from 2013: Initial Proposals

2.72. As part of RIIO-T1 we have changed the title of this condition to 'Transmission Losses'. We have also modified the existing reporting requirement so that the Licensee is reporting to stakeholders on its overall strategy to contribute to fewer losses as well as an annual update on its progress in implementing its strategy over the price control.

2.73. The effect of our proposed changes is to make the Licensee more accountable to stakeholders about how it takes into account transmission losses when it is planning and developing its transmission system.

**Special Condition AA5E: Duration of the Balancing Services Activity Revenue Restriction [ETC13] [NGET only]**

Drafting status: To be reviewed separately to RIIO process.

2.74. We intend to conduct a separate review of the disapplication conditions for all network licences. We do not therefore propose to make any changes to this condition at this time.

2.75. Further details of our intention to review the disapplication provisions across all network licences can be found in Chapter 7.<sup>34</sup>

**Special Condition K (Special Condition G for SPTL and SHETL): Requests for transit [ETC44]**

Drafting status: Proposal to delete.

2.76. This condition requires the Licensee to notify the Authority, the Secretary of State and the European Commission of applications for transit.<sup>35</sup>

2.77. We note that the Directive referred to in this condition<sup>36</sup> has been repealed and replaced twice and has now been replaced by provisions in the Third Package Regulations.

2.78. Given the above, we propose to delete this condition.

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<sup>34</sup> Chapter 7: Disapplication.

<sup>35</sup> As defined in paragraph 1 of this condition.

<sup>36</sup> Directive No 90/547/EEC, 29 October 1990 – Transit of electricity through transmission grids. This was repealed and replaced in 2003 by Regulation 1228/2003, which was then repealed and replaced by Regulation 714/2009 as part of the EU Third Package.

## Proposed new Electricity Transmission Special Conditions (SpCs)

2.79. We also propose to introduce the following new electricity transmission SpCs.

### Financial conditions

2.80. Further details on the following financial related condition can be found in Chapter 6.<sup>37</sup>

#### Drafting status: Current working drafts provided in Supporting Document 1

- [ETC 64]: Legacy price control adjustments – Transmission Owner
- [ETC67]: Legacy price control adjustments – System Operator
- [ETC 47]: Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner
- [ETC66]: Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator
- [ETC 27]: Specified financial adjustments – Transmission Owner
- [ETC 65]: Specified financial adjustments – System Operator
- [ETC 26]: Annual iteration process for the ET1 Price Control Financial Model
- [ETC 57]: Governance of ET1 Price Control Financial Instruments

2.81. Please note that these conditions are at an early stage of development and require further internal consideration and development. We are sharing the draft conditions at this early stage for the benefit of the licensees in responding to our Initial Proposals.

### ETC 1: Timely Connections Output

#### Draft status: We propose that no licence condition is needed for RIIO-T1.

2.82. The obligations referred to in this output are already present in the licence or in the SO:TO code (STC) in the case of SPTL and SHETL. We have been working with the industry on a draft condition as a means of implementing the envisaged downside financial incentive<sup>38</sup>. We have not included this condition and intend to work further on this to inform our Autumn consultation on licence conditions.

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<sup>37</sup> Chapter 6: The Annual Iteration Process for the Price Control Financial Model and updating of base revenue allowances

<sup>38</sup> Chapter 2, [RIIO-T1: Initial Proposals for NGGT and NGET – Outputs, incentives and innovation](#)

## **ETC 2: Incentive Adjustment in Respect of Energy Not Supplied**

Drafting status: Current working draft for NGET and SPTL provided in Supporting Document 1. Working draft of SHETL’s condition will be provided in the Second Consultation.

2.83. The purpose of this condition is to calculate the revenue-adjusting term that reflects the Licensee’s performance against the primary output of Energy Not Supplied (ENS) that was set out as part of our RIIO-T1 March 2011 Strategy Document<sup>39</sup> (T1 Strategy Document).

2.84. This condition will replace Part 1 of SpC D5 (NGET) and J5 (SPTL and SHETL). As part of RIIO we have:

- modernised this condition
- changed the formula to remove deadbands
- standardised the reporting requirements for exceptional events with other licence conditions
- changed some of the exclusions to the loss of supply events.

2.85. SHETL’s condition will have the same clauses as this condition, and an additional section relating to its customer compensation incentive. We are working with SHETL to develop this section further.

### *Outstanding issues with respect to ETC2*

2.86. For all versions of this condition we need to update references to the Electricity Act 1989.

## **ETC 9: Innovation Roll-out Mechanism, ETC10: Network Innovation Competition, and ETC 11: Network Innovation Alliance**

Drafting status: Current working draft provided in Supporting Document 1.

2.87. The above three new innovation related conditions are common to ET, GT and GD licences. Please see chapter 7<sup>40</sup> for further details on the purpose, our reasons for introduction and intended effect of this new licence condition.

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<sup>39</sup> [Decision on strategy for the next transmission price control – RIIO-T1](#)

<sup>40</sup> Chapter 7: Innovation

## **ETC 17: Environmental Discretionary Reward Scheme**

Drafting status: Current working draft provided in Supporting Document 1.

2.88. The purpose of this proposed new condition is to establish arrangements for the Environmental Discretionary Reward (EDR) Scheme, and to determine the amount of incentive the Licensee shall receive in relation to its performance.

2.89. As part of RIIO we have consulted on introducing EDR Scheme to encourage the Licensee to achieve high standards in environmental management as well as facilitate the industry to move towards a low carbon energy system.

2.90. The effect of this condition is to make a positive adjustment to the Licensee's revenue if they meet the performance criteria set by the EDR Scheme. For further information on the EDR Scheme Guidance, which will cover the performance categories, criteria as well as arrangements relating to administration, governance and revision of the EDR Scheme please see chapter 8.<sup>41</sup>

2.91. Further work is required ahead of the Second Consultation to develop the EDR Scheme guidance document in further detail.

## **ETC 18: Enhancement to Pre-existing Infrastructure in National Parks and Areas of Outstanding Natural Beauty**

Drafting status: Current working draft provided in Supporting Document 1.

2.92. The purpose of this proposed new condition is to specify visual amenity outputs the Licensee will be required to deliver in relation to existing transmission infrastructure in National Parks and Areas of Outstanding Natural Beauty. The condition also establishes provisions for the Authority to determine the amount of allowed expenditure the Licensee shall incur in the delivery of such outputs as a PCFM<sup>42</sup> Variable Value into the PCFM.

2.93. The effect of this condition is to enable the Licensee to request the Authority to determine the allowed expenditure in relation to specific visual amenity outputs in designated areas.

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<sup>41</sup> Chapter 8: Environmental Discretionary Reward (EDR) Scheme Guidance.

<sup>42</sup> Further details on the PCFM can be found in chapter 6: The Annual Iteration Process for the Price Control Financial Model and updating of base revenue allowances



## **ETC 24: Incentive adjustments relating to the licensee’s Stakeholder Satisfaction Output**

Drafting status: Current working draft provided in Supporting Document 1.

2.94. The purpose of this draft condition is to set out the key components of the customer satisfaction output. These relate to two separate incentives. One is based on performance against a survey of stakeholder and/or customer views of the transmission network company’s performance. The other provides for a discretionary reward for effective engagement<sup>43</sup> where the decision to apply such a reward would be determined by the Authority.

2.95. Parts B and C of the draft licence condition give rise to the stakeholder engagement reward and the Stakeholder Engagement Reward Guidance associated document. The purpose of this associated document is to provide the licensee with information on the application and reward process. For further information on the Stakeholder Engagement Reward Guidance see Chapter 8<sup>44</sup> of this consultation. We believe that the licence drafting we have proposed is sufficient to establish this associated document and provide suitable governance arrangements should it need to be changed.

2.96. Part D of this licence condition requires further work ahead of the Second Consultation. This reflects ongoing policy development and trialling of the survey and related information by all four transmission owners and further work on the design of the financial incentives in light of this.

2.97. Appendix 1 of the Outputs and incentives Supporting Document<sup>45</sup> provides an update for this work. It is likely that the drafting for Part D will be different at least between the Scottish TOs and NGET/NGGT. This will reflect the greater element of NGET/NGGT surveys that will be based on direct customers of NGET and NGGT - where a significant record of results for recent years is available.

2.98. The draft condition provided is at an early stage of development and requires further internal consideration and development. We will work with companies to develop this drafting and expect to have in it in place by the Second Consultation.

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<sup>43</sup> The core components of the customer satisfaction output were agreed as part of the T1 Strategy Document.

<sup>44</sup> Chapter 8: Stakeholder Engagement Reward Guidance

<sup>45</sup> [RIIO-T1: Initial Proposals for NGGT and NGET – Outputs, incentives and innovation](#)

## **ETC 25: Incentive to Reduce Sulphur Hexafluoride Gas Emissions (SF<sub>6</sub>)**

Drafting status: Current working draft for NGET and for SPTL provided in Supporting Document 1. Working draft for SHETL to be provided in the Second Consultation.

2.99. The purpose of this proposed new condition is to establish an incentive for the Licensee to efficiently mitigate the leakage of sulphur hexafluoride (SF<sub>6</sub>) from assets on the Licensee's transmission system.

2.100. As part of RIIO we have modified the TPCR4 incentive scheme<sup>46</sup> to apply to actual emission levels from the Licensee's transmission system instead of a percentage rate of emissions.

2.101. We have also changed the incentive so that it will reward or penalise the Licensee according to whether emissions are above or below the baseline. The incentive amount has also been changed to the non-traded equivalent carbon price.

2.102. The effect of this condition is to adjust the Licensee's revenue up or down based on the difference between its baseline and the actual level of SF<sub>6</sub> emissions for that Licensee.

## **ETC 28: Arrangements for the recovery of uncertain costs**

Drafting status: Current working draft provided in Supporting Document 1. One draft for each Licensee.

2.103. The aim of this proposed new condition is to allow for the recovery, during the price control, of additional costs through allowed revenues. The current licences also include this provision.<sup>47</sup>

2.104. This condition updates the areas of cost covered and imposes some restrictions on the recovery of such costs. The details of which are outlined in the T1 IP Documents for NGET<sup>48</sup> and the FP Document for SPTL and SHETL.<sup>49</sup> The output of this condition (IAE) now impacts allowed revenues through the annual iteration of the PCFM.

2.105. The effect of this change is to improve transparency around the arrangements, limit the number of potential changes to allowed revenue and to incorporate the new financial modelling arrangements.

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<sup>46</sup> As set in Part 3 of SpC D5 (NGET) and J5 (SPTL and SHTEL).

<sup>47</sup> Currently SpC D2 (J2 for SPTL and SHETL) contains provision for logging up costs (LC term), and SpC J4 (SPTL and SHETL only) contains provision for an income adjusting event (IAT term), these provision will no longer exist.

<sup>48</sup> [RIIO-T1: Initial Proposals for NGET and NGGT – Cost assessment and uncertainty](#)

<sup>49</sup> [RIIO-T1: Final Proposals for SP Transmission Ltd and Scottish Hydro Electric Transmission Ltd](#)

### **ETC 31: Excluded services**

Drafting status: Current working draft provided in Supporting Document 1.

2.106. This condition is common to ET, GT and GD licences. Please see chapter 7<sup>50</sup> for further details on the purpose, our reasons for introduction and intended effect of this new licence condition.

### **ETC 39: Baseline and Strategic Wider Works**

Drafting status: Current working draft provided in Supporting Document 1.

2.107. The purpose of this proposed new condition is to specify the baseline and strategic wider works (SWW) outputs the Licensee shall deliver over the price control. The condition also establishes provisions for the Authority to determine the amount of allowed expenditure the Licensee shall incur in the delivery of the SWW outputs. The allowed expenditure determined by this condition will form a PCFM Variable Value that will impact allowed revenue through the annual iteration of the PCFM.<sup>51</sup>

2.108. As part of RIIO-T1, Licensees are funded to deliver specific wider works outputs for the reinforcement of the main interconnected transmission system. This condition specifies the baseline wider works that the Licensee has been funded in its opening revenue to deliver.

2.109. It also makes provisions for large reinforcement works to be added as strategic wider works outputs during the price control and for a revenue adjustment to be made to cover the additional expenditure incurred by the Licensee to deliver these outputs.

2.110. The effect of this condition is to:

- make the Licensee accountable for the outputs it has been funded to deliver
- provide flexibility to adjust the Licensee's allowed expenditure during the price control to deliver strategic wider works outputs that were not envisaged or clearly required at the start of the price control period
- require the Licensee to report annually in relation to progress in delivering the outputs it has received funding to deliver.

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<sup>50</sup> Chapter 7:[ ETC/GTC/GDC31] Excluded Services

<sup>51</sup> Please see chapter 6:The Annual Iteration Process for the Price Control Financial Model and updating of base revenue allowances , for further details.

*Outstanding issues with respect to ETC 39*

2.111. We note that this draft licence condition does not fully reflect companies' recent licence drafting working group comments.

**ETC 41: Network Development Policy and Wider Works Volume Driver (NGET only)**

Drafting status: We will provide a working draft in the Second Consultation.

2.112. The purpose of this proposed new condition is to require the Licensee to have a Network Development Policy, approved by the Authority, setting out how Licensees will determine when to invest and reinforce the Licensee transmission system. The condition also sets out a volume driver mechanism to determine the Licensee allowed expenditure for wider works outputs. The allowed expenditure determined by this condition will form a PCFM Variable Value that will impact allowed revenue through the annual iteration of the PCFM.<sup>52</sup>

2.113. There is a degree of uncertainty over the exact location, timing and magnitude of new transmission connected generation and therefore that reinforcement required on the Licensee's transmission system price control period. The volume driver mechanism, along with the Network Development Policy will ensure that the Licensee has enough flexibility within the price control settlement to invest in its transmission area to meet customer requirements and maintain security standards.

2.114. The effect of this condition is to make provisions for a volume driver to automatically adjust NGET's allowed revenue subject to the delivered outputs complying with the requirements of its Network Development Policy. The condition will set the agreed unit cost allowances for delivering increases in boundary capability at different boundaries on the Licensee's transmission system.

**ETC 53: Network Access Policy**

Drafting status: Current working draft provided in Supporting Document 1.

2.115. The purpose of this proposed new condition is to provide for each TO to develop a Network Access Policy (NAP). These policies are being designed to support effective co-operation and communication between the TOs and the SO in relation to managing planned and unplanned outages on the system. A progress update on this

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<sup>52</sup> For further details please see Chapter 6: The Annual Iteration Process for the Price Control Financial Model and updating of base revenue allowances

work is provided in Appendix 1 of the RIIO-1 Outputs and incentives Supporting Document.<sup>53</sup>

2.116. In terms of the draft condition:

- Part A sets out the basic obligations. The NAP is too complex to provide a single or even a small number of levels of performance that must be complied with. Instead it provides a range of scenarios and general approaches under them. The TO must act consistently with and update the NAP and this achieves the balance between the NAP being a live and important document
- Part B is still work in progress but intends to outline the minimum content of the NAP
- Part C is where arrangements to update and change the NAP are set out. This includes arrangements for consulting with the SO
- Part D is about publication and availability of the NAP.

2.117. The draft licence condition is at an early stage of development and needs further work including procedural requirements to bring it in line with other draft conditions and changes for NGET because of the way the SO and TO function are currently referred to in the draft.

### **ETC55: Generation Connections Volume Driver**

Drafting status: Current working draft for SPTL in Supporting Document 1. Working drafts for NGET and SHETL to be provided in the Second Consultation.

2.118. There is a degree of uncertainty over the exact location, timing and magnitude of new generation projects that will require transmission connection during the price control period. The purpose of this condition is to create a volume driver mechanism to ensure that the Licensee has enough flexibility within the price control settlement to efficiently finance the cost of providing generation connections as and when customers request these. The allowed expenditure determined within this condition will form a PCFM Variable Value that will impact allowed revenue through the annual iteration of the PCFM.<sup>54</sup>

2.119. The effect of our proposed changes is to make provisions for a volume driver to automatically adjust the Licensee's allowed expenditure for the efficient costs of actual delivered outputs.

2.120. The condition will set the agreed unit cost allowances for delivering MW connections on the Licensee's transmission system. There will be three versions of

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<sup>53</sup> [RIIO-T1: Initial Proposals for NGGT and NGET – Outputs, incentives and innovation](#)

<sup>54</sup> Please see Chapter 6: The Annual Iteration Process for the Price Control Financial Model and updating of base revenue allowances, for further details

this condition to reflect differences in the policy described in the FP Document for SPTL and SHETL<sup>55</sup> and as set out in the T1 IP Documents for NGET.<sup>56</sup>

## **ETC 62: Pre-construction Outputs**

Drafting status: Current working draft provided in Supporting Document 1.

2.121. The purpose of this condition is to specify and provide baseline funding for the pre-construction engineering works associated with some wider works outputs that could be required during RIIO-T1. This condition will specify the amount of baseline funding as well as the baseline outputs to be delivered by the Licensee.

2.122. The effect of this new condition is to specify outputs for which the Licensee has received baseline funding and require them to report annually on the progress it has made in relation to the specified preconstruction engineering outputs.

2.123. The condition also includes, where relevant, a provision for the Licensee to substitute alternative preconstruction engineering outputs.

## **ETC 74: Regulatory Instructions and Guidance**

Drafting status: Current working draft provided in Supporting Document 1

2.124. This condition is common to ET, GT and GD licences. Please see chapter 7<sup>57</sup> for further details on the purpose, our reasons for introduction and intended effect of this new licence condition.

## **ETC 76: Data Assurance**

Drafting status: Current working draft provided in Supporting Document 1

2.125. This condition is common to ET, GT and GD licences. Please see chapter 7<sup>58</sup> for further details on the purpose, our reasons for introduction and intended effect of this new licence condition.

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<sup>55</sup> [RIIO-T1: Final Proposals for SP Transmission Ltd and Scottish Hydro Electric Transmission Ltd](#)

<sup>56</sup> [RIIO-T1: Initial Proposals for NGGT and NGET - Overview](#)

<sup>57</sup> Chapter 7: [ETC/GTC/GDC 74] Regulatory Instructions and Guidance

<sup>58</sup> Chapter 7: [ETC/GTC/GDC 76] Data Assurance

### **ETC 117: Arrangements for the recovery of SO uncertain costs (NGET only)**

Drafting status: Current working draft provided in Supporting Document 1.

2.126. The aim of this condition is to allow for the recovery, during the price control, of additional SO internal costs through SO internal allowed revenues.<sup>59</sup> NGET's current licence also includes this provision. The proposed revised condition will update the areas of costs covered and imposes some restrictions on the recovery of such costs. The details of which are outlined in the T1 IP Documents.<sup>60</sup> The output of this condition (SOIAE) now impacts allowed revenues through the annual iteration of the financial model.

2.127. The effect of this change is to improve transparency around the arrangements, limit the number of potential changes to allowed revenue and to incorporate the new financial modelling arrangements.

### **ETC 122: Undergrounding uncertainty mechanism (NGET only)**

Drafting status: We will provide a working draft in the Second Consultation.

2.128. The purpose of this proposed new condition is to specify the baseline allowed expenditure the Licensee will receive for undergrounding new transmission infrastructure as a condition of planning requirements during RIIO-T1.

2.129. It also sets out a volume driver mechanism to calculate an adjustment term for Licensee's allowed expenditure if the level of undergrounding required during RIIO-T1 is different to the level assumed in setting the baseline. This term will form a PCFM Variable Value that will impact allowed revenue through the annual iteration of the PCFM.<sup>61</sup>

2.130. As part of RIIO-T1 we propose to include some baseline expenditure for undergrounding of new transmission assets where this is necessary to address local communities' and interested stakeholders' concerns about impacts on visual amenity.

2.131. The baseline is based on an assumption that 10 per cent of new infrastructure could be undergrounded. However, this assumption could be too large or too little therefore we have proposed to adjust the baseline level through a volume driver. This condition makes provision for this mechanism.

2.132. The effect of this new condition is to make provisions for a volume driver to automatically adjust the Licensee's allowed expenditure for the efficient costs of

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<sup>59</sup> ETC12: Restriction on System Operator Internal Costs

<sup>60</sup> [RIIO-T1: Initial Proposals for NGGT and NGET - Overview](#)

<sup>61</sup> For further details, please see chapter 6: The Annual Iteration Process for the Price Control Financial Model and updating of base revenue allowances

actual delivered undergrounding outputs. The condition will set the agreed unit cost allowances for delivering undergrounding on the Licensee's transmission system.

**ETC 123: Demand related infrastructure volume driver (NGET only)**

Drafting status: We will provide a working draft in the Second Consultation.

2.133. The purpose of this proposed new condition is to specify the baseline allowed expenditure the Licensee will receive for delivering demand related infrastructure outputs during RIIO-T1.

2.134. We also currently intend the draft licence condition to set out a volume driver mechanism to calculate an adjustment term for Licensee's allowed expenditure if the level of demand related infrastructure outputs during RIIO-T1 is different to the level assumed in setting the baseline. This term will form a PCFM Variable Value that will impact allowed revenue through the annual iteration of the PCFM.<sup>62</sup>

2.135. The effect of this condition is to make provisions for a volume driver to automatically adjust the Licensee's allowed expenditure for the efficient costs of actual delivered demand related infrastructure outputs.

2.136. It also requires the Licensee to provide evidence of the trigger for delivery of new demand related infrastructure in the form of the commercial agreement with the customer or distribution network owner. The condition will set the agreed unit cost allowances for delivering demand related infrastructure on the Licensee's transmission system.

**ETC 124: Uncertainty mechanism for preconstruction works related to integrated network solutions.**

Drafting status: We will provide a working draft in the Second Consultation.

2.137. The purpose of this proposed new condition is to set out an uncertainty mechanism to make adjustments to Licensee's allowed expenditure if it is required to undertake preconstruction engineering works for integrated onshore-offshore network reinforcement during RIIO-T1. This term will form a PCFM Variable Value that will impact allowed revenue through the annual iteration of the PCFM.<sup>63</sup>

2.138. We are yet to take a decision on the preferred approach to determine the feasible and optimal network solutions.

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<sup>62</sup> For further details, please see chapter 6: The Annual Iteration Process for the Price Control Financial Model and updating of base revenue allowances



2.139. The effect of this condition is to set some preconstruction engineering outputs for the Licensee to deliver and to make an adjustment to its allowed expenditure.

**ETC 127: System Operator external cost**

Drafting status: Changes to the licence in this area will be considered as part of the SO Incentives 2013 Review.

2.140. This condition will be developed as part of the review of external SO incentives from 2013. For more detail on these SO external incentives see the SO post 2013 incentives document that we are publishing today. At present, we have not developed draft licence conditions in relation to these SO external incentives.

## 3. Gas Transmission – Changes to SpCs

### Chapter Summary

This chapter outlines our proposed changes to the SpCs in NGGT’s licence. It also provides our reasons for the proposed changes and their intended effect.

**Question 1:** We invite stakeholders to comment on the proposed changes to the SpCs in NGGT’s licence as outlined in this chapter and the actual licence drafting in Supporting Document 2.

### Changes to SLCs and SSCs (part A)

3.1. In addition to the proposed changes to SpCs set out in this chapter we are also proposing changes to some SLCs and SSCs that are applicable to GT Licensees. As these changes are common to GT and GD sectors they have been presented together in Chapter 5.<sup>64</sup>

### Overview of proposed changes to Gas Transmission SpCs

3.2. A substantive number of proposed changes relate to the SpCs in NGGT’s licence. Below we outline our proposed changes to both new and existing SpCs, the reasons why we consider the changes to be necessary, and the intended effect.

#### **Special Condition C1: Amendments to Standard Special Conditions relating to LNG [GTC 125]**

Drafting Status: We will provide an update on what, if any, changes are required to this condition in the Second Consultation.

3.3. This condition sets out amendments to SSCs relating to LNG. We will consider what, if any, changes are required to this condition and provide an update in the Second Consultation.

#### **Special Condition C1A: NTS definition of supply of transportation services [GTC 125]**

Drafting Status: We will provide an update on what, if any, changes are required to this condition in the Second Consultation.

3.4. We will consider what, if any, changes are required to this condition and provide an update in the Second Consultation.

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<sup>64</sup> Chapter 5: Gas Transmission and Distribution – Changes to SLCs and SSCs (Part A).

**Special Condition C1B: Amendments to Standard Special Conditions A37 (Availability of Resources) and A40 (Price Control Review Information) [GTC 50]**

Drafting Status: We will provide an update on what, if any, changes are required to this condition in the Second Consultation.

3.5. This condition sets out amendments to SSC A37 and A40. We will consider what, if any, changes are required to this condition and provide an update in the Second Consultation.

**Special Condition C3: Restriction of Prices for Liquefied Natural Gas (LNG) Storage Services [GTC 50]**

Drafting status: Draft licence condition to be provided in the Second Consultation

3.6. The purpose of this condition is to place restrictions on the price of LNG storage services.

3.7. NGGT has suggested that the following changes may be needed to SpC C3:

- removal of references to LNG sites that are no longer operational, and
- consideration of whether the RPI inflation calculation and definition should be made consistent with those used for the RIIO price control.

3.8. We agree that changes should be considered based on this list. Specifically, we intend to update this condition to:

- reflect LNG Storage facilities that are closing (Partington), and
- consider what changes are needed for Avonmouth as a result of the T1 IP Documents.

**Special Condition C5: System Management Services [GTC 36]**

Drafting status: Current working draft provided in Supporting Document 2

3.9. The purpose of this condition is to set out the duties of the Licensee with respect to the operation of the pipeline system. It also sets out the statements and methodology documents that need to be produced in relation to System Management Services.

3.10. As part of RIIO we have:

- modernised this condition

- removed outdated date references in paragraphs 3, 5 and 6 of the current condition), and
- replaced the word 'economic' with 'economical' so the condition is consistent with section 9 of the Gas Act 1986.

3.11. Also, for paragraph 36.6 NGGT have suggested inserting "...or such later date as the Authority may approve in writing" before "a System Management Principles Statement". We do not think this is needed because paragraph 36.33 allows for a power of derogation.

3.12. There are also several areas in the updated condition that will require further work ahead of the Second Consultation. These are as follows.

#### Part D

3.13. We note that further changes are likely as part of the ongoing work to develop SO incentives to be implemented from April 2013 [ref link], and to address the related issue raised by NGGT that a System Management Services Adjustment Data methodology may no longer be needed because the information is already covered within the UNC or by the existing Charging Methodologies.

3.14. While we recognise that NGGT may not provide this information currently, one of the areas that we are looking at in respect of developing SO external incentives is ensuring that the information that NGGT provides, both to the Authority and to the market, in respect of the actions that it takes is fit for purpose.

3.15. On this basis, as part of developing SO external incentives, we will be looking to ensure this condition is drafted appropriately as we continue reviewing the SO's role, outputs and incentives.

#### Paragraph 36.24(c)

3.16. NGGT has raised concern that the current definitions of "NTS Exit Flat Capacity" and "NTS Exit Flow Flexibility" in SpC A3 are no longer appropriate. We would welcome views on what the new definitions should be.

#### **Special Condition C7: Charging obligations [GTC 49]**

Drafting Status: We will provide an update on what, if any, changes are required to be provided in this area in the Second Consultation.

3.17. This condition sets out amendments to SSC A4 and A5. We will consider what, if any, changes are required to this condition and provide an update in the Second Consultation.

### **Special Condition C8**

3.18. Under the current licence, special condition C8 is structured into several sections (A to G). The broad purpose of C8 is to set out the revenues that NGGT is able to collect in its roles as transmission owner (TO) and system operator (SO).

3.19. One significant issue for the licence drafting in this area is the treatment of incremental capacity. NGGT proposed fairly significant changes in this area. Reflecting our T1 IP Documents, we are proposing that the existing structure of the uncertainty mechanism for entry and exit capacity is broadly retained from the start of RIIO-T1 (albeit with RIIO funding being made to the TO rather than the SO as at present).

3.20. However, in the T1 IP Documents we have set out that we expect NGGT to undertake further work on its incremental capacity arrangements during 2013. In the event that this work results in changes to the commercial arrangements then we expect that changes will also be required to the regulatory arrangements and to the associated licence drafting predominantly outlined in Special Conditions C8D [GTC3] and C8E [GTC4].

3.21. This consultation focuses on the key changes we are proposing to C8 from the start of RIIO-T1:

- update licence definitions to reflect the new RIIO framework
- seek to ensure consistency between exit and entry arrangements where appropriate
- restructure current conditions to improve clarity
- modernise licence conditions where possible.

### **Special Condition C8A: Revenue restriction definitions in respect of the NTS transportation owner activity and NTS system operation activity [GTC 19]**

Drafting status: Draft licence condition to be provided in the Second Consultation

3.22. The purpose of this condition is to set out the defined terms that apply across the C8 conditions. We intend to retain this condition. We will retain or update a number of definitions, delete those that are no longer applicable and introduce new definitions where required. We have received very helpful input from NGGT on this condition and we will continue to work with them to develop the definitions. We will provide a full draft of C8A in the Second Consultation.

3.23. Following the approach to modernising licence conditions, we would expect all terms defined in his condition to be in capital letters.

## **Special Condition C8B: NTS transportation owner activity revenue restriction [GTC 20]**

Drafting status: Current working draft provided in Supporting Document 2

3.24. The purpose of this condition is to calculate the maximum TO revenue that NGGT is allowed to recover from its customers by bringing together terms from other licence conditions. It also sets out the calculation of the price index adjustment term used throughout the licence and calculates the correction factor (TOK) for the treatment of over/under recovery of revenue.

3.25. We also propose to amend the title of this condition from 'NTS transportation owner activity revenue restriction' to 'Restriction of NTS Transportation Owner Revenue'.

3.26. We are also proposing to make the following changes to the terms that make up the revenue restriction formula:

- Introducing the term TOBR to allow for the Annual iteration of the Price Control Financial Model. This is a substantial change from previous price controls. Further information on the policy behind this can be found in the RIIO-T1 Finance Supporting Document and for more detail on the licence conditions that will govern the annual iteration process, see Chapter 6 of this consultation
- In broad terms, the TOBR term will pick up an opening base revenue allowance which will be set out in the licence. This term will be revised annually by the addition of the TOMOD term, which is derived through the Annual iteration process. The TOMOD term will make adjustments to NGGT's revenue for factors such as:
  - the totex incentive mechanism
  - tax
  - pensions
  - changes to the cost of debt
  - the triggering of revenue drivers (eg for entry and exit capacity – which we now expect to be part of the TO revenue restriction)<sup>65</sup>
  - the triggering of uncertainty mechanisms.
- Introducing new terms for schemes and incentives that have been introduced as part of RIIO. This includes a new term for permits (which we propose are funded through the TO rather than the SO as at present). See GTC 131 below for further information on this
- Removing schemes that are not part of the RIIO model eg:

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<sup>65</sup> See Special Condition C8D: NTS gas entry incentives, costs and revenues [GTC3] and Special Condition C8E: NTS gas exit incentives, costs and revenues [GTC4].

- the Innovation Funding Incentive (IFI) in Part 3 of the current condition
- the Capex Expenditure Safety Net in Part 5 of the current condition.
- Implementing an updated methodology for calculating the price index adjustment term. This is consistent with the policy as set out in our decision on RPI indexation in July 2011.<sup>66</sup> We have also proposed to update defined terms and introduce additional defined terms
- Making provision for price control disapplication in a specific dedicated licence condition see GTC 29: Disapplication
- Replacing the term TOF for the pass-through of costs with the term 'PT' and moving provisions for this into a new specific licence condition, GTC21: Special Allowed pass through items
- Removing the term 'TOIAT' (which currently covers income adjusting events) from licence, and instead making provision for uncertain costs through the TOMOD term in accordance with the new licence condition, GTC28: Uncertain Costs (see below for further information).

3.27. Appendix 4<sup>67</sup> of this document provides more detailed information on how the new proposed licence conditions update or replace existing arrangements under the current condition.

3.28. The effect of the changes to this condition is to enable NGGT to recover revenue streams that are consistent with the RIIO regime as currently set out in the T1 IP Documents<sup>68</sup>.

3.29. There are a number of outstanding issues that we will need to consider by the Second Consultation, including:

- whether terms need to be removed or new terms need to be added to reflect any changes to proposed inputs to allowed revenue, as drafting across the range of conditions to be introduced under our proposed Phase 1 is finalised
- how the correction factor (TOK) calculation should operate in the light of whatever decision is taken on conclusion of our consultation on mitigating network charging volatility.

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<sup>66</sup> Decision on RPI indexation method:  
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=117&refer=Networks/Trans/PriceControls/RIIO-T1/ConRes>

<sup>67</sup> Appendix 4: Special Condition C8B: NTS transportation owner activity revenue restriction

<sup>68</sup> [RIIO-T1: Initial Proposals for NGGT and NGET - Overview](#)

## **Special Condition C8C: NTS System Operation Activity Revenue Restriction [GTC 7]**

Drafting status: Current working draft provided in Supporting Document 2

3.30. The purpose of this condition is to calculate the maximum SO revenue that NGGT is allowed to recover from customers by bringing together terms from other licence conditions. It also sets out the calculation of the price index adjustment term used throughout the licence and calculates the correction factor (SOK) for the treatment of over/under recovery of revenue.

3.31. We are proposing to change the title of this condition from 'NTS System Operation Activity Revenue Restriction' to 'Restriction of NTS System Operation Activity Charges'.

3.32. We are also proposing to make the following changes to the terms that make up the revenue restriction formula:

- Introducing the term 'SOBR' to allow for the annual iteration of the Price Control Financial Model for SO internal costs. The reasons for introducing this are analogous to those set out in relation to the TOBR term for Special Condition C8B. This means the current term SOIntIRC can be removed.
- Removing the terms SOEIRC and SOExIRC from the SO control, with funding arrangement for investment related parts of the entry and exit capacity expected to move to the TO control. We propose to retain specific dedicated licence conditions for the calculation of entry and exit revenues (currently Special Conditions C8D [GTC3] and C8E [GTC4]). See their respective sections below for more information
- Removing the term 'SORA' (which currently covers income adjusting events) from the licence, and instead making provision for uncertain costs through the SOMOD term in accordance with the new licence condition GTC117: Arrangements for the recovery of SO uncertain costs.
- Implementing an updated methodology for calculating the price index adjustment term. This is consistent with the policy as set out in our decision on RPI indexation in July 2011. We have also proposed to update defined terms and introduce additional defined terms.
- Making provision for price control disapplication in a specific dedicated licence condition see GTC29: Disapplication.

3.33. Appendix 4<sup>69</sup> of this document provides more detailed information on how the new proposed licence conditions update or replace existing arrangements under the current condition.

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<sup>69</sup> Appendix 4: Special Condition C8C: NTS System Operation Activity Revenue Restriction



3.34. The effect of the changes to this condition is to enable NGGT to recover revenue streams that are consistent with the RIIO regime as currently set out in the Initial Proposals.

3.35. There are a number of outstanding issues that we will need to consider by the Second Consultation, including:

- whether terms need to be removed or new terms need to be added to reflect any changes to proposed inputs to allowed revenue, as drafting across the range of conditions to be introduced under our proposed Phase 1 is finalised
- how the correction factor (TOK) calculation should operate in the light of whatever decision is taken on conclusion of our consultation on mitigating network charging volatility.

**Special Condition C8D: NTS gas entry incentives, costs and revenues [GTC3]  
Annex to C8D [GTC 3]**

**AND**

**Special Condition C8E: NTS gas exit incentives, costs and revenues [GTC4]  
Annex to C8E [GTC 4]**

Drafting status: Drafts for these conditions to be provided in the Second Consultation.

3.36. The purpose of these conditions is to determine allowed expenditure levels for entry and exit capacity which will be modelled under the Annual Iteration Process and reflected in TO base revenue allowances through the TOMOD term.

3.37. We expect that there will need to be a number of changes to these conditions to implement the enduring arrangements from 1 April 2013. This includes:

- As a consequence of the adoption of the RIIO approach, allowed revenue relating to entry and exit revenue drivers would be provided through the TO rather than the SO as at present. This has the advantage of matching the expenditure with the costs. This approach allows the expenditure to be reflected in RAV rather than sit in a shadow RAV calculation. However, as the charging regime is not being reviewed at this time we propose that the SO side of the NGGT business should continue to collect charges for entry and exit revenue drivers under the existing charging methodology. We envisage this working as follows:

- (a) A PCFM Variable Value would need to be created in each of the above conditions (one for entry capacity and one for exit capacity),

with the conditions impacting allowed revenue through the annual iteration of the PCFM<sup>70</sup> and via the TOMOD term.

- (b) If entry or exit capacity is triggered, the revenue driver gives rise to additional allowed Totex expenditure – the PCFM variable value would be revised to reflect this
  - (c) The additional allowed Totex would be modelled (including Totex Incentive Mechanism effects going forward) on the TO side and would adjust allowed revenue through the TOMOD term
  - (d) Separately, the SO side of the business would charge the customers concerned in accordance with its current charging methodology – meaning there would be no direct link between customers charges and allowed revenue on the TO side in any particular year in respect of these revenue drivers
  - (e) NGGT would report the income under point d) as part of its actual **TO** income (rather than SO income as it does presently).
- This preserves the existing charging structure whilst implementing the RIIO approach.
  - We propose that permit provisions currently provided in C8D, 3(g) to (j) and C8E, 5 are also treated under the TO revenue restriction rather than the SO (as at present) and will be part of a specific licence condition. In this case we propose that revenues would be recovered through TO rather than SO charges. See GTC 131: Delivery Incentive ,below for further details.
  - We propose that costs and revenues associated with Constrained LNG and long-run contracting incentive, currently found in SpC C8E 1(c) and 1(e), will be captured through a new specific licence condition, see GTC132 (Transmission Support Services). For the avoidance of doubt these revenues will continue to be funded through TO charges.

3.38. Appendix 4<sup>71</sup> provides more detailed information on how the new proposed licence conditions are updating or replacing existing arrangements under the current condition.

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<sup>70</sup> For further details, please see chapter 6: The Annual Iteration Process for the Price Control Financial Model and updating of base revenue allowances

<sup>71</sup> Appendix 4: Special Condition C8D: NTS gas entry incentives, costs and revenues and Special Condition C8E: NTS gas exit incentives, costs and revenues

**Special Condition C9: Allocation of revenues and costs for calculations under the price control in respect of the NTS transportation owner activity and NTS system operation activity [GTC 30]**

Drafting status: Current working draft provided in Supporting Document 2.

3.39. There is an equivalent condition in the gas distribution licences.<sup>72</sup> Please see chapter 5<sup>73</sup> for further details of proposed changes to this condition.

**Special Condition C10: Excluded Services [GTC 31]**

Drafting status: Current working draft provided in Supporting Document 2.

3.40. This condition is common to GT, ET and GD licences. Please see chapter 7<sup>74</sup> for further details on the purpose, reasons for introduction and intended effect of this new licence condition.

**Special Condition C11: Transmission Planning Code [GTC 37]**

Drafting status: Current working draft provided in Supporting Document 2.

3.41. The purpose of this condition is to require the Licensee to maintain and comply with the provisions of a Transmission Planning Code (TPC).

3.42. As part of RIIO we have modernised this condition and removed an outdated provision for switching the condition on in certain licences which is no longer needed because switching on has already occurred.

3.43. The reasons for our proposed changes are to modernise the text to make the condition more user friendly and to remove an out of date provision.

3.44. The effect of the proposed changes is to amend the current text of this condition with a modernised and updated equivalent.

**Special Condition C12: Restriction of prices in respect of tariff capped metering activities [GTC 32]**

Drafting status: Proposal to delete.

3.45. This SpC sets the maximum tariff cap to ensure that the Licensee does not set charges for each of its metering activities that exceed the maximum tariff cap in respect of that metering activity.

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<sup>72</sup> SpC E17 of gas distribution licence

<sup>73</sup> Chapter 5: Overview of proposed changes to common GT and GD SpCs

<sup>74</sup> Chapter 7: [ETC/GTC/GDC 31] Excluded Services

3.46. We have sought evidence from NGGT and we are content that this condition can be removed from the licence because the activity charges do not relate to gas transmission. This removal is part of a package of other licence changes<sup>75</sup> that seek to remove outdated domestic metering obligations from NGGT's licence.

3.47. The reason for our proposed deletion of this condition is to remove domestic metering obligations from NGGT's licence. The effect being that licence condition that does not apply to NGGT given that there are no domestic meters on the NTS, is removed from its licence.

### **Special Condition C13: Network Output Measures [GTC 73]**

Drafting status: Current working draft in Supporting Document 2.

3.48. During TPCR4, NGGT developed a methodology for deriving and reporting NOMs. This was codified in Special Condition C13.

3.49. The purpose of this condition<sup>76</sup> is to ensure that the methodology continues to meet its objectives, and provides for implementation and modification of the methodology.

3.50. As part of RIIO we have modernised the condition and removed the sections relating to development of NOMs, as these are now in place. The reasons and effect of these proposed changes are to update the condition and provide clarity.

### **Special Condition C14: Information to be provided to the Authority [GTC 74]**

#### **Special Condition C14B: Price Control Revenue Reporting [GTC 74]**

#### **Special Condition C16: NTS Performance Reporting [GTC 74]**

Drafting status: Proposal to delete and replace by new SCC A40: Regulatory Instructions and Guidance

3.51. Our proposed changes to the above reporting related SpCs for GT are in line with our proposed changes to similar provisions for ET and GD. We have therefore outlined our proposed changes to these common conditions in Chapter 7.<sup>77</sup>

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<sup>75</sup> See Chapter 5: SSCs to be moved from Part A to Part D of Gas Transporter licence.

<sup>76</sup> Similar changes proposed for equivalent electricity transmission condition - SLC B17: Network Output Measures [ETC 73]

<sup>77</sup> Chapter 7: Regulatory Instructions and Guidance [ETC/GTC/GDC 74]

**Special Condition C15: Licensee’s methodology for determining incremental entry capacity volumes [GTC 126]**

Drafting status: Proposal to delete and replace by GTC126: Methodology to determine the release of NTS Entry Capacity and NTS Exit Capacity volumes’.

3.52. The broad provisions in this condition are expected to be retained. However, we propose that this condition can merged with SpC C18 and parts of C8D and C8E. Please see GTC126: Methodology to determine the release of NTS Entry Capacity and NTS Exit Capacity volumes for further details.

**Special Condition C17: Exit Code Statement [GTC 51]**

Drafting status: Proposal to delete.

3.53. This SpC was introduced into the licence to provide information on the services provided by the NTS to GDNs and was anticipated to become obsolete on introduction of the enduring exit regime, after which a transparent external NTS-DN interface would exist.

3.54. The enduring regime starts on the 1 October 2012. Therefore, we propose to delete this condition as it is no longer necessary.

**Special Condition C18: Licensee’s methodology for determining the release of NTS exit capacity volumes [GTC 126]**

Drafting status: Proposal to delete and replace by GTC126: Methodology to determine the release of NTS Entry Capacity and NTS Exit Capacity volumes’.

3.55. The broad provisions in this condition are expected to be retained. However, we propose that this condition can merged with SpC C15 and parts of C8D and C8E. Please see GTC126: Methodology to determine the release of NTS Entry Capacity and NTS Exit Capacity volumes below for further details.

**Special Condition C19: Undertaking from ultimate controller concerning non-discrimination between the NTS transportation activity and the Distribution Network transportation activity [GTC 33]**

Drafting status: Current working draft provided in Supporting Document 2.

3.56. There is an equivalent condition in the gas distribution licences.<sup>78</sup> Please see chapter 5<sup>79</sup> for further details of proposed changes to this condition.

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<sup>78</sup> SpC E9 of gas distribution licence

<sup>79</sup> Chapter 5: Overview of proposed changes to common GT and GD SpCs

### **Special Condition C20: Separation of NTS and Distribution Network Businesses [GTC 34]**

Drafting status: We do not propose to change this condition as part of RIIO.

3.57. We are not proposing any changes to this SpC as part of RIIO. Further details on our views with respect to this condition<sup>80</sup> can be found chapter 5.<sup>81</sup>

### **Special condition C24: Licensee’s Network Model [GTC 38]**

Drafting status: Current working draft provided in Supporting Document 2.

3.58. The purpose of this condition is to set out the requirement of the Licensee to have in place and maintain a computer simulation model of the pipe-line system.

3.59. As part of RIIO we have:

- modernised this condition, and
- removed an outdated date provision in paragraph 1 of the current licence which is no longer relevant because the computer simulation model of the pipe-line system is now in place.

3.60. As above, the reasons for our proposed changes are to modernise the text to make the condition more user friendly and remove an out of date provision.

3.61. The effect of the proposed changes is to amend the current text of this condition with a modernised and updated equivalent.

### **Special Condition C26: Gas Conveyed to Independent Systems [GTC 56]**

Drafting status: Current working draft provided in Supporting Document 2.

3.62. There is an equivalent condition in the gas distribution licences.<sup>82</sup> Please see chapter 5<sup>83</sup> for further details of proposed changes to this condition.

### **Special Condition C27: Balancing Arrangements [GTC 51]**

Drafting status: Proposal to delete.

3.63. This SpC requires the Licensee to use reasonable endeavours to develop in consultation with shippers and interested parties (including the Health and Safety

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<sup>80</sup> And to the corresponding condition for GDNs: SpC E22.

<sup>81</sup> Chapter 5: Overview of proposed changes to common GT and GD SpCs

<sup>82</sup> SpC E23 of gas distribution licence

<sup>83</sup> Chapter 5: Overview of proposed changes to common GT and GD SpCs

Executive) a gas linepack product by 1 April 2011 and shall report to the Authority on the conclusions of any such development and consultation by 1 May 2011.<sup>84</sup>

3.64. NGGT's view is that this licence condition has been met and that as there is little or no demand for such a linepack product there is little benefit in further developing this condition. In April 2011 we issued a letter setting out our general view on SpC C27.<sup>85</sup>

3.65. Given the lack of demand from gas shippers for a linepack product we propose to delete this SpC.

## Proposed new Gas Transmission SpCs

3.66. We also propose to introduce the following new GT SpCs.

### Financial conditions

3.67. Further details on the following financial related condition can be found in Chapter 6.<sup>86</sup>

#### Drafting Status: Current working drafts provided in Supporting Document 2

- [GTC 64]: Legacy price control adjustments – Transmission Owner
- [GTC 67]: Legacy price control adjustments – System Operator
- [GTC 47]: Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments - Transmission Owner
- [GTC 66]: Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator
- [GTC 27]: Specified financial adjustments – Transmission Owner
- [GTC 65]: Specified financial adjustments – System Operator
- [GTC 26]: Annual iteration process for the GT1 Price Control Financial Model
- [GTC 57]: Governance of GT1 Price Control Financial Instruments

3.68. Please note that these conditions are at an early stage of development and require further internal consideration and development. We are sharing the draft conditions at this early stage for the benefit of the licensees in responding to our Initial Proposals.

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<sup>84</sup> Paragraph 1(a) of SpC C27.

<sup>85</sup> <http://www.ofgem.gov.uk/Licensing/GasCodes/UNC/Mods/Documents1/UNC337D.pdf>

<sup>86</sup> Chapter 6: The Annual Iteration Process for the Price Control Financial Model and updating of base revenue allowances

### **GTC 21: Allowed pass through items**

Drafting status: Current working draft provided in Supporting Document 2.

3.69. Our proposed changes to this condition for GT are in line with our proposed changes to similar provisions for ET and GD. We have therefore outlined our proposed changes to these common conditions in chapter 7.<sup>87</sup>

### **GTC 24: Incentive adjustments relating to the licensee’s Stakeholder Satisfaction Output**

Drafting status: Current working draft provided in Supporting Document 2.

3.70. The purpose of this draft condition is to set out the key components of the customer satisfaction output. These relate to two separate incentives. One is based on performance against a survey of stakeholder and/or customer views of the transmission network company’s performance. The other provides for a discretionary reward for effective engagement<sup>88</sup> where the decision to apply such a reward would be determined by the Authority.

3.71. Parts B and C of the draft licence condition give rise to the stakeholder engagement reward and the Stakeholder Engagement Reward Guidance associated document. The purpose of this associated document is to provide the licensee with information on the application and reward process. For further information on the Stakeholder Engagement Reward Guidance see Chapter 8 of this consultation. We believe that the licence drafting we have proposed is sufficient to establish this associated document and provide suitable governance arrangements should it need to be changed.

3.72. Part D of this licence condition requires further work ahead of the Second Consultation. This reflects ongoing policy development and trialling of the survey and related information by all four transmission owners and further work on the design of the financial incentives in light of this. Appendix 1 of the Outputs and incentives Supporting Document provides an update for this work. It is likely that the drafting for Part D will be different at least between the Scottish TOs and NGET/NGGT. This will reflect the greater element of NGET/NGGT surveys that will be based on direct customers and where a significant record of results for recent years is available. We will work with companies to develop this drafting and expect to have in it in place by the Second Consultation.

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<sup>87</sup> Chapter 7:[GDC/ETC/GTC 21] Allowed pass through items

<sup>88</sup> The core components of the customer satisfaction output for were agreed as part of the T1 Strategy Document.



### **GTC 28: Arrangements for the recovery of uncertain costs**

Drafting status: Current working draft provided in Supporting Document 2.

3.73. The aim of this proposed new condition is to allow for the recovery, during the price control, of additional costs through allowed revenues. The current licences also include provision to allow such adjustments.<sup>89</sup>

3.74. This condition updates the areas of cost covered and imposes some restrictions on the recovery of such costs. The details of which are outlined in the T1 IP Documents for NGGT. The output of this condition (TOIAE) now impacts allowed revenues through the annual iteration of the PCFM.

3.75. The effect of this change is to improve transparency around the arrangements, limit the number of potential changes to allowed revenue and to incorporate the new financial modelling arrangements.

### **GTC 117: Arrangements for the recovery of SO uncertain costs**

Drafting status: Current working draft provided in Supporting Document 2.

3.76. The aim of this proposed new condition is to allow for the recovery, during the price control, of additional costs through allowed revenues. The current licences also include this provision.<sup>90</sup>

3.77. This condition updates the areas of cost covered and imposes some restrictions on the recovery of such costs. The details of which are outlined in the T1 IP Documents for NGGT. The output of this condition (SOIAE) now impacts allowed revenues through the annual iteration of the PCFM.

3.78. The effect of this change is to improve transparency around the arrangements, limit the number of potential changes to allowed revenue and to incorporate the new financial modelling arrangements.

### **GTC 120: Entry and exit capacity constraint management**

Drafting status: Current working draft provided in Supporting Document 2.

3.79. The purpose of this condition is to calculate the value of the entry and exit capacity constraint management (buy-back) allowed revenue and the revenue from the application of the associated incentive scheme.

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<sup>89</sup> Currently SpC C8B paragraph 3 through the income adjustment term (TOIAT) term and the provision to log up costs (LC term), these provisions will no longer exist.

<sup>90</sup> Currently SpC C8C paragraph 3 through the income adjustment term (SORA), this provision will no longer exist.

3.80. The T1 IP Documents retained two options for constraint management:

- One is to broadly implement NGGT’s proposal to bring together a series of buyback tools across entry and exit and operational and incremental into a single unified incentive. Under this option we propose that no cap or collar will be applied, in contrast to the current licence.
- The other was to retain the status quo.

3.81. Our T1 IP Document<sup>91</sup> provides our reasoning for this and next steps. The initial licence drafting is indicative only but shows how the first option if selected would be implemented. The draft condition is intended to replace the following buy-back and constraint provisions of the licence:

- Special Condition C8D: Part A – 3a, 3b and 3c
- Special Condition C8E: Part 1 – f

3.82. The main reasons why a unified incentive might bring benefits are:

- by enabling NGGT to make the right decision on constraint management across eg across entry/exit rather than being influenced by a set of different incentive metrics, and
- improving the clarity of the constraint management and buy-back arrangements by bringing together both entry and exit arrangements.

3.83. The effect of this proposed condition is to continue to incentivise NGGT on its performance in relation to its management of constraints on the NTS. The incentive payments from this condition will flow through [GTC7] Special Condition C8C: NTS System Operation Activity Revenue Restriction.

### **GTC 121 - Entry and Exit Capacity Methodologies and Statements**

Drafting status: We will provide a working draft in the Second Consultation.

3.84. The purpose of this condition is to place obligations on the licensee to:

- (a) substitute entry and exit capacity in accordance with the relevant capacity methodology statement
- (b) revise exit capacity in accordance with the relevant capacity methodology statement, and
- (c) meet any requests from a relevant shipper to transfer and/or trade entry capacity in accordance with the relevant capacity methodology statement.

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<sup>91</sup> [RIIO-T1: Initial Proposals for NGGT and NGET – Outputs, incentives and innovation](#)

3.85. As part of RIIO we have modernised the condition and also:

- improved the clarity and consistency of the arrangements by amalgamating the following licence conditions:
  1. Special Condition C8D, 10, 11, 12
  2. Special Condition C8E, 4(b) and 4(c)
- amended review frequency from annual to every two years, and
- included a requirement for an audit to be undertaken by independent auditors, not necessarily the statutory auditor.

3.86. The effect of making these changes to the existing licence condition is to combine the obligation upon NGGT to provide a methodology statement for the release of entry and exit capacity substitution, entry capacity trade and transfer and exit capacity revision.

*Outstanding issues with respect to GTC 121*

3.87. The condition included in this consultation is an early draft and is expected to be further developed by the Second Consultation. Between now and the Second Consultation we intend to work with NGGT to further develop this condition. Some specific outstanding issues that need to be considered are to:

- review frequency
- audit obligation
- provide clarification for the ambiguous statements on 121.1 and 121.2, and .
- consider associated timing issues ie do industry/ Ofgem have the capacity and capability to undertake the review of all 5 MS at the same time?

**GTC 126: Methodology to determine the release of NTS Entry Capacity and NTS Exit Capacity volumes**

Drafting status: Current working draft provided in Supporting Document 2.

3.88. The purpose of this condition is to place obligations on the licensee to:

1. develop and, where relevant, modify a methodology statement which relates to the principles and methodology for the determination of:
  - (a) the quantity of incremental entry capacity and incremental exit capacity
  - (b) obligated entry capacity and obligated exit capacity release
2. release entry and exit capacity, and
3. produce a summary report relating to those obligations.

3.89. As part of RIIO we intend to:

- improved the clarity and consistency of the arrangements by amalgamating the following licence conditions:
  1. Special Condition C8D, 7 and 9a – 9d
  2. Special Condition C8E, 3, 4(a), 4(e) and Annex A
  3. Special Condition C15
  4. Special Condition C18
- where possible, ensure that entry and exit arrangements are aligned
- modernised this condition
- replaced the term “appropriate auditor” with “independent auditor”, to enable NGGT to select an auditor (independent of NG group, but not necessarily the statutory auditor) to undertake the annual audit of the capacity release methodology statement, and
- extended the time for NGGT to deliver the capacity release methodology statement to Ofgem from 7 days to 14 days.

3.90. The effect of making these changes to the existing licence conditions is to combine the obligation upon NGGT to provide a methodology statement for the release of all obligated capacity, incremental capacity and produce a summary report on an annual basis.

3.91. The condition included in this consultation is an early draft and is expected to be further developed by the Second Consultation. Between now and the Second Consultation we intend to work with NGGT to further develop this condition.


### **GTC 131: Delivery Incentive**

Drafting status: We will provide a working draft in the Second Consultation.

3.92. The purpose of this condition is to capture arrangements for permits in relation incremental capacity.

3.93. We do not propose to make any significant changes to the principles of the permit scheme that was introduced in TPCR4. The introduction of the permits scheme in TPCR4 formalised a process that already existed, whereby NGGT can apply to the Authority on a case by case basis to extend default lead times for releasing incremental capacity. However, areas that will need to be considered include:

- Under RIIO we expect to fund permits through the TO rather than the SO, as at present. See Outputs, incentives and innovation Supporting Document. As such, a new term ( $DI_t$ ) has been added to GTC 20 to capture this, with this specific condition intended to capture the existing arrangements in C8C, 3(a), C8D, 3(g) to (j) and Special Condition C8E, 5. We would expect to develop this condition to account for the following:



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- Under our Initial Proposals, an enhanced permits allowance of £19m would be applicable for the first year of RIIO-T1 only. This would be reflected in the licence.
- The requirement for permits for the remainder of the RIIO-T1 period would depend on the arrangements in place for the provision of incremental capacity over that period. In the event that changes are made to the commercial arrangements by which users signal incremental capacity then this may remove the requirement for permits altogether. We may need to review licence drafting in this area during the RIIO-T1 period.

3.94. We expect to develop this condition for inclusion as part of the Second Consultation.

### **GTC132 – Transmission Support Services**

Drafting status: We will provide a working draft in the Second Consultation.

3.95. The purpose of this proposed condition is to capture the costs and revenues associated with Constrained LNG and long-run contracting incentive currently found in SpC C8E 1(c) and 1(e). To capture this condition we propose to add the term TSS to Part E of GTC7 (NTS System Operation Activity Revenue Restriction).

3.96. We expect to develop this condition for inclusion as part of the Second Consultation.

## 4. Gas Distribution - Changes to SSCs (Part D) & SPCs

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### Chapter Summary

This chapter outlines our proposed changes specific to GD Licensees and relate only to the SSC Part D and SpCs. It also provides our reasons for the proposed changes together with the intended effect.

**Question 1:** We invite stakeholders to comment on the proposed licence changes to the GD sector as outlined in this chapter and the actual licence drafting in Supporting Document 3.

**Question 2:** Should we include all above risk threshold tier 2 mains within the driver? An alternative would be that the revenue driver covers only the above threshold tier 2 mains not identified at the review period, and fund all relevant tier 2 mains identified at review within an ex ante allowance?

**Question 3:** Should we include services connected to the above risk threshold tier 2 mains within the revenue driver?

### Changes to SLCs and SSCs (part A)

4.1. It should be noted that, in addition the proposed changes set out in this chapter; we are also proposing changes to some SLCs and SSCs that are applicable to GD Licensees. As these changes are common to GD and GT sectors they have been presented together in Chapter 7.<sup>92</sup>

### Overview of proposed changes to gas distribution SSCs (Part D)

4.2. We have outlined below our proposed changes to these SSCs together with the reasons why we consider the proposed changes to existing SSCs necessary and the intended effect of our proposed changes.

#### **SSC D9: Distribution Network Transportation Activity Incentive Scheme and Performance Reporting [GDC74]**

Drafting status: Title and entire current text to be substituted with the words "Not Used". Details of any consequential changes to be provided in the Second Consultation.

4.3. Our proposed changes to the above reporting related SSC for GD is in line with our proposed changes to similar provisions for ET and GT. We have therefore outlined our proposed changes to these common conditions in chapter 7.<sup>93</sup>

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<sup>92</sup> Chapter 7: Proposed changes to common licence conditions.

<sup>93</sup> Chapter 7: Proposed changes to common licence conditions.

## **GDC 83: Distributed Gas: Connection Guide and Information Strategy**

Drafting status: Current working draft provided in Supporting Document 3

4.4. In the RIIO-GD1 March 2011 Strategy Document<sup>94</sup> (GD1 Strategy Document) we recognised the importance of potential bio-methane developers being able to understand the costs of and process for connecting to the network. We propose a licence requirement for the GDNs to provide common, simple, accessible and reliable information to meet the needs of all customers wanting to connect to the network. This drafting is consistent with a similar condition included in the Electricity Distribution Licence.<sup>95</sup>

4.5. The purpose and intended effect of this proposed new SSC is to ensure that the Licensees:

- (a) make information available to the public, that will assist any person who might wish to enter into arrangements with the Licensee that relate to the connection of a Distributed Gas plant and
- (b) implement a Distributed Gas Information Strategy in respect of the information related to Distributed Gas connections.

## **Overview of proposed changes to Gas Distribution SpCs**

4.6. As with ET and GT, a substantive number of our proposed changes relate to the SpCs in the licences of the GDNs. We have outlined below our proposed changes to these SpCs together with the reasons why we consider the proposed changes to existing SpCs or introduction of new SpCs to be necessary and the intended effect of these proposed changes.

### **Special Condition E1: Restriction of revenue in respect of the Distribution Network Transportation Activity: Definitions [GDC 19]**

4.7. Given the ongoing development of licence drafting we consider it appropriate to review the above SpC later in the RIIO licence drafting process. We are not therefore consulting on any changes to the above SpC at this time and will revisit in time for the Second Consultation.

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<sup>94</sup> Decision on strategy for the next gas distribution price control – RIIO-GD1  
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=312&refer=Networks/GasDistr/RIIO-GD1/ConRes>

<sup>95</sup> SLC 25A. Distributed Generation: Connections Guide and Information Strategy .

### **Special Condition E2: Restriction of revenue in respect of the Distribution Network Transportation Activity [GDC 20]**

Drafting status: Proposal to delete and replace by GDC 20: Restriction of revenue in respect of the Distribution Network Transportation Activity. Current working draft of GDC 20 provided in Supporting Document 3.

4.8. This SpC calculates the maximum revenue the Licensee is allowed to recover from customers by bringing together terms from other licence conditions. It also sets out the calculation of the price index adjustment term used throughout the licence and calculates the correction factor (K) for the treatment of over/under recovery of revenue.

4.9. We have updated the methodology for calculating the price index adjustment term. This is consistent with the policy as set out in our decision on RPI indexation in July 2011.<sup>96</sup> We are also proposing to update the defined terms, and include additional defined terms.

4.10. We have incorporated the calculation of the correction factor (K) into the licence condition. This removes the need for SpC E4: Distribution Network Transportation Activity Revenue adjustment which we therefore propose to delete.

4.11. There have been no significant changes to the intent of this condition. Our intention is not to alter the broad purpose of the existing special condition, which is to bring together the elements of allowed revenue calculated in other licence conditions. There may be a need to add /remove terms once other licence conditions are finalised.

4.12. The correction factor calculation is subject to policy change once a decision has been made in relation to our consultation on mitigating network charging volatility.<sup>97</sup> We expect to provide an update on this issue in the Second Consultation.

### **Special Condition E3: Distribution Network allowed pass-through items [GDC 21]**

Drafting status: Current working draft provided in Supporting Document 3.

4.13. Our proposed changes to this condition for GD are in line with our proposed changes to similar provisions for GT and ET. We have therefore outlined our proposed changes to these common conditions in chapter 7.<sup>98</sup>

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<sup>96</sup> Decision on RPI indexation method:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=117&refer=Networks/Trans/PriceControls/RIIO-T1/ConRes>

<sup>97</sup> Mitigating network charging volatility arising from the price control settlement:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=368&refer=Networks/Policy>

<sup>98</sup> Chapter 7: Allowed pass through items [ETC/GTC/GDC21]



**Special Condition E4: Distribution Network Transportation Activity Revenue adjustment (K<sub>t</sub>) [GDC 42]**

Drafting status: Proposal to delete and merge into GDC 20: Restriction of revenue in respect of the Distribution Network Transportation Activity.

4.14. This condition contains provisions relating to Correction Factor (K) which will remain under RIIO. However, this condition is being merged with GDC20: Restriction of revenue in respect of the Distribution Network Transportation Activity. We therefore propose to delete this condition.

**Special Condition E5: Mains and services replacement expenditure adjustment (MSRA) [GDC 22]**

Drafting status: Proposal to delete and replace by GDC 22: Mains and Services Replacement Expenditure. Current working draft of GDC 22 provided in Supporting Document 3.

4.15. The purpose of this condition is to allow GDNs to recover efficiently incurred costs in relation to decommissioning of the mandated replacement of tier 2 iron mains. This is an uncertainty mechanism which provides volume risk protection for GDNs in relation to replacement volumes.

4.16. Given the adoption of a new three-tier Health and Safety Executive (HSE) iron mains policy, we propose to replace the existing revenue driver with a revenue driver that relates to mandatory (or above risk threshold) tier 2 mains, defined as mains above 8 inches and below 18 inches in diameter, and above a risk threshold agreed by the GDNs with the HSE.

4.17. We propose that the revenue driver applies to the entire population of tier 2 mains (and associated services) above the risk threshold. We have two specific questions for respondents as set out in our GD1 IP Documents<sup>99</sup>

- (a) Should we include all above risk threshold tier 2 mains within the driver? An alternative would be that the revenue driver covers only the above threshold tier 2 mains not identified at the review period, and fund all relevant tier 2 mains identified at review within an ex ante allowance?
- (b) Should we include services connected to the above risk threshold tier 2 mains within the revenue driver?

4.18. The effect of the condition is to enable GDNs to recover the efficient costs associated with above risk threshold tier 2 mains which need to be replaced under the new HSE iron mains policy.

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<sup>99</sup> [RIIO-GD1: Initial Proposals – Supporting document – Finance and uncertainty](#)

**Special Condition E6: Distribution Network Exit Capacity costs and incentive revenue, ( $Ex_t$ ). [GDC8]**

Drafting status: Proposal to delete this condition and replace by with GDC 8: NTS Exit Capacity Cost Adjustment. Current working draft of GDC 8 provided in Supporting Document 3.

4.19. The purpose of this condition is to enable GDNs to recover the costs associated with NTS Exit Capacity. This is an uncertainty mechanism. The mechanism protects GDNs from (NTS Exit Capacity) price risk, which we consider is outside of their control, but the GDNs incur volume risk. That is, we allow GDNs to recover NTS Exit Capacity costs based on actual NTS Exit Capacity charges but target volumes set at the control.

4.20. This proposed condition replaces the existing Special Condition E6: Distribution Network Exit Capacity costs and incentive revenue, ( $Ex_t$ ). There is no fundamental policy change relative to GDPCR1.

4.21. We have updated the condition to reflect the introduction of the Enduring Regime. The new licence condition reflects the change to booking NTS Exit Capacity by off-take as opposed to LDZ. We have also modernised the condition.

4.22. The effect of the new licence condition is to maintain the current policy under GDPCR1 with respect to the treatment of NTS Exit Capacity charges, and to modernise the condition.

**Special Condition E7: Determination of any adjustment factor to be applied to MR [GDC28: Arrangements for the recovery of uncertain costs]**

Drafting status: Current working draft provided in Supporting Document 3.

4.23. The aim of this condition is to allow for the recovery, during the price control, of additional costs through allowed revenues.

4.24. This version updates the areas of cost covered and imposes some restrictions on the recovery of such costs. The details of which are outlined in the GD1 IP Documents. The output of this condition (IAE) now impacts allowed revenues through the annual iteration of the PCFM.

4.25. The effect of this change is to improve transparency around the arrangements, limit the number of potential changes to allowed revenue and to incorporate the new financial modelling arrangements.

4.26. There are some areas of uncertainty consulted on in the GD1 IP Documents which do not yet feature in this condition, or any other licence condition, as we are

consulting on final arrangements that will be provided in RIIO-GD1. These are in relation to medium rise multiple occupancy buildings, lane rental costs (currently these costs are covered by the street works reopener) and statutory independent undertakings.

**Special Condition E8: Distribution Network shrinkage allowance ( $Sh_t$ ) and Special Condition E9: Distribution Network environmental emissions incentive revenue ( $EE_t$ ) and compliance with the Leakage Model [GDC 25]**

Drafting status: Proposal to combine and replace by GDC25: Revenue adjustments for performance in respect of shrinkage & environmental emissions.

Current working draft (with two options for the design of the rolling incentive mechanism) provided in Supporting Document 3

4.27. The purpose of the condition is to set out the rewards and penalties which Licensees will earn or incur based on their volume of shrinkage and leakage. The condition also sets out the governance arrangements for the Shrinkage and Leakage model which is used to report the volumes of shrinkage and leakage.

4.28. As part of RIIO we have combined two previously separate SpCs in recognition of the strong links between the two (leakage represents 95 per cent of shrinkage) and also that they both report using the same shrinkage and leakage model.

4.29. We have also introduced the following new provisions.

- A mechanism to ensure that GDNs propose revised shrinkage as well as leakage volumes whenever they propose a modification to the shrinkage and leakage model. This ensures that there is consistent treatment between the two incentives and that companies do not incur windfall gains or losses under the shrinkage incentive as a result of the modelling change,
- A provision to enable the Authority to direct changes to the allowed shrinkage and leakage volumes. The Authority will only be able to modify the shrinkage and leakage volumes to the level set out in the modification report and verified by an independent expert who has reviewed the modification. This prevents the need for a licence change to amend the shrinkage and leakage volumes and therefore can reduce the timescales required to implement a change to the shrinkage and leakage model,
- A reporting requirement on the use of smart metering data (the shrinkage and leakage smart metering report) in [Part G]. This will require Licensees to report on their assessment of the suitability of smart metering data as the basis of reporting shrinkage and leakage performance and the steps they are taking to make this assessment,

- Requirement to report to the Authority annually on the outcome of the review of the shrinkage and leakage model. This is to ensure that there is a physical output to the annual review and provide evidence to the Authority that it has been undertaken. It also provides an opportunity for shipper and suppliers to provide comments.

4.30. In response to recent feedback on the new condition from the network companies we have amended the drafting in Part D of the condition so that the shrinkage and leakage model will always be common but that individual companies will be able to propose a modification. If the modification to the Shrinkage and Leakage model is accepted, the revised model will apply to all GDNs. We consider that this will encourage innovation in this area.

4.31. There is an outstanding issue over the design of the rolling incentive mechanism for this condition. We are consulting upon two options (1 and 2) for the design of the rolling incentive mechanism for the Environmental Emissions Incentive as part of Initial Proposals and set out the rationale for each approach in the GD1 IP Documents<sup>100</sup>. In order to provide illustration of how these options impact the licence drafting, we have included both within the licence condition as variants of Part C (paragraph 25.6).

4.32. As part of Initial Proposals we are also consulting on whether the rolling incentive mechanism should be extended to cover the Shrinkage Incentive. If, following responses, we decide to make this extension and chose option 2 for the roller then Part A (paragraph 25.3) of the condition will also have to be amended.

### **Special Condition E10: Distribution Network discretionary reward scheme revenue [GDC 48]**

Drafting status: Current working draft provided in Supporting Document 3

4.33. The purpose of this condition is to allowed revenue to reward those network operators that can demonstrate that they have delivered additional outputs that contribute to environmental (or social) objectives beyond those funded at the start of RIIO-GD1.

4.34. We have clarified in the GD1 IP Documents<sup>101</sup> the total amount to be recovered through this scheme will be £12 million. This will be recovered in three tranches in year 3,6,9 of the price control (ie the final tranche will be in RIIO-GD2). The condition also allows the charges resulting from discretionary reward scheme (DRS) scheme in year 4 and 5 of GDPCR1 to be recovered during the first two years of RIIO- GD1.

<sup>100</sup> [RIIO-GD1: Initial Proposals – Supporting document – Outputs, incentives and innovation](#)

<sup>101</sup> [RIIO-GD1: Initial Proposals – Supporting document – Outputs, incentives and innovation](#)

4.35. Our intention is not to alter the broad purpose of the existing condition. As part of RIIO we have modernised the condition and:

- changed the name of this condition to 'Discretionary reward scheme revenue amounts'
- expanded the condition to allow for the payment in RIIO-GD1 of any discretionary reward for activities in GDPCR1
- included definitions to clarify the different components of the DRS formula.

4.36. The effect of making these changes to the existing licence condition is to improve the clarity of the calculation of any revenue adjustment, given the two-year lag inherent to the incentive.

#### **Special Condition E16: Disapplication of the Distribution Network Transportation Activity Revenue Restriction [GTC 29]**

Drafting status: We will progress changes to this condition separately from RIIO. We will provide an update in the Second Consultation.

4.37. We intend to conduct a separate review of the disapplication conditions for all network licences. We do not therefore propose to make any changes to this condition at this time. Further details of our intention to review the disapplication provisions across all network licences can be found in chapter 7.<sup>102</sup>

#### **Special Condition E17: Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network [GDC 30]**

Drafting status: Current working draft provided in Supporting Document 3.

4.38. There is an equivalent condition in NGGT's licences.<sup>103</sup> Please see chapter 5<sup>104</sup> for further details of proposed changes to this condition.

#### **Special Condition E18: Excluded Services [GDC 31]**

Drafting status: Proposal to delete this condition and replace by GDC 31: Excluded Services.

4.39. This condition is common to ET, GT and GD licences. Please see chapter 7<sup>105</sup> for further details on the purpose, our reasons for introduction and intended effect of this new licence condition.

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<sup>102</sup> Chapter 7: Disapplication

<sup>103</sup> SpC C9 of NGGT's licence

<sup>104</sup> Chapter 5: Overview of proposed changes to common GT and GD SpCs

<sup>105</sup> Chapter 7: [ETC/GTC/GDC 31]. Excluded Services.

### **Special Condition E19: Restriction of prices in respect of Tariff Capped Metering Activities [GDC 32]**

Drafting status: Proposal to delete this condition and replace by GDC32: Restriction of charges for Tariff-Capped Metering Activities.

4.40. The purpose of this condition is to set out the tariff caps that apply to certain metering activities undertaken by GDNs.

4.41. There is no change in policy for RIIO-GD1 relative to GDPCR1. However, we need to complete a review of the provisions in the current licence condition in relation to “Disapplication of the maximum tariff caps”<sup>106</sup> for consistency with the EU 3rd package provisions.

4.42. We intend to conduct this review separately to our proposed RIIO licences changes and collectively for all network licences. Further details of our intention to review the disapplication provisions can be found in chapter 7.<sup>107</sup>

4.43. Thus, we have omitted these provisions (currently sections 6-12 of E19) in the draft RIIO-GD1 licence condition whilst we undertake our review.

4.44. Relative to the GDPCR1 licence condition, we have modernised the language and structure of this condition for consistency with our wider approach to licence drafting.

4.45. The effect of the new condition is to continue with the current approach to regulating metering activities subject to our review of the consistency of the provisions with EU 3rd package.

### **Special Condition E20: Revenue Reporting and Associated Information to be provided to the Authority in connection with the Distribution Network transportation activity revenue restriction**

Drafting status: Proposal to delete this condition and replace by GDC 74: Regulatory Instructions and Guidance.

4.46. Our proposed changes to the above reporting related SpC for GD is in line with our proposed changes to similar provisions for ET and GT. We have therefore outlined our proposed changes to these common conditions in chapter 7.<sup>108</sup>

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<sup>106</sup> See paragraphs 6 to 12 of SpC E19: Restriction of prices in respect of Tariff Capped Metering Activities

<sup>107</sup> Chapter 7: Disapplication

<sup>108</sup> Chapter 7: Proposed changes to common ET, GT and GD licence conditions.

**Special Condition E21: Undertaking from ultimate controller concerning non-discrimination between the Distribution Network transportation activity and the NTS transportation activity [GDC 33]**

Drafting status: Current working draft provided in Supporting Document 3.

4.47. There is an equivalent condition in NGGT’s licences.<sup>109</sup> Please see chapter 5<sup>110</sup> for further details of proposed changes to this condition.

**Special Condition E22: Separation of NTS and Distribution Network Businesses [GDC 34]**

Drafting status: Current working draft provided in Supporting Document 3.

4.48. There is an equivalent condition in NGGT’s licences.<sup>111</sup> Please see chapter 5<sup>112</sup> for further details of proposed changes to this condition.

**Special Condition E23: Gas Conveyed to Independent Systems [GDC 56]**

Drafting status: Current working draft provided in Supporting Document 3.

4.49. There is an equivalent condition in NGGT’s licences.<sup>113</sup> Please see chapter 5<sup>114</sup> for further details of proposed changes to this condition.

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<sup>109</sup> SpC C 19 of NGGT’s licence

<sup>110</sup> Chapter 5: Overview of proposed changes to common GT and GD SpCs

<sup>111</sup> SpC C 20 of NGGT’s licence

<sup>112</sup> Chapter 5: Overview of proposed changes to common GT and GD SpCs

<sup>113</sup> SpC C 26 of NGGT’s licence

<sup>114</sup> Chapter 5: Overview of proposed changes to common GT and GD SpCs

## Proposed new Gas Distribution SpCs

4.50. We also propose to introduce the following new GD SpCs.

### Financial conditions

4.51. Further details on the following financial related condition can be found in Chapter 6.<sup>115</sup>

Drafting Status: Current working drafts provided in Supporting Document 3.

- [GDC 64] Special Condition[x]. Legacy price control adjustments
- [GDC 47] Special Condition [x]. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments
- [GDC 27] Special condition [x]. Specified financial adjustments
- [GDC 26] Special Condition [x]. Annual iteration process for the GD1 Price Control Financial Model
- [GDC 57] Special Condition [x]. Governance of GD1 Price Control Financial Instruments

2.82 Please note that these conditions are at an early stage of development and require further internal consideration and development. We are sharing the draft conditions at this early stage for the benefit of the licensees in responding to our Initial Proposals.

### **GDC 24: Incentive adjustments relating to the Licensee’s Customer Satisfaction Output**

Drafting status: Current working draft provided in Supporting Document 3

4.52. We have provided an early draft of this licence condition. We welcome comments and recognise that further work on the structure and detail of the condition will need to be progressed through licence drafting working group.

4.53. The purpose of this draft condition is to set out the key components of the customer satisfaction output - which are a customer satisfaction survey, a complaints metric and a stakeholder engagement reward (determined by the Authority) for effective engagement.

4.54. The condition also establishes the framework for how the financial incentives, which relate to the performance against these three components, will be derived.

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<sup>115</sup> Chapter 6: The Annual Iteration Process for the Price Control Financial Model and updating of base revenue allowances



4.55. The effect of introducing the condition is to provide the network companies with a financial incentive designed to reward and encourage effective stakeholder engagement.

4.56. The draft licence condition gives rise to the new stakeholder engagement reward and the Stakeholder Engagement Reward (SER) Guidance Document. The purpose of this associated document is to provide the Licensee with information on the yearly application and reward process. For further information on the SER Guidance Document see Chapter 8: Stakeholder Engagement Reward Guidance. We consider the proposed licence drafting to be sufficient to establish this associated document and to provide suitable governance arrangements should it need to be changed.

4.57. The customer satisfaction survey and complaints metric components of the condition will require further work for the Second Consultation. We now have data from trialling the customer satisfaction survey and complaints metric.

4.58. We are seeking views on our proposed approach to the customer satisfaction incentive as part our GD1 IP Documents consultation.<sup>116</sup> The licence drafting will adjust to reflect the outcomes of this consultation.

### **GDC 31: Excluded Services**

Drafting status: Current working draft provided in Supporting Document 3

4.59. This condition is common to ET, GT and GD licences. Please see chapter 7<sup>117</sup> for further details on the purpose, our reasons for introduction and intended effect of this new licence condition.

### **GDC 74: Regulatory Instructions and Guidance**

Drafting status: Current working draft provided in Supporting Document 3

4.60. This condition is common to ET, GT and GD licences. Please see chapter 7<sup>118</sup> for further details on the purpose, our reasons for introduction and intended effect of this new licence condition.

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<sup>116</sup> [RIIO-GD1: Initial Proposals - Overview](#)

<sup>117</sup> Chapter 7: [ETC/GTC/GDC31] Excluded Services

<sup>118</sup> Chapter 7: [ETC/GTC/GDC74] Regulatory Instructions and Guidance

## 5. Gas Transmission and Gas Distribution – SLCs and SSCs (Part A)

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### Chapter Summary

This chapter outlines our proposed changes to common GT and GD licence conditions to give effect to RIIO-GT1 and GD1 price controls. It also summarises what each relevant common condition currently does and explains why changes are required.

**Question 1:** We invite stakeholders to comment on the proposed changes to the common SLCs, SSCs and SpCs for GT and GD as outlined in this chapter and the actual licence drafting in Supporting Document 2 (for GT) and 3 (for GD).

5.1. This section outlines our proposed changes to common GT and GD licence conditions together with the reasons why we consider the proposed changes necessary and their intended effect.

### Overview of proposed changes to common GT and GD SLCs

5.2. It should be noted that the following are proposed changes to SLCs that currently reside in Sections A and B of the gas transporter licence. SLCs within Sections A and B are applicable to all gas transporter licence holders.

5.3. As such, in addition to the energy network companies operating in the GT and GD sectors, these proposed changes will also apply to all holders of a gas transporter licence<sup>119</sup> with the relevant SLCs in effect in their gas transporter licence.

### SLC 1: Definitions and Interpretation [GTC/GDC 105 & 106]

Drafting status: We will provide an update on drafting status in the Second Consultation.

5.4. This condition sets out the defined words and expressions that are used in the standard conditions and gives their definitions next to them. It also sets out the general rules of interpretation of provisions within the licence.

5.5. Given the ongoing development of licence drafting we consider it more appropriate to review this condition nearer to the end of the RIIO licence drafting process. We are not therefore proposing any changes to this condition at this time and will revisit in time for the Second Consultation.

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<sup>119</sup> Including Independent Gas Transporters (iGTs) with the relevant SLCs in effect in their respective gas transporter licence.

**SLC 2: Application of Section C (Transportation Services Obligations)  
[GTC/GDC 112]**

Drafting status: Current working drafts provided in Supporting Documents 2 (GT) & 3 (GD).

5.6. This conditions sets out the circumstances under which the provisions contained within Section C shall have effect in the licence.

5.7. We are currently minded to make only minor changes to this condition. We have identified the need for some minor updates to references and names of certain bodies. For example, the scheme referred to in paragraph 1 of this condition was made in 2000 rather than 2001 as stated.

5.8. Whilst these are not strictly RIIO related issues, we consider it an appropriate and worthwhile exercise to make these straight forward and minor changes as part of our proposed RIIO licence changes.

**SLC 13: Change Co-ordination for the Utilities Act 2000 [GTC/GDC 93]**

Drafting status: Proposal to remove by substituting title and entire current text with the words "Not Used". We will provide an update on any consequential changes required as a result in the Second Consultation.

5.9. This condition relates to obligations on Licensees to take all reasonable measures to secure and implement provisions of the Utilities Act and no longer has any effect in the licence.

5.10. We therefore propose to amend this condition by substituting the title and entire current text of this condition with the words "Not Used". The reasons and effect for this proposed change is to effectively delete an out of date and redundant licence condition from the licence.

5.11. The term "industry framework document" is currently contained within the text of this condition and is defined within Standard Condition 1 of the gas transporters licence.

5.12. As a consequence, this defined term will need to be removed from SLC 1. We intend to include this consequential change in our Second Consultation.

**SLC 28: Termination of Shipping Arrangements (GTC/GDC 95)**

Drafting status: Current working drafts provided in Supporting Documents 2 (GT) & 3 (GD).

5.13. The condition sets out the circumstances which must be adhered to by the Licensee prior to termination of shipping arrangements.

5.14. An issue was raised as to whether a reference in paragraph 2(c) of this condition to section 2(1)(b) of the Energy Act 1976 remained applicable or had become out of date. Having reviewed this reference we consider it to remain applicable and does not warrant a change.

5.15. However, we have noted that in the same paragraph there is a reference to SLC 16 of the gas supplier's licence.<sup>120</sup> In particular with respect to the meaning of 'a pipe-line system emergency'.

5.16. Paragraph 2(c) of this condition suggests that the meaning of 'a pipe-line system emergency' is set out in SLC 16 of the gas suppliers' licence. This is not the case. Paragraph 16.1 of SLC 16 of the gas suppliers' licence describes the circumstances that may constitute a gas safety or security situation. We propose to make a small amendment to the condition to make this clear by replacing the words:

"(otherwise than in pipe-line system emergency within the meaning of paragraph 1 of standard condition 16 (Security and emergency arrangements))"

With

"(otherwise than in the circumstances referred to in paragraph 16.1 of standard condition 16 (Security and emergency arrangements) of the standard conditions of gas supply licence)".

## Overview of changes to common GT and GD SSCs (Part A)

### SSC A3: Definitions and Interpretation [GTC/GDC109 & GTC/GDC 110]

Drafting status: We will provide an update on the drafting status of this condition in the Second Consultation.

5.17. This condition sets out the defined words and expressions that are used in the standard conditions and gives their definitions next to them. It also sets out the general rules of interpretation of provisions within the licence.

5.18. Given the ongoing development of licence drafting we consider it more appropriate to review this condition nearer to the end of the RIIO licence drafting process.

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<sup>120</sup> SLC 16 (Security and emergency arrangements) of gas supplier licence.

### **SSC A8: Emergency Services and the Enquiry Service [GTC/GDC82]**

Drafting status: We will provide an update on the drafting status of this condition in the Second Consultation.

5.19. The purpose of this condition is to set out the role of the Licensee in establishing and operating emergency procedures.

5.20. A minor change may be required to this condition in order to update the emergency telephone provision. As part of the licence working group process NGGD have agreed to propose updated drafting which we will discuss with relevant stakeholders.

### **SSC A15: Agency [GTC/GDC86]**

Drafting status: We do not propose any licence changes for the start of RIIO-T1 and GD1.

5.21. The purpose of this condition is set out the requirements and funding arrangements for Licensees regarding Xoserve. Currently the role and funding arrangements for Xoserve are being reviewed. Further information on this review can be found on our website.<sup>121</sup>

5.22. We anticipate that changes will be needed to this licence condition once the Xoserve review has concluded at the end 2013, with the necessary licence modifications occurring during the RIIO-T1 and GD1 price control periods.

### **SSC A29: Change of Financial Year [GTC/GDC 93]**

Drafting status: To be removed by substituting title and entire current text with the words "Not Used", We will provide an update on any consequential changes required as a result of this move in the Second Consultation.

5.23. The proposed new condition SSC A30: Regulatory Accounts [GTC71] will include provisions with respect to change of financial year, thereby making this condition obsolete.

5.24. We therefore propose to amend this condition by substituting the title and entire current text with the words "Not Used".

5.25. The effect of this proposed change is to remove provisions that will be addressed elsewhere in the licence and avoid unnecessary duplication.

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<sup>121</sup>[http://www.ofgem.gov.uk/Networks/GasDistr/RIIOGD1/ConRes/Documents1/120116\\_xoserve\\_decision\\_letter.pdf](http://www.ofgem.gov.uk/Networks/GasDistr/RIIOGD1/ConRes/Documents1/120116_xoserve_decision_letter.pdf)

5.26. As a consequence of this proposed amendment we will need to update the definitions of 'Financial Year' and 'Appropriate Auditors' in SSC A3. We intend to consider changes to SSC A3 [GTC/GDC109 and 110] in time for the Second Consultation.

### **SSC A30: Regulatory Accounts [GTC/GDC71]**

Drafting status: Current working drafts in provided Supporting Documents 2 (for GT) & 3 (for GD).

5.27. Changes are needed in a number of areas in this condition to ensure that it remains up to date and correctly refers to up to date relevant regulations and requirements. As such, changes are proposed to:

- update the structure of the condition and improve clarity regarding the preparation of either group or consolidated regulatory accounts and the content of regulatory accounts
- update the requirements around internal reporting introduced by the EC Third Package regulations
- delete the requirements for an operating and financial review and replace it with a business review aligned with that required by the Companies Act 2006, and
- clarify the requirements for agreed upon procedures for the appropriate auditor, including moving the requirements regarding the obligations in respect of the prohibition of cross-subsidy and discrimination generally into this condition from paragraph 4 and 5 of SSC A35.

5.28. The reasons and effect of the above proposed changes is to provide greater clarity and ensure that the condition remains up to date and correctly refers to the relevant regulations and requirements.

### **SSC A32: Definition of Permitted Purpose [GTC/GDC 94]**

Drafting status: Proposal to remove by substituting title and entire current text with the words "Not Used". We will provide an update on any consequential changes required as a result in the Second Consultation.

5.29. This condition provides a definition of "Permitted Purpose". We consider it to be more appropriate for this definition to reside alongside the all the other definitions that are set out in SSC A3: Definitions and Interpretation.

5.30. Therefore, whilst we propose to retain the current definition of "Permitted Purpose" as set out in this condition we propose to move this definition across to SSC A3: Definitions and Interpretation, where it is better placed.

5.31. This will render SSC A32 obsolete. We therefore propose to amend this condition by substituting the title and entire current text of this SSC with the words “Not Used”.

5.32. Consequential changes to references to the definition currently within SSC A32 will be required to be made to SSC A36 and SSC A39. We intend to consider these consequential changes in time for the Second Consultation.

#### **SSC A40: Price Control Review Information [GTC/GDC 74]**

Drafting status: Proposal to replace with new SSC A40: Regulatory Instructions and Guidance. We intend to provide a draft licence condition and set out any consequential changes in the Second Consultation.

5.33. Our proposed changes to the above reporting related condition is in line with our proposed changes to similar provisions for ET. We have therefore outlined our proposed changes to these common conditions in chapter 7.<sup>122</sup>

#### **SSCs to be moved from Part A to Part D of Gas Transporter licence [GTC 32]**

Drafting status: Proposal to move the following SSCs from Part A to Part D with no proposed changes to existing drafting. We intend to provide an update on any consequential changes required as a result of this move in the Second Consultation.

5.34. The following conditions currently reside in Part A of the gas transporter licence:

- SSC A10: Provision and Return of Meters [GTC 32]  
This Licence condition places an obligation upon the gas transmission and distribution Licensees’ Licensee to meet any reasonable request by a relevant supplier to provide and install at the premises of a domestic customer a gas meter owned by the Licensee and of a type specified by the supplier subject.
- SSC A43: Provision of Metering and Meter Reading Services [GTC 32]  
This Licence condition places an obligation upon the Licensee to provide a relevant supplier with the terms (ie costs and timelines) for the provision of meters. It requires NGGT to prepare a statement detailing the basis of providing all its services including the daily meter reading service.
- SSC A46: Non-discrimination in the provision of metering activities [GTC 32]  
This Licence condition places an obligation upon the Licensee so that shall not make differing charges for the provision of metering activities unless such differences reasonably reflect differences in the costs associated with such provision. In addition the Licence condition stipulates that the Licensee must not to any supplier or class or classes of supplier restrict, distort or prevent

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<sup>122</sup> Chapter 7: Regulatory Instructions and Guidance [ETC/GTC/GDC 74]

competition in the supply or conveyance of gas through the setting charges in respect of metering activities.

5.35. As part of the working group process NGGT have made representations that the above conditions are not applicable to its GT licence given their domestic focus. They remain relevant to GD Licensees.

5.36. Having considered the matter and taken into account supporting documents provided by NGGT we agree that these conditions should not have effect in NGGT's licence.

5.37. However, the conditions currently reside in Part A of the Gas Transporter licence which is applicable to both GD and GT Licensees. We therefore propose to amend these conditions by substituting the title and entire current text with the words "Not Used".

5.38. In order for the relevant provisions to continue to apply to GD Licensees, we propose to insert new SSCs into Part D of the gas transporter licence. Part D of the gas transporter licence is applicable to GD Licensees only.

5.39. The reasons and effect of these proposed changes is to relive NGGT of irrelevant obligations and move such obligations to a more appropriate part of the gas transporter licence (Part D). The effect of the proposed change is that the provisions will no longer apply to NGGT but will continue to correctly apply to the GDNs.

5.40. It should be noted that we do not intend to make any changes to existing obligations on GD licenses. However, as a result moving these SSCs from Part A to Part D, consequential changes may be needed to other conditions to ensure referencing remains appropriate. This will be considered as part of the Second Consultation.

## Overview of proposed changes to common GT and GD SpCs

**SpC C9: Allocation of revenues and costs for calculations under the price control in respect of the NTS transportation owner activity and NTS system operation activity, and**

**SpC E17: Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network– [GTC/GDC 30]**

Drafting status: Current working drafts in Supporting Documents 2 (GT) & 3 (GD).

5.41. The purpose of this condition is to:



RIIO-T1 and GD1: Draft licence conditions – First informal licence drafting consultation

- set out how the Licensee must allocate revenues and costs to calculate its revenue restriction conditions, and
- require the Licensee to have in place a statement that sets out the methods that the Licensee will use in the allocation and attribution of revenues and costs.

5.42. As part of RIIO we have modernised the condition and sought to update the relevant activities that the Licensee must allocate or attribute all incurred revenues earned and costs.

5.43. The effect of the proposed changes is to retain the broad purpose of the existing special conditions that it will replace, but ensure the arrangements are consistent with the new structure of the licence conditions necessitated by the RIIO price control changes.

**SpC C19 (NGGT) and E21 (GDNS): Undertaking from ultimate controller concerning non-discrimination between the [DN/NTS] transportation activity and the [DN/NTS] transportation activity [GTC/GDC 33]**

Drafting status: We do not propose any changes as part of RIIO. These conditions will be reviewed as part of the Gas Transporter Licence Review.

5.44. These two conditions were highlighted by network companies as potential candidates for modernisation as part of the RIIO licence drafting process in order to:

- improve the clarity of what is required, and
- to consider if changes are needed as part of the Third Package.

5.45. It should be noted that no RIIO related policy changes were highlighted as being needed to these conditions.

5.46. Following discussion with the network companies around our early drafts of the modernised licence conditions for SpC C19 and E21, it has become clear that the need to retain these conditions needs to be reviewed. NGGT has highlighted several Standard Special conditions should cover the purpose of SpCs C19 and E21.

5.47. We recognise that there may be scope to remove these licence conditions, but we propose to consider this in more detail as part of the Gas Transporter Licence Review after RIIO has concluded. As such, we also do not propose to make any changes to SpC C19 and E21 as part of RIIO.

### **SpCs C20 and E22 - Separation of NTS and Distribution Network Businesses [GTC/GDC 34]**

Drafting status: We do not propose any changes as part of RIIO. These conditions will to be reviewed as part of the Gas Transporter Licence Review.

5.48. These two conditions were highlighted by network companies as potential candidates for modernisation as part of the RIIO licence drafting process in order to:

- take into account that an Independence Statement is now place, and
- improve the clarity of what is required.

5.49. It should be noted that no RIIO related policy changes were highlighted as being needed to these conditions.

5.50. Following discussion with the network companies around our first draft of modernised licence conditions for SpC C20 and E22, it has become clear that there are several other related conditions that also need to be reviewed.

5.51. In particular, that we should look to consider, in the round, whether any of the related conditions listed below (as well as SpC C20 and E22) can be removed or amalgamated. These related conditions are:

- SSC A6
- SSC A34
- SSC A35
- SSCA39

5.52. We consider that looking at all these conditions as a whole would be a worthwhile exercise. However, since we have no plans to change any of these as part of RIIO we propose to address this as part of the Gas Transporter Licence Review after RIIO has concluded. As such, we also do not propose to make any changes to SpC C20 and E22 as part of RIIO.

### **SpCs C26 & E23 - Gas Conveyed to Independent Systems [GTC/GDC 56]**

Drafting status: Open - may or may not be removed. To be considered further post consultation

5.53. The purpose of these conditions is to provide for cross-subsidy payments to be made between NGGT, relevant shippers and DN Operators (Scotland Gas Networks & Wales & West Utilities) for the transportation of gas to consumers.

5.54. To continue with the current cross-subsidy arrangements requires an amendment to the Gas Act to explicitly allow for GT-GT transfers.<sup>123</sup>

5.55. If statute is amended, we will need to modernise the current licence conditions, and introduce other changes, eg update for the new RPI definition. If statute is not amended, then we will need to consider more fundamental changes (and indeed the need for) these licence conditions.

5.56. In RIIO-GD1 finance and uncertainty supplementary annex, we have set out options for funding of independent systems. Following consultation, we will consider the requirement for these licence conditions, and the required amendments.

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<sup>123</sup> For further details on this issue see [RIIO-GD1: Initial Proposals – Supporting document – Finance and uncertainty](#)

## 6. The Annual Iteration Process for the Price Control Financial Model and updating of base revenue allowances

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### Chapter Summary

The RIIO-T1/GD1 price controls will include an Annual Iteration Process for the Price Control Financial Model used to set opening base revenues. This will allow base revenues to be updated in light of the performance and output levels achieved by licensees.

Under the Annual Iteration Process, base revenues will be remodelled using a series of revised variable values. The process will calculate an incremental change to base revenue, the 'MOD' term which is timetabled to occur in accordance with a direction by the Authority by 30<sup>th</sup> November preceding each applicable year. The rules for determining revised variable values and for carrying out the Annual Iteration Process are contained in special conditions of the RIIO-T1/GD1 licences and in the Price Control Financial Handbook. The Price Control Financial Model and Handbook (the Financial Instruments) are incorporated into licences and are subject to formal modification procedures.

The Financial Instruments will be published on the Ofgem website to promote transparency and so that stakeholders can use them for revenue and charging forecasts.

### Adjustments to base revenues during RIIO price control periods

6.1. The RIIO-T1/GD1 price controls cover an eight-year period, providing a longer period of settled price control arrangements than the five-year period under the RPI-X price control regimes. The RIIO approach dictates that the licensee's allowed revenues should reflect its performance under incentive schemes, its innovativeness, and the network operation outputs that it achieves. Under RPI-X, base revenue allowances were fixed at the outset of the price control period; for RIIO we need a way to remodel base revenue allowances on an annual basis. The best way to achieve this is through an 'annual iteration process' for the Price Control Financial Model under a governance regime set down in the price control licence conditions and the supporting Price Control Financial Handbook. Please note that these conditions are at an early stage of development and require further internal consideration and development. We are sharing the draft conditions at this early stage for the benefit of the licensees in responding to our Initial Proposals.

6.2. There is a separate Price Control Financial Model (PCFM)<sup>124</sup> and Price Control Financial Handbook (handbook) for each licence type, reflecting the differing price control elements. The basic features of the annual iteration process and types of financial adjustments are common across licence types, and in the rest of this chapter we refer generically to 'the PCFM' and 'the handbook'.

6.3. Opening base revenue levels (PU values<sup>125</sup>) for each licensee (for each year of the RIIO price control period) will be determined using values and parameters contained in the PCFM, consistent with the RIIO-T1/GD1 Final Proposals. They will also be set down in the allowed revenue price control licence condition for each licensee. Base revenue is the largest component of the licensee's overall allowed revenue under the price control arrangements - typically over 80 per cent of the total.

6.4. The annual iteration process for the PCFM will generate a value for the term  $MOD_t$ <sup>126</sup>, which serves to adjust the licensee's opening base revenue each year, as illustrated in the simplified formula below:

- Base revenue for year t ( $BR_t$ ) = opening base revenue for year t ( $PU_t$ ) + MOD for year t ( $MOD_t$ )

6.5. The above formula is contained within the revenue restriction formula<sup>127</sup>.

6.6. In 2013/14, the first year of the price control period, the licence specifies that the value of MOD is zero.

6.7. Opening base revenue figures and values for  $MOD_t$  are expressed in 2009-10 prices. Consequently, the base revenue formulae in the different licence types provide for indexation of the MOD value ascertained under the simplified formula above.

## The Price Control Financial Instruments

6.8. The handbook and PCFM are collectively referred to as the Price Control Financial Instruments ("the financial instruments"). The financial instruments will be incorporated into the Governance of Price Control Financial Instruments<sup>128</sup> licence condition of each licence and will be subject to a formal modification process set out in that condition. However, in any case of conflict of meaning the following order of precedence will apply:

- (i). the licence,

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<sup>124</sup> [RIIO-T1/GD1: Financial model](#)  
[RIIO-T1/GD1: Financial model](#)

<sup>125</sup> For National Grid licensees, the terms are TOPU and SOPU

<sup>126</sup> For National Grid licensees, there will be two terms, TOMOD and SOMOD

<sup>127</sup> ETC/GTC/GDC 20, GTC 7 (NGGT)(SO) and ETC 12 ( NGET)(SO)

<sup>128</sup> ETC57/GTC57/GDC 57

- (ii). the handbook and constituent methodologies, and
- (iii). the PCFM.

6.9. The modification process for the financial instruments provides for:

- modifications which are not expected to have a significant impact on stakeholders to be made by the Authority, subject to a 28 day notice period
- modifications which are expected to have a significant impact on stakeholders to be made in accordance with section 23 of the Gas Act 1986 or section 11 of the Electricity Act 1989 as applicable.

6.10. Licensees will have the right to prevent a modification being made under the 28 day notice process (thereby effectively requiring modifications to be made under the legislative provisions) where they reasonably consider that a modification would in fact have a significant impact on stakeholders.

6.11. We will keep official copies of the financial instruments together with the official copies of licences. Up to date copies of the PCFM and the handbook will be maintained on the Ofgem website, allowing licensees and other interested stakeholders to:

- reproduce the calculation of  $MOD_t$  each year using the values directed by the Authority
- use their forecasts of PCFM Variable Value revisions (see next section) to carry out revenue sensitivity analysis.

The PCFM has been designed to be as user-friendly as possible for these purposes.

6.12. An early working draft copy of the handbook<sup>129</sup> for each licence type has been included with the package of draft licence conditions published with this document. It should, however, be noted that the handbook and the detailed methodologies are still under development and should be regarded very much as a work-in-progress, subject to change.

## **The Annual Iteration Process for the Price Control Financial Model**

6.13. The PCFM is contained in an Excel® workbook which includes a PCFM Variable Values Table on the input sheet, specific to each licensee<sup>130</sup>. The PCFM Variable Values Table is arranged with:

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<sup>129</sup> [RIIO ET1 Price Control Financial Handbook](#)  
[RIIO GT1 Price Control Financial Handbook](#)  
[RIIO GD1 Price Control Financial Handbook](#)

<sup>130</sup> For National Grid licensees there will be input sheets/PCFM Variable Values for the TO and SO

- columns – one for each relevant/regulatory year of the RIIO price control period
- rows – one for each type of PCFM Variable Value.

6.14. The annual iteration process involves a re-running of the calculation functions in the PCFM by Ofgem, after a defined range of PCFM Variable Values have been revised in accordance with provisions contained in the price control licence conditions and in relevant chapters of the handbook. The basis for determining a PCFM Variable Value revision may be:

- a formula in a licence condition
- an application/review process set out in a licence condition, or
- a detailed methodology described in the handbook.

6.15. In all cases, however, the name and purpose of a PCFM Variable Value will be specified in the relevant special condition, and a description of its effect under the annual iteration process will be given in the methodology chapters of the handbook.

6.16. The PCFM operates in a constant 2009-10 price base.<sup>131</sup> This means that all revisions to £m PCFM Variable Values must be input in 2009-10 prices and the relevant licence conditions and handbook methodologies will provide for this.

#### *Types of adjustment under the annual iteration process*

6.17. The incorporation of the annual iteration process into the RIIO price controls means that timely adjustments can be made to licensees' base revenue allowances in respect of:

- (i) tax, pensions and cost-of-debt factors (specified financial adjustments)
- (ii) allowed Totex<sup>132</sup> for various aspects of network operation
- (iii) the Totex Incentive Mechanism, and
- (iv) the close-out of financial adjustments relating to previous price control periods (legacy price control adjustments).

6.18. A key advantage of this approach is that changes to allowed Totex expenditure will be subject to the RIIO equalised incentives approach (fast/slow money treatment) on a prompt basis. In addition, financial adjustments represented by PCFM Variable Value revisions will interact fully with other modelling factors under the annual iteration process. Both of these aspects are consistent with the modelling of opening base revenue allowances under RIIO-T1/GD1 Final Proposals.

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<sup>131</sup> Except for some internal tax computations which use embedded RPI forecasts to run on a nominal basis

<sup>132</sup> See Glossary

6.19. PCFM Variable Values can be:

Revenue allowance amounts

This type of PCFM Variable Value relates to pension and tax cost allowances. These amounts are determined 'off-line' under methodologies contained in the handbook.

Allowed expenditure figures

This type of PCFM Variable Value relates to categories of allowed Totex expenditure which can be varied during the price control period. A revised allowed expenditure figure overwrites the existing one for the relevant/regulatory year concerned. These amounts are modelled, subject to the regulatory capitalisation rate, as:

- fast money – flowing directly to the base revenue figure for the relevant/regulatory year to which the allowed expenditure relates, and
- additions to the licensee's RAV<sup>133</sup> in the relevant year to which the allowed expenditure relates, generating a slow money adjustment to allowed revenues through the cost of capital return, depreciation and Totex incentive mechanism.

Percentage

This type of PCFM Variable Value relates only to the cost of corporate debt.

True-up revenue allowances

This type of PCFM Variable Value relates to revenue adjustments due from the close out of legacy (pre-RIIO) price control mechanisms.

True-up RAV additions

This type of PCFM Variable Value relates to RAV balance adjustments due from the close out of legacy (pre-RIIO) price control mechanisms.

6.20. Chapter 2 of the handbook includes a table listing each PCFM Variable Value, indicating the licence condition in which it is specified and its type.

*Calculation of the value of  $MOD_t$*

6.21. Under the annual iteration process, the base revenue figure for each licensee, for each year of the price control period, is remodelled using the latest revised set of PCFM Variable Values. The remodelling includes all of the consequential effects of variable value revisions. For example, PCFM Variable Value revisions reflecting

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<sup>133</sup> Regulatory Asset Value – see Glossary



increased levels of allowed Totex expenditure might trigger a change to the modelled allowance for notional new equity issuance. Consequential adjustments of this kind will be in accordance with the RIIO-T1/GD1 Final Proposals and will feed through into the value of the term  $MOD_t$  produced as the output of the annual iteration process. The PCFM functionality applies appropriate time value of money adjustments wherever PCFM Variable Values for relevant/regulatory years before relevant/regulatory year  $t$  are revised. If we only changed the PCFM Variable Values on a single occasion during the price control period, the value of the term  $MOD$  for each relevant/regulatory year would be the difference between the originally modelled value of base revenue for that year and the remodelled value. However, each annual iteration process can involve the revision of PCFM Variable Value across a range of years, including values for earlier years, which might have been revised on a previous occasion. The PCFM functionality is designed to deal with this, and takes account of previously directed values of  $MOD$  in bringing forward the effects of re-modelling calculations to the extant value of  $MOD_t$  (see also the section on timetable for the annual iteration process below). This means that once the value of the  $MOD$  term for a particular relevant/regulatory year has been directed, it is not subsequently changed as a result of later annual iteration processes.

6.22. NGET and NGGT have special conditions relating to both Transmission Owner (TO) and System Operator (SO) parts of their transmission businesses.

6.23. Allowed revenues are modelled separately for the TO and SO parts of these businesses. Accordingly, there are separate PCFM Variable Value Tables for TO and SO, and the annual iteration process will produce a TOMOD and an SOMOD value for these licensees. References in this document to “ $MOD$ ” should be taken to include TOMOD and SOMOD with respect to these licences.

#### *Timetable for the annual iteration process*

6.24. The annual iteration process for the PCFM will take place by 30 November each year. On or before that date, or if that is not possible, as soon as is reasonably practicable thereafter, we will publish a direction to each licensee setting out:

- any revisions to PCFM values for the annual iteration process<sup>134</sup>
- a complete, updated copy of the PCFM Variable Values Table for the licensee, and
- the value of the term  $MOD_t$  for the licensee.

6.25. The  $MOD$  term is used to adjust the opening base revenue figure for each relevant/regulatory year  $t$  during the price control period. References to relevant/regulatory years are made relative to that usage so that, for example, in a context where  $MOD_t$  applied in the formula for base revenue in 2015/16, a reference in the same context to relevant year  $t-1$  would mean 2014/15 and so on.

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<sup>134</sup> Licensees receive 14 days prior notice of proposed values to make representations/objections

6.26. Should any change in PCFM functionality be necessary during the course of the RIIO-T1 and GD1 price controls, it will be governed by the formal change control process as set out in the handbook. The cut off date for updating functional changes to the PCFM is expected to be 30 September each year.

6.27. The annual iteration process takes place in relevant/regulatory year  $t-1$  (relative to relevant/regulatory year  $t$  in respect of which a value for  $MOD_t$  is being calculated). The summary timeline for the annual iteration process is:

- (i) 31 July – deadline for submission of price control data by licensees
- (ii) 30 September – cut off for functional modifications to the PCFM
- (iii) 31 October – cut off date for establishing data needed to determine PCFM Variable Values
- (iv) By 15 November – notify licensees of proposed PCFM Variable Values;
- (v) By 30 November –
  - o direct PCFM Variable Values
  - o complete annual iteration process and direct values for  $MOD_t$ .

6.28. This timeline is driven by two constraining factors. Firstly, the process must begin late enough so that price control data for relevant/regulatory year  $t-2$  (relative to the relevant/regulatory year for which  $MOD_t$  is being determined) can be obtained and validated. Secondly, the annual iteration process must be completed early enough so that licensees can prepare indicative use of system charging statements for publication by 31 December (in relevant/regulatory year  $t-1$ ). We will, however, strive to complete each stage of the annual iteration process as early as possible each year.

6.29. The drafting of the licence conditions and methodologies in the handbook set out the relevant/regulatory years (columns on the PCFM Variable Values Table) in respect of which each type of PCFM Variable Value will normally be revised. However, they also provide for PCFM Variable Values to be revised for other years (columns) when necessary. This provides the flexibility needed to deal with data errors or omissions. The annual iteration process for the PCFM will appropriately bring forward the effect of any such revisions in the calculation of the latest value for the MOD term.

6.30. Further information on financial allowances, and the rationale for calculations and adjustments under the RIIO price control approach can be found in the Supplementary Annex on Financial Issues in our decision on strategy paper.<sup>135</sup> An early draft copy of the handbook has been issued as part of this informal proposed licence modifications consultation, and an early working draft copy of the PCFM has been published as part of the T1 and GD1 IP Documents.

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<sup>135</sup> <http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/T1decisionfinance.pdf>

## Financial Conditions

6.31. The following are price control licence conditions associated with the Annual Iteration Process of the PCFM (the Financial Conditions). They are marked in the licence drafting Supporting Documents as Special Conditions: Financial Conditions

### **[ETC/GTC/GDC 57]: Governance of [ET1/GT1/GD1] Price Control Financial Instruments**

6.32. The above conditions incorporate the financial instruments into the licence and sets out the modification process for them.

### **[ETC 26/GTC/GDC 26]: Annual Iteration Process for the [ET1/GT1/GD1] Price Control Financial Model**

6.33. The above conditions set out the steps to be taken for the annual iteration process for the PCFM and the procedure for directing the value of  $MOD_t$  to the licensee.

### **[ETC 27/GTC/ 27]: Specified financial adjustments – Transmission Owner [GDC 27]: Specified financial adjustments**

### **[ETC/GTC 57]: Governance of [ET1/GT1] Price Control Financial Instruments**

6.34. The above conditions provide for the determination and direction of revised PCFM Variable Values relating to:

- revenue allowances for pension scheme established deficits, scheme administration costs and Pension Protection Fund levy costs
- revenue allowances changes driven by tax trigger events and the licensee's gearing levels and corporate debt interest costs
- the licensee's allowed percentage cost of corporate debt.

### **[ETC/GTC 47]; Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner**

### **[ETC/GTC 66]; Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator [NGET and NGGT only]**

### **[GDC 47]: Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments**

6.35. The above conditions provide for the determination and direction of revised PCFM Variable Values relating to the licensee's actual, aggregate level of Totex expenditure.

6.36. Under the annual iteration process for the PCFM, this information is compared to the licensee's allowed aggregate level of Totex expenditure to establish the amount of any over spend or under spend that is to be borne or retained by the licensee in accordance with the Totex Incentive Mechanism scheme for the licensee which will be set out in Final Proposals.

**[ETC 64]: Legacy price control adjustments – Transmission Owner**  
**[ETC/GTC 64]: Legacy price control adjustments – Transmission Owner**  
**[ETC 67/GTC 67]: Legacy price control adjustments – System Operator**  
**[NGET and NGGT only]**  
**[GDC 64]: Legacy price control adjustments**

6.37. The above conditions will be divided into a number of parts, each one dealing with the determination of PCFM Variable Value revisions needed to update revenues allowances and RAV balances as a result of the close out of legacy (pre-RIIO) price control mechanisms.

6.38. These close out adjustments are needed because:

- outturn values for schemes relating to relevant/regulatory year 2012/13 (the last pre-RIIO year) may not be reported by licensees until 31 July 2013 (by which time the RIIO-T1 and GD1 price controls will be underway)
- cost totals for items subject to true-up or logging-up may not be reported by licensees until 31 July 2013, and
- the RIIO special conditions may exceptionally provide for pre-RIIO allowances to be adjusted (for example in relation to Transmission Investment Incentive projects).

#### *Allowed Totex expenditure adjustments through PCFM Variable Values*

6.39. The conditions shown below in Tables 6.1–6.3, provide for the determination and direction of revised PCFM Variable Values representing revised levels of allowed Totex expenditure under various headings.<sup>136</sup>

6.40. The revised values may be determined in accordance with a 'driver' formula specified in the condition (for example Mains and Services Replacement Expenditure under condition GDC 22) or an application and review regime (for example Baseline and strategic wider works under condition ETC 39).

6.41. Under the annual iteration process for the PCFM, revised values flow into the calculation of fast and slow money adjustments to base revenue, adjustments under the Totex Incentive Mechanisms (see preceding section) and consequential adjustments in accordance with the modelling approach that will be set out in Final Proposals. All of the adjustments flow into the values for the MOD term.

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<sup>136</sup> These can be found in the Special Conditions: Price Control Financial Model (PCFM) Variables section in Supporting Documents 1, 2 and 3.

**Table 6.1: Electricity Transmission**

<b>Condition name</b>	<b>RIIO tracking number</b>
The Innovation Roll-out Mechanism	ETC 9
Enhancement to Pre-existing Infrastructure in National Parks and Areas of Outstanding Natural Beauty	ETC 18
Arrangements for the recovery of uncertain costs	ETC 28
Specification of Baseline and Strategic Wider Works Outputs and Assessment of Allowed Expenditure	ETC 39
Network Development Policy and Wider Works Volume Driver [NGET only]	ETC 41
Baseline generation connection outputs and generation connections volume driver	ETC 55
Pre-construction Engineering deliverable for Strategic Wider Works Outputs	ETC 62
Arrangements for the recovery of SO uncertain costs	ETC 117
Undergrounding uncertainty mechanism [NGET only]	ETC 122
Demand related infrastructure volume driver [NGET only]	ETC 123
Uncertainty mechanism for preconstruction works related to integrated network solution	ETC 124

**Table 6.2: Gas Transmission**

<b>Condition name</b>	<b>RIIO tracking number</b>
NTS gas entry incentives, costs and revenues	GTC 3
NTS gas exit incentives, costs and revenues	GTC 4
The Innovation Roll-out Mechanism	GTC 9
Arrangements for the recovery of uncertain costs	GTC 28
Arrangements for the recovery of SO uncertain costs	GTC 117
Specification of the Network Flexibility Output and Assessment of Allowed Expenditure for Network Flexibility	GTC 118

**Table 6.3: Gas Distribution**

<b>Condition name</b>	<b>RIIO tracking number</b>
The Innovation Roll-out Mechanism	GDC 9
Mains and Services Replacement Expenditure	GDC 22
Arrangements for the recovery of uncertain costs	GDC 28

## 7. Proposed changes to common licence conditions

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### Chapter Summary

We have developed certain licence conditions, such that they are broadly common across the ET, GT and GD energy sectors. This chapter provides the reasons we are proposing to introduce these conditions and their effect.

**Question 1:** We invite stakeholders to comment on the proposed changes to the common licence conditions or introduction of new common licence condition as outlined in this chapter and the working drafts in the three Supporting Documents.

**Question 2:** We welcome views on a suggestion from a Licensee that we do not need to set out the list of Excluded Services under Part C in GDC 31 as the excluded service examples are by definition excluded services for gas distribution, and thus superfluous to licence condition.

### Common licence conditions

7.1. There is considerable overlap between the licences of the energy network companies. Certain licence conditions are common across the ET, GT and GD sectors. For example, under the RIIO model, Licensees in all three sectors will have similar licence obligations with respect to regulatory reporting, data assurance, and the finance conditions.<sup>137</sup>

7.2. However, it should be noted that whilst these common licence conditions are substantively similar in terms of structure, aim and intended effect across the three licence types, they are not identical. Certain aspects will ultimately differ according to sector and/or Licensee.

7.3. For ease of reference and to avoid unnecessary duplication of narrative in this consultation document, our proposed changes to common licence conditions are presented together.

7.4. It should also be noted that, depending on the sector, the relevant common condition may be an SLC, SSC or SpC. The relevant licence and condition types together with the proposed condition name and number is clearly indicated for each proposed change to a common licence condition.

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<sup>137</sup> For more details on the finance conditions please see chapter 6: The Annual Iteration Process for the Price Control Financial Model and updating of base revenue allowances

## Overview of proposed changes to common licence conditions

7.5. This section outlines our proposed changes to licence conditions that apply across ET, GT and GD Licensees. It also sets out the reasons why we consider the proposed changes to existing conditions or introduction of new common conditions necessary and their intended effect.

### **[GDC/ETC/GTC 21]: Allowed pass through items [GDC/ETC/GTC 21]**

Drafting status: Current working drafts provided in Supporting Documents 1, 2 and 3.

**Table 7.1: Current conditions relating to Pass Through Items**

Licence type	Current condition number	RIIO Tracking number
Electricity Transmission	Special Condition D4 (J4 for SPTL and SHETL): Pass Through Items	ETC 21
Gas Transmission	C8B: NTS transportation owner activity revenue restriction	GTC 21
Gas Distribution	Special Condition E3: Distribution Network allowed pass-through items	GDC 21

7.6. The aim of this condition is to allow for certain uncontrollable costs to be passed through to consumers, through network charges, when the Licensee incurs them.

7.7. There have been no significant changes to the intent of this condition and we do not intend to alter the broad purpose of the existing condition, therefore there has been limited change to this condition. The T1 and GD1 IP Documents set out the proposed areas of cost that will be treated as pass through.

### **[ETC/GTC/GDC 81]: Payments by the Licensee to the Authority**

Drafting status: We will progress changes to this condition separately from RIIO. We will provide an update in the Second Consultation.

**Table 7.2: Current conditions relating to payments to the Authority**

Licence type	Current condition number	RIIO Tracking number
Electricity Transmission	SLC A4	ETC81
Gas Transmission	SLC 3	GTC81
Gas Distribution	SLC 3	GDC81



7.8. We consider that changes to these conditions are needed for several reasons. The SLCs in Table 5 above need to be amended to update references to Consumer Direct which are now out of date. This follows the transfer of Consumer Direct functions to the National Association of Citizens Advice Bureaux.<sup>138</sup> We also note that changes will be required with respect to the Consumer Advocacy funding arrangements set out in the above SLCs.

7.9. The above changes cannot be made until certain amendments are made to the Utilities Act 2000. These changes are expected to be made by the Department for Business, Innovation and Skills (BIS) and we understand that they will be putting forward a Statutory Instrument to allow changes to be made later this year and that it is anticipated to come into force on 1 April 2013.

7.10. The final reason for change is due to Third Package Regulations<sup>139</sup> removing provisions allowing the Authority to make modification references to the Competition Commission.<sup>140</sup> We consider it appropriate, to make all of the above changes collectively and at the same time across all licence types.

7.11. To that end, we propose to review and amend these conditions separately to the work on RIIO licence changes. We expect to provide an update on progress in the Second Consultation.

7.12. As part of this separate review we also intend to consider what, if any, scope there is to add clarity to SLC A4 of the electricity transmission licence which places a requirement upon TOs to pay an annual licence fee, by clarifying that only NGET pays the annual licence fee.

### **[ETC/GTC/GDC 29]: Misapplication**

Drafting status: We will progress changes to this condition separately from RIIO. We will provide an update in the Second Consultation.

**Table 7.3: Current disapplication conditions**

<b>Network type</b>	<b>Current condition number</b>	<b>RIIO Tracking number</b>
ET(SO) <b>(NGET)</b>	AA5E: Duration of the Balancing Services Activity Revenue Restriction	ETC 29
ET (TO)	D8 (NGET) and J9 (SPTL and SHETL): Duration of the Transmission Network Revenue Restriction	ETC 29

<sup>138</sup> In Scotland, the equivalent organisation is the Scottish Association of Citizen Advice Bureaux.

<sup>139</sup> The Electricity and Gas (Internal Markets) Regulations 2011  
[http://www.legislation.gov.uk/ukxi/2011/2704/pdfs/ukxi\\_20112704\\_en.pdf](http://www.legislation.gov.uk/ukxi/2011/2704/pdfs/ukxi_20112704_en.pdf)

<sup>140</sup> Under s24 of the Gas Act 1986 and s12 of the Electricity Act 1989

GT (TO)	C8B(4) - NTS transportation owner activity revenue restriction	GTC 29
GT (SO)	C8C(4) - NTS System Operation Activity Revenue Restriction	GTC 29
GD	E16 – Disapplication of the Distribution Network Transportation Activity Revenue Restriction	GDC 29
	SC E19 - Restriction of prices in respect of Tariff Capped Metering Activities (Specifically, Disapplication of the maximum tariff caps)	GDC 32

7.13. The Third Package Regulations<sup>141</sup> introduced a new procedure for making licence modifications and also removed provisions allowing the Authority to make modification references to the CC.<sup>142</sup>

7.14. The conditions in Table 6 above, allow the Licensee to make a disapplication request to the Authority. A disapplication request allows for the re-opening or disapplication of an existing price control provision within the licence.

7.15. The above conditions expressly refer to now deleted references in the Acts to modification references to the CC. Accordingly, these conditions need to be reviewed and amended to take account of the changes.

7.16. However, as there are similar disapplication provisions in the electricity distribution licence which are outside the scope of this document, we consider it appropriate, given the similar nature of these conditions across all network licences to make any required modifications collectively and at the same time across the licences of all of the energy network companies.

7.17. To that end, we propose to review and amend these conditions separately to the work on RIIO licence changes. We expect to provide an update on progress in the Second Consultation.

7.18. We also note that NGGT, NGET and the GDNs have two disapplication conditions in their respective GT, ET and GD licences. We intend to explore the scope to consolidate these into one condition.

<sup>141</sup> The Electricity and Gas (Internal Markets) Regulations 2011  
[http://www.legislation.gov.uk/ukxi/2011/2704/pdfs/ukxi\\_20112704\\_en.pdf](http://www.legislation.gov.uk/ukxi/2011/2704/pdfs/ukxi_20112704_en.pdf)

<sup>142</sup> Under s24 of the Gas Act 1986 and s12 of the Electricity Act 1989

7.19. We consider it sensible to use this separate review opportunity to evaluate any differences between ET, GT and GD versions of these conditions and, wherever possible, align the disapplication provisions across the energy network companies.

**[ETC/GTC/GDC 74]: Regulatory Instructions and Guidance**

Drafting status: Current working drafts provided in Supporting Documents 1, 2 and 3

**Table 7.4: Current reporting conditions and our proposed changes**

Licence type	Current condition number	RIIO Tracking number	Proposed change
ET	SLC B15	ETC 74	Change condition name to 'Regulatory Instructions and Guidance' and substitute entire current text with text of proposed new SLC B15
	SLC B16	ETC 74	Retain number but substitute entire current text with the words "Not Used"
	SLC B17	ETC 74	Retain number but substitute entire current text with the words "Not Used"
GT	SSC A40	GTC 74	Change name to 'Regulatory Instructions and Guidance' and substitute entire current text with text of proposed new SSC A40
	SpC C14		Delete
	SpC C14B		Delete
	SpC C16		Delete
GD	SSC A40	GDC 74	Same as GT
	D9		Delete
	E20		Delete

7.20. We need to collect price control review information from the energy network companies on revenue, expenditure and costs, and outputs. This information is used to monitor network company performance and, where appropriate, make adjustments to revenue allowances, eg through financial incentives that are part of the price control.

7.21. Reporting requirements for the energy network companies are currently set out in a number of different licence conditions. Under our proposed revisions to the reporting licence conditions, the information needed to do this will be consolidated

through the new licence condition [ETC-/GTC/GDC74]:Regulatory Instructions and Guidance (RIGs) (‘the RIGs Licence Condition’).<sup>143</sup>

7.22. We propose to amend the existing reporting related licence conditions across ET, GT and GD as shown in the above table.

7.23. The RIGs is the collective term for a group of documents that includes instructions and guidance on what data the NWOs must report and how, and the templates they must complete. The RIGs are an “associated document” to the licence and specify what data is to be collected. Elements of the RIGs have historically sometimes been referred to as the Regulatory Reporting Packs (RRPs).

7.24. As part of RIIO we propose to consolidate the governance and instructions for the reporting of regulatory information into the new RIGs Licence Condition for ET, GT and GD.

7.25. For further information on the RIGs associated document, please see Chapter 8.<sup>144</sup> The RIGs will encompass all elements of reporting, including the reporting requirements and guidance, and the data submission templates.

7.26. The proposed new RIGs Licence Condition sets out the purpose, key elements, and governance arrangements (eg change control process) for the RIGs.

7.27. The effect of introducing the proposed new RIGs Licence Condition is to remove the need for other reporting related provisions within other licence conditions. Having a single licence condition has not altered the broad types of information that the energy network companies will need to provide.

7.28. We recognise that there is a need to review all existing and proposed new licence conditions to remove reporting related provisions from the face of the licence. We expect to be able to outline the consequential changes that are needed to other SLCs, SSCs and SpCs in time for the Second Consultation. This is currently being developed with the energy network companies, as part of the RIGs policy working group.

7.29. We consider that by ensuring that all reporting requirements are in one place (the RIGs) it will make it easier to gain a complete view of what it being requested, and also to ensure a consistent approach to reporting requirements.

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<sup>143</sup> Proposed new SSC A40 for GT and GD and SLC B15 for ET.

<sup>144</sup> Chapter 8: Regulatory Instructions and Guidance

**[ETC/GTC/GDC 76]: Data Assurance**

Drafting status: Current working drafts provided in Supporting Documents 1, 2 and 3.

7.30. This proposed new licence condition requires ET, GT and GD Licensees to undertake data assurance processes and activities for the purpose of reducing the risk, and subsequent impact, of any inaccurate or incomplete reporting, or any misreporting, of data to the Authority.

7.31. The scope, contents, and governance arrangements for data assurance will be set out in the Data Assurance Guidance (DAG), as an associated document to the licences. For further information on this please see Chapter [x] of this consultation.

7.32. We expect to introduce the new Data Assurance condition as part of the statutory consultation at the end of this year, with the provision that it will not be switched on until 1 April 2015 (or such earlier date as the Authority may specify by direction) to allow for a trial period when RIIO begins.

7.33. During the trial period, we will look to learn lessons from the TOs and GDNs and also from a similar trial currently being conducted with Distribution Network Operators (DNOs) for DPCR5. This will help inform the detail of the DAG.

7.34. Until the new DAG Condition is switched on, the data assurance requirements will remain as they are set out under the individual licence conditions.

7.35. During discussions with network companies on early drafts of the conditions two key points arose:

- the requirement in the condition to conduct an independent review of data assurance functions, and
- the requirement to provide accurate and complete data.<sup>145</sup>

7.36. Regarding the first point, we propose a review will only be required if directed by the Authority. Any such review would be limited to a Licensee's Internal Audit Function.

7.37. The rationale behind this is that some Licensees may rely heavily on Internal Audit of data assurance activity to mitigate the risk identified in the risk assessment. Given this potential heavy reliance, we may seek assurances to be confident in a Licensee's Internal Audit Function.

7.38. Assurances would most likely be sought where there has been evidence of incomplete or inaccurate reporting and/or misreporting of data in the past. We

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<sup>145</sup> Under paragraph 76.3(b) of this condition.

propose that the detail of what should be covered in the review will be set out in the DAG following further consultation with industry, but we envisage it will look at factors like the purpose and remit of internal audit, staff capabilities, knowledge and qualifications, and the systems and processes in place.

7.39. Regarding the second point, we have noted industry concerns that the word “accuracy” under this condition may imply a greater level of accuracy than envisaged under the RIGs.

7.40. We have therefore amended the condition<sup>146</sup> to make it clear that the term “accuracy” in this condition must be read in light of the requirements under the relevant licence condition (eg the RIGs).

7.41. Furthermore, there is no overarching obligation on Licensees to provide accurate and complete data and we consider that such an obligation is appropriate. While the obligation can sit under this condition or under the RIGs, we consider paragraph 76.3(b) to be necessary for the sensible drafting of this condition.

### **[ETC/GTC/GDC 31]: Excluded Services**

Drafting status: Proposal to delete the current conditions and replace these with ETC/GTC/GDC 31. We have provided current working drafts in Supporting Documents 1, 2 and 3.

7.42. The purpose of this proposed new condition is to set out the basis on which services provided by the Licensee may be treated as Excluded Services.

7.43. The condition has been changed as part of RIIO to align the Transmission and Gas Distribution Licences with the equivalent modernised licence condition in the Electricity Distribution Licence.

7.44. The effect of making these proposed changes to the existing licence condition shown in Table 8 is to improve clarity regarding Licensee requirements and to ensure the condition is applicable to the RIIO-T1/GD1 price control period rather than TPCR4/GDPCR1. It should be noted that we do not intend to alter the broad purpose of the existing conditions.

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<sup>146</sup> Under paragraph 76.4 of this condition.

**Table 7.5: Current Excluded Services related conditions**

Licence type	Current condition number	RIIO Tracking number
Electricity Transmission	SpC D10 (NGET)	ETC 31
	Schedule A:Supplementary Provisions of the Charge Restriction Conditions (Part A) - (SPTL and SHETL )	
Gas Transmission	SpC C10: Excluded Services	GTC 31
Gas Distribution	SpC E18: Excluded Services	GDC 31

7.45. In part B of the new draft condition, some concern has been raised that the effect of treating Network Innovation Competition (NIC) royalty revenue as an Excluded Service will be to reduce any incentive on exploiting royalties as any royalty income will be caught within the price cap. Thus preventing any commercial benefit from exploiting the intellectual property from an idea. Furthermore, if such royalty income is not to be treated as Excluded Services income then the treatment of such revenues needs to be specifically covered in the main revenue restriction formula ETC/GTC/GDC 20.

7.46. We have considered, but disagree, and have retained this provision in the draft condition. We note that there would be an incentive associated with royalties. The details of how this will work, including the process it will follow will be determined through the NIC governance document<sup>147</sup> which will be developed with the innovation policy working group. We also note that this approach is broadly consistent with that taken under the Low Carbon Networks (LCN) fund, which we propose using as a basis for taking this forward.

7.47. We also note suggestions from a network company that it would be sensible to review other consented activities, some of which do not relate to excluded services, which are due to expire on 31 March 2013 in conjunction with this condition. In order to confirm whether any such activities should be included as an excluded service we would welcome any suggestions on existing consented activities that, in the respondents' view, should be included as an excluded service on a permanent basis.

7.48. Specifically for gas distribution licences, we note and welcome views on a suggestion from a Licensee that we do not need to set out the list of excluded services under Part C as the excluded service examples are by definition excluded services for gas distribution, and thus superfluous to licence condition. This is because:

- The current condition SpC E2(2) [GDC20] places an obligation on the Licensee to ensure that its charges in respect of Distribution Network Transportation Network Activity Revenues do not exceed the permitted above the maximum

<sup>147</sup> See chapter 8: Network Innovation Competition (NIC) Governance Document.

Distribution Network Transportation Network Activity Revenue. They are derived only for the Supply of Distribution Network Services.<sup>148</sup>

- The Supply of Distribution Network Services are defined in SpC E1(1) as “the undertaking and performance for gain or order engagements in connection with the conveyance of gas....the escape of gas.....and relating to the acquisition of capacity rights.”, and
- As a matter of law therefore, combining that definition with that of Distribution Network Transportation Activity Revenue, unless a revenue is, first, derived from a gas shipper and second, is also in respect of Supply of Distribution Network Services, it cannot be Formula Revenue.

7.49. Therefore, for example, connection revenues from IGTs, end consumers and gas suppliers cannot be revenue. Revenue received from shippers for gas metering activity cannot be Formula Revenue. If a shipper bought a piece of land from a transporter the receipt cannot be Formula Revenue. There is no need for them to be ‘treated’ as excluded. We would welcome views on this suggestion.

7.50. We propose to delete the existing special conditions shown in Table 7.4 above and replace these with the proposed new condition provided in Supporting Documents 1 to 3.

## Innovation

### **[ETC/GTC/GDC9]: Innovation Rollout Mechanism (IRM)**

Drafting status: Current working drafts provided in Supporting Document 1, 2 and 3.

7.51. In the T1 and GD1 Strategy Documents we set out that licensees would be able to apply for funding for the rollout of proven innovative solutions with low carbon or environmental customer benefits where the licensee cannot fund the roll out under the existing price control settlement. Funding would be provided through a licensee’s allowed revenue using the standard capitalisation ratio. All projects would need to demonstrate they represent value for money to consumers in the long term.

7.52. The purpose of this condition is to set out the criteria licensees must address when making a Notice to the Authority if they are seeking an adjustment to their allowed revenue to fund the costs of rolling out a proven innovation.

7.53. A key change to the draft of this licence condition since it was discussed with network licensees is the introduction of provisions that make the allowed IRM expenditure (as determined by this condition) a PCFM Variable Value (IRM) that will

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<sup>148</sup> See definition in SpC E1: Restriction of revenue in respect of the Distribution Network Transportation Activity: Definitions



impact allowed revenue through the annual iteration of the PCFM.<sup>149</sup> The main reason for doing this is to ensure that any IRM funding will be treated in the same way as any other totex component of the price control, eg subject to the Totex Incentive Mechanism.

7.54. In addition, we have also reverted to the original materiality threshold, ie an amount that when multiplied by the licensee's Efficiency Incentive Rate exceeds or is likely to exceed 1 per cent of the licensee's Average Annual Forecast Revenue over the Price Control Period. We have also reduced the number of application windows to two: one in 2015 and one in 2018. These changes have been made to ensure consistency with other the application windows introduced as part of RIIO. In particular the application window for uncertain costs.<sup>150</sup>

### **[ETC/GTC/GDC10]: The Network Innovation Competition (NIC)**

Drafting status: We have provided a current working draft of this condition for NGET, SPTL and SHETL in Supporting Document 1. We have not included a specific Gas draft condition but will provide this as part of the Second Consultation.

7.55. In the T1 and GD1 Strategy Documents<sup>151</sup> we set out that licensees can bid for funding through a competitive process for projects which have potential low carbon and/or environmental benefits. This differs from the IRM which exists to fund the rollout of a proven innovation where the licensee is unable to complete rollout under the existing price control settlement.

7.56. As such, the purpose of this condition is to set out the mechanism by which the Licensee can recover the amount of Authorised NIC funding each year. It also sets out the scope and change control processes for the NIC Governance Document, which sets out the regulation, governance and administration of the NIC.

7.57. We are drafting the NIC Governance document in conjunction with the Innovation Working Group. We intend to consult on it later in the year and it will, subject to statutory consultation, come into force at the same time as the RIIO licence conditions. For further information on the NIC Governance Document please see Chapter [8] of this consultation.

7.58. Following recent discussions with the network licensees about funding arrangements for the NIC, we now have two draft versions of the licence condition:

- one for NGET, and
- one for SPTL and SHETL.

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<sup>149</sup> Please see chapter 6 for further details.

<sup>150</sup> See ETC/20: Restriction on Transmission Network Revenue.

<sup>151</sup> [Decision on strategy for the next transmission price control – RIIO-T1](#)  
[Decision on strategy for the next gas distribution price control – RIIO-GD1](#)

7.59. The key difference is that NGET's condition contains provisions that allow it to collect, and transfer, the total NIC funding on behalf of all the electricity transmission licensees. There is a term (NICF) to do this in NGET's main allowed revenue formula.<sup>152</sup> To avoid double counting there is no NIC term in SPTL or SHETL's main allowed revenue formula. Funding is transferred to them by NGET through a direction that is to be issued by the Authority.

7.60. As noted in our T1 and GD1 IP Documents<sup>153</sup>, an issue relating to the transfer of funds between Gas Transporters under the Gas Act 1986 needs to be resolved before the Gas NIC and the necessary licence conditions can be fully implemented. This is unlikely to happen before RIIO-T1 and GD1 have begun.

7.61. Once the Gas Act 1986 transfer issue has been resolved and we move towards implementation of the proposed NIC in the Gas Transportation Licence, we expect the licence condition for NGGT to be broadly similar to that which is being implemented for NGET in RIIO ET1. We also expect the licence condition for the GDNs to be broadly similar to the draft condition being implemented in RIIO ET1 for SHETL and SPTL to be similar. To ensure the electricity and gas versions of the conditions remain as aligned as possible we would welcome views from interested parties (including NGGT and the GDNs) on the versions of these licence conditions being implemented in electricity.

### **[ETC/GTC/GDC11]: Network Innovation Allowance (NIA)**

Drafting status: Current working draft provided in Supporting Documents 1, 2 and 3.

7.62. In the T1 and GD1 Strategy Document<sup>154</sup> we set out that as part of the RIIO Innovation Stimulus we would establish a limited Innovation Allowance of between 0.5-1 per cent of base revenue for each licensee. The proposed NIA is self governing and would allow licensees to implement smaller scale innovation projects on their own networks.

7.63. We propose to set out the specific percentage in licensees' Final Proposals.<sup>155</sup> The allowance would be provided on a 'use it or lose it' basis and licensees would self-certify against the criteria that would be included in the Network Innovation Allowance Governance Document. Further information on this document and its development can be found in Chapter 8.<sup>156</sup>

7.64. In line with Final Proposals for SHETL, we have developed specific licence drafting in part C so that SHETL's total NIA will be divided evenly across the eight years of the RIIO-T1 period. We have built protection into the licence drafting to deal

<sup>152</sup> Special Condition D1: Restriction on Transmission Network Revenue [ETC20].

<sup>153</sup> Encouraging Innovation section in both documents.

<sup>154</sup> [Decision on strategy for the next transmission price control – RIIO-T1](#)  
[Decision on strategy for the next gas distribution price control – RIIO-GD1](#)

<sup>155</sup> In the FP Documents for SPTL and SHETL.

<sup>156</sup> Chapter 8: Network Innovation Allowance (NIA) Governance Document

with the possibility that actual revenues are lower than that forecast at the start of the Price Control. SHETL have proposed an alternative whereby any over spend in the period is returned to consumers in the next price control period. However, we consider the drafting we are consulting on best implements the policy set out in their Final Proposals.

7.65. The purpose of this condition is to set out the amounts Licensees can recover through their NIA. It also sets out the scope and change control processes for the NIA Governance Document.

## 8. Associated RIIO documents

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### Chapter Summary

This chapter outlines the purpose and content of a number of new associated RIIO documents that are created by the proposed RIIO licence conditions.

**Question 7:** We invite stakeholders to comment on the associated documents that we propose to create and their content.

8.1. As part of RIIO we are creating a number of new associated documents relating to certain licence conditions. The associated documents that are outlined in this chapter are as follows:

- Regulatory Instructions and Guidance
- Data Assurance Guidance (DAG)
- Environmental Discretionary Reward (EDR) Scheme Guidance
- Network Innovation Competition (NIC) Guidance Document
- Network Innovation Allowance (NIA) Guidance Document
- Gas Discretionary Reward Scheme (DRS) – Guidance document
- Stakeholder Engagement Reward Guidance.

## Regulatory Instructions and Guidance

8.2. This Regulatory Instructions and Guidance (RIGs) associated document relates to ETC/GTC/GDC74: Regulatory Instructions and Guidance].

8.3. The RIGs provide a framework which enables Ofgem to collect data from the network operators (NWOs). We collect data to enable us to monitor the NWOs' performance against price control incentives, monitor compliance with price control obligations and to allow analysis between price controls and at the subsequent price control review.

8.4. The RIGs enable Ofgem to collect data from NWOs in a consistent format. The RIGs inform the NWOs about the information we plan to collect, guide them on how to provide this information and enable the NWOs to put the systems in place to collect the data to the detail we require.

8.5. The RIGs data reporting requirements arise from the licence, the price control review Final Proposals and any applicable guaranteed standards.

### Key contents of document

8.6. We propose that the RIGs will include instructions and guidance around the following (where required):

- the systems, processes, procedures, recording and provision of the required data
- reporting units and levels of accuracy (including rounding)
- the methodology for calculating or deriving required numbers
- definitions
- the provision of the data to the Authority (format, frequency etc)
- any audit or examiner requirements
- reasons why the data is required, and
- explanations of how the Authority will monitor, assess, and enforce compliance.

8.7. We propose that the RIGs comprise four main elements:

- templates for reporting the data (in MS Excel v.2007 or newer)
- templates containing the calculation of the revenue elements – revenue reporting (including performance against incentives) (in MS Excel v.2007 or newer)
- templates for providing commentaries against the data (in MS Word), and
- instructions and guidance on how to report the data (in MS Word).

8.8. We will look to minimise the number of RIGs documents – ideally having a single set for each of electricity transmission, gas transmission and gas distribution. However, it is possible that data handling and organisation may be more efficient if we have multiple documents.

8.9. We propose that the data templates will be designed using the RIIO-T1 and GD1 business plan data templates alongside the previous price control RIGs and RRP. Added to these are the new data requirements arising from the new outputs, incentives and obligations from RIIO-T1 and GD1.

8.10. The RIGs will contain historical data for all years of RIIO-T1 and GD1. Where appropriate forecast data will be captured.

8.11. We have set out in the following appendices our first thoughts on the data that will be collected through the RIGs, and which documents they will be located in:

- Appendix 1: sets out the data that will be required in the electricity transmission RIGs
- Appendix 2: sets out the data that will be required in the gas transmission RIGs, and
- Appendix 3: sets out the data that will be required in the gas distribution RIGs.

8.12. These groupings may change as we endeavour to develop an efficient and effective RIGs structure. One of our aims in designing the RIGs is to try and limit the duplication of data between different tables. It should be noted that the data lists in the appendices are not definitive and will be subject to change as we develop the RIGs in detail. Forecast data requirements are indicative, and may be removed or added. The data has been described at high level, and does not, as listed, indicate how much data will be reported or the level of detail.

### **Interaction with other associated documents**

#### *Data Assurance Guidelines (DAG)*

8.13. We propose that the RIGs will set out the data that the NWOs are required to report, including the level of accuracy. The DAG would set out the processes and activities that the NWOs should undertake in order to assure the quality, completeness and timeliness of the data that they have reported. We propose that the DAG, and the licence condition to which it relates, will not come into effect until 1 April 2015 (or earlier via a Direction). Until then the data assurance standards would be set out in the RIGs.

### **Interaction with the Price Control Financial Model (PCFM)**

8.14. Some of the data reported in the RIGs (in particular the costs) is proposed, at aggregate level, to serve as inputs to the PCFM as part of the Annual iteration process.<sup>157</sup>

8.15. The Financial Handbook would set out the methodologies used in preparing data collected via the RIGs for input into the PCFM. We propose that one key requirement is that the data will be converted to 2009/10 prices.

8.16. The RIGs data used to generate the inputs to the PCFM would be reflected in allowed revenues (via the base revenue term) with a two year lag.

8.17. The base revenue term is  $BR = PU + MOD$  where PU is the base revenue at the time of Final Proposals and MOD is the adjustment calculated by the PCFM during the annual iteration process. The MOD value is calculated in advance of the regulatory year commencing. Therefore when the MOD term is being calculated (in regulatory year t-1) the latest data available for actual costs would relate to the previous year, ie regulatory year t-2.

8.18. The PCFM input data would need to be recorded in the RIGs for all years of the RIIO price control period so that the PCFM is able to take into account adjustments to historical data where it is revised or corrected in subsequent years.

8.19. The revenue reporting element of the RIGs would enable calculation of the over or under recovery of charges against the allowed revenue in the previous year. This over or under recovery would then be corrected using the k term in the latest year's allowed revenue calculation. Since the MOD term is a component of the base revenue, and therefore the allowed revenue and is set prior to the regulatory year commencing, the annual iteration process has no impact on the calculation of k.

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<sup>157</sup> For further information please see Chapter 6; The Annual Iteration Process for the Price Control Financial Model and updating of base revenue allowances

## Data Assurance Guidance (DAG)

### Purpose of document

8.20. The draft licence condition the Data Assurance Guidance (DAG) relates to is ETC/GTC/GDC 76: Data Assurance requirements. The purposes of the DAG are to establish a process under which the Licensee must carry out a Risk Assessment of data submitted to the Authority, report to the Authority and, if required, procure an independent review of its Internal Audit Function under this condition.

### Key contents of document

8.21. We propose that the DAG will be developed with the Network Operators for RIIO-GD1 and T1 from October 2012 to 1 April 2013, when it will be used for the trial of the Data Assurance condition. As such, it is difficult to be prescriptive on the sections to be covered in the document, but the issues we envisage it addressing include:

- the Data to which the Risk Assessment applies
- the format (form, layout, scope and content) of the Risk Assessment
- the frequency with which and the timescales within which the Risk Assessment is required to be carried out
- the form of the independent review that may be required of the Licensee's Internal Audit Function and the associated reporting requirements
- the frequency with which and the timescales within which the Licensee should report on its Data Assurance programme to the Authority, and
- the form of the reporting requirements for:
  - the results of the Licensee's Risk Assessment
  - the "looking ahead" report – a description of the Data Assurance activities that the Licensee intends to undertake during the coming year to mitigate the risks identified in that assessment
  - the "looking back" report – a description of the Data Assurance activities undertaken by the Licensee during the preceding year
  - the details and results of the independent review procured by the Licensee of its Internal Audit Function (if required).

### Interaction with other associated documents

8.22. We propose that the RIGs set out the data that the NWOs are required to report, including the level of accuracy. The Data Assurance Guidance (DAG) that is described above would set out the processes and activities that the NWOs should undertake in order to assure the quality, completeness and timeliness of the data that they have reported. We propose that the DAG, and the licence condition to which it relates, will not come into effect until 1 April 2015 (or earlier via a Direction). Until then the data assurance standards will be set out in the RIGs.



## Environmental Discretionary Reward (EDR) Scheme Guidance

### Purpose of document

8.23. Draft licence Condition ETC 17: Adjustment in Respect of the Environmental Discretionary Reward Scheme, states that the Authority shall publish, and may from time to time revise, a document, to be known as the EDR Scheme Guidance. The EDR Scheme Guidance will provide guidance to electricity TOs and the electricity SO on how to participate in the RIIO-T1 Environmental Discretionary Reward Scheme. It will set out the rules and procedures, the form of the submission, the evidence requirements and scheme timescales.

### Key contents of document

8.24. The document will include guidance on:

- the Licensee's submission to the Authority under the EDR Scheme including the areas to be covered, the type of information and evidence to be provided, and the format of the submission
- the Authority's process for assessing the Licensee's submission, including assessment criteria, the scoring associated with the different performance areas and the role of an expert panel
- the process and procedures by which the Authority will determine the amount of the EDR term for regulatory year t including any reward allocation rules in relation to the Licensee's overall level of performance
- the procedures by which the Authority will notify the Licensee with respect to any direction in relation to the amount of the EDR term, and
- any other matters relating to the administration and governance of the EDR Scheme.

### Way forward

8.25. We will hold a second stakeholder workshop for interested parties on 5 September to develop the detail of the EDR, including the EDR Scheme Guidance. We will then publish the draft document as part of the Second Consultation.

## Network Innovation Competition (NIC) Governance Document

### Purpose of document

8.26. The Network Innovation Competition (NIC) Governance Document will be issued by the Authority under licence condition ETC/GTC/GDC1 0: The Network Innovation Competition.

### Key contents of document

8.27. The NIC Governance Document will set out:

#### *The Competitive Process*

8.28. All proposed NIC projects will need to pass the Initial Screening Process (ISP) before they are eligible to be developed into full submissions. This section sets out the detail of the ISP.

8.29. The full submission stage will involve Licensees developing their ISP proposals into full submissions which will be assessed by an independent expert Panel who will recommend to the Authority who should be awarded funding. This section sets out the requirements and procedure that should be followed by all participants in the NIC and the process that will be used to reach a decision regarding which projects receive NIC funding.

#### *Obligations on Licensees implementing projects*

8.30. These conditions set out the Project-specific conditions that the licensee is committing to in accepting NIC Funding as part of the Project Direction, the Project Direction will:

- Set out the Approved Amount of funding for the NIC project
- Set out the Project Budget that the Licensee must report against, and
- how variances against the Project Budget will be reported and approved.

#### *Funding Direction*

8.31. This will set out the contents of the Funding Direction, the Authority will issue each year, to enable licensees to recover NIC funding they have been awarded and return any Royalty income or unspent funding to customers.

*Intellectual Property*

8.32. This section will set out the default IPR requirements for NIC projects. A key objective of the NIC is that learning gained from Projects, must be shared across all Licensees.

*Project implementation requirements*

8.33. This section will set out the detailed project implementation requirements that should be adhered to once funding has been awarded including regular reporting of Project progress, the need for a separate project bank account and applications for contingency funding.

**Next steps**

8.34. We will be developing the drafting of the NIC Governance Document over the summer and will take evolving versions of this document to the Innovation Working Group for comments. We will also consult informally before the statutory consultation.

## Network Innovation Allowance (NIA) Governance Document

### Purpose of document

8.36. This Network Innovation Allowance (NIA) Governance Document will be issued by the Authority under licence condition ETC/GTC/GDC11: The Network Innovation Allowance. This document will set out the regulation, governance and administration of all aspects of the NIA.

### Key contents of document

8.37. We have consulted<sup>158</sup> on the governance and administration of the NIA. However, the no decision on these issues has been made. This structure reflects what we consulted on. These areas are follows.

#### *NIA Project eligibility criteria*

8.38. There will be a set of eligibility criteria that a project must meet if it is to qualify as a NIA Project.

#### *NIA Project Registration*

8.39. In order for a Project to be eligible for funding it will need to be registered. The registration process will not generally involve Ofgem approving projects. However, we have identified three circumstances where we are proposing Licensees seek approval from Ofgem before registering a project. If the Licensee: is requesting a derogation from the default conditions for intellectual property intends to make payments to itself or to Related Undertakings; or wishes any of the information required to be included in the NIA Project Registration Pro-forma to be withheld from the Ofgem website.

#### *NIA Eligible expenditure*

8.40. We are proposing two categories of expenditure that can be recovered from the NIA. The first category is expenditure to prepare submissions for the Network Innovation Competition. The second category is to recover expenditure associated with undertaking NIA Projects. This section will set the scope for these two categories.

#### *NIA Project Reporting/Knowledge Transfer*

8.41. Facilitating knowledge transfer is one of the key aims of the NIA. Learning should be shared among all network Licensees.

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<sup>158</sup><http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=349&refer=Networks/nic>

8.42. We are proposing three requirements relating to knowledge transfer in the consultation: close down reports, an annual conference to make industry aware of what new learning is available and finally, Licensees will be required to share relevant new learning with other network Licensees.

### **Next steps**

8.43. The NIA consultation closed on 18 June, we will publish our response to this consultation during the summer. We will also be developing the drafting of the NIA Governance Document over the summer and will take iterations of this document to the Innovation Working Group for comments. We will also consult informally before the statutory consultation.

## Gas Discretionary Reward Scheme (DRS) – Guidance document

### Purpose of document

8.44. The DRS Guidance document is associated with GDC 48: Discretionary reward scheme revenue amounts. We currently have a DRS guidance document in operation for GDPCR and we envisage that this document will be reviewed prior to implementation as part of RIIO- GD1.

8.45. The current DRS guidance:

- provides guidance to the GDNs on the scope of discretionary reward scheme (environment and social outputs)
- sets out the minimum requirements to be met by GDNs' submissions
- provides details on the panel (eg number of members)
- the expected format of entries, and
- the application process, including dates, to be followed by GDNs to participate in the scheme.

8.46. The latest version of the DRS guidance can be found on our website.<sup>159</sup>

### Way forward

8.47. We do not expect to markedly change the DRS guidance document for RIIO-GD1. However, we recognise that some minor changes may be needed as a result of stakeholders' feedback and previous years' schemes outcomes. As such, we expect to review the guidance document prior to the implementation of the scheme.

8.48. We would welcome stakeholder views about any areas of the DRS that may need to change prior to the implementation of RIIO-GD1.

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<sup>159</sup> <http://www.ofgem.gov.uk/Networks/GasDistr/QoS/Documents1/Guidance%20Notes%20and%20Entry%20Form%20-%202011-12%20Gas%20Discretionary%20Reward%20Scheme.pdf>

## Stakeholder Engagement Reward Guidance

### Purpose of document

8.49. The Stakeholder Engagement Reward Guidance will be issued by the Authority under licence condition ETC/GTC 24 - Incentive adjustments relating to the licensee's Stakeholder Satisfaction Output and GDC 24 - Incentive adjustment in respect of the Broad Measure of Customer Satisfaction.

8.50. The purpose of the document is to provide guidance to the DNs and to the TOs on the scope of the stakeholder engagement incentive and the assessment approach we would follow to allocate the incentive reward. The document is expected to set out the minimum requirements to be met by DN's and TO's submissions, the expected format of the submissions and the application process to be followed by DNs and TOs in order to participate in the scheme. The document will also set out the respective assessment process to be followed to evaluate TOs' and DNs' stakeholder engagement activities.

### Key contents of document:

- Sets out the stakeholder engagement strategy and outcomes we aim to incentivise
- Establishes minimum requirements to be met by a DNO's or a TO's submissions
- Defines the format of applications
- Sets out the application process
- Sets out our assessment approach for submissions
- Sets out arrangements about panel and associated procedures
- Sets out panel scorecard which defines key principles of assessment

8.51. The document will first be published December 2012 and then be updated on a regular basis. This document will be developed in discussion with the TOs and DNs, and building upon the equivalent work we are undertaking with the DNOs under DPCR5 arrangements. In the case of DNs, we will conduct a trial of the assessment process in the summer of 2013 which will inform the Guidance for scheme on the first financial year of the price control.

## Appendices

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## Appendix 1 - Data that will be required in the Electricity Transmission RIGs

Reporting	Potential Contents	Information Requirements / Notes
<p><b>Outputs (mainly non financial and volumes)</b></p> <p><i>NB. Not all items listed in this section will form the basis of agreed outputs – and not all will require forecasts. Some of these elements may be moved to other tables</i></p>	Safety	Agreed Outputs Actual Outputs Forecast Outputs
	Reliability <ul style="list-style-type: none"> <li>Energy not supplied</li> </ul>	Agreed Outputs Actual Outputs Forecast Outputs
	Availability <ul style="list-style-type: none"> <li>Network access policy</li> <li>Network output measures</li> </ul>	Agreed Outputs Actual Outputs Forecast Outputs
	<b>Customer Satisfaction (information will be published on TO website and therefore just a summary may be included in the narrative)</b>	Quantitative survey – results and background data Qualitative survey results Other related information (this will vary between Scottish TOs and NGET/NGG)
	Generation Connections <ul style="list-style-type: none"> <li>Relevant generation capacity delivered</li> <li>Relevant installed asset capacity delivered</li> <li>Evidence of demand triggers</li> <li>Connections by type</li> <li>Time of delivery offer</li> <li>Alterations post delivery of offer</li> </ul>	Agreed Outputs Actual Outputs Forecast Outputs
	Environment <ul style="list-style-type: none"> <li>Additions and disposals of SF6 inventories &amp; actual leakage</li> <li>Electricity losses: actual and estimated impact from actions</li> <li>Business Carbon Footprint</li> <li>Mitigation of Visual amenity impacts in designated areas</li> </ul>	Agreed Outputs Actual Outputs Forecast Outputs

Reporting	Potential Contents	Information Requirements / Notes
	<ul style="list-style-type: none"> <li>• Wider Works</li> <li>• Updates on pre-construction deliverables</li> <li>• Update of prospective SWW outputs</li> <li>• Progress reports on agreed SWW outputs</li> <li>• Delivered boundary transfer capability</li> <li>• Evidence of non-boundary delivery (ratios)</li> </ul>	Agreed Outputs Actual Outputs Forecast Outputs
	Revenue Driver Information	More specific detail following Initial Proposals
	Uncertainty Mechanisms in general <ul style="list-style-type: none"> <li>• Income Adjusting Events</li> <li>• List of uncertainties</li> </ul>	More specific detail following Initial Proposals
<b>Costs (mainly financial)</b>	Actual outturn against allowance – this will draw information from the various RIGS tables	This is a summary of information in the RIGS
	Ofgem Adjustments	Adjustments made to licensees submissions before publication
	Irregular items	Description and value of irregular item
	Provisions	Description and value of provision
	Operating expenditure (opex) (gross and net of capitalisation) <ul style="list-style-type: none"> <li>• Direct opex (TO and SO)</li> <li>• Closely associated indirect costs (TO)</li> <li>• Business support               <ul style="list-style-type: none"> <li>○ CEO and corporate costs</li> <li>○ IT and telecoms</li> <li>○ Property</li> <li>○ Insurance</li> </ul> </li> </ul>	Tables as in the RIIO business Plan templates Amount spent against individual activities or resource headings
	Allocation of opex between businesses (where required)	Split of costs between regulated and unregulated businesses
	Excluded services costs and income <ul style="list-style-type: none"> <li>• Excluded services</li> <li>• De Minimis</li> <li>• Consented</li> </ul>	Costs and income for income streams within excluded services, consented and de minimis
	Related party information for services that are provided to the regulated business	Income, cost and profit margins

Reporting	Potential Contents	Information Requirements / Notes
	Capital expenditure (capex) <ul style="list-style-type: none"> <li>• Load related (total and scheme detail)</li> <li>• Non load related (total and scheme detail)</li> <li>• TIRG and TII (total and scheme detail)</li> <li>• Customer contributions</li> <li>• Non operational capex (total and IT scheme detail)</li> <li>• SO Capex (including scheme detail)</li> <li>• Other capex</li> <li>• Flooding expenditure</li> <li>• Volume drivers and unit costs</li> </ul>	Tables as in the RIIO business Plan templates spend in total and by project where required Forecast information is likely to be required only at the total levels
	Staff costs and numbers (total and by activity)	Numbers of FTEs by activity or business area
	Apprentices numbers and training costs	FTEs recruited and on training schemes Salary costs of trainees Additional cost relating to apprentice training and recruitment
	Year on year movements	Explanation and financial value for movements from year to year
	Insourcing / Outsourcing Analysis	
	Costs of resilience (flooding, security etc)	Opex and capex in total (not by scheme)
	Innovation spending <ul style="list-style-type: none"> <li>• Innovation rollout</li> <li>• Network Innovation Competition</li> <li>• Network Innovation Allowance</li> </ul>	Collect spend on innovation by the different schemes
	E3 Grid benchmarking data	Data used in benchmarking of TOs in the EU
<b>Electricity Network Data (mainly non financial)</b>	System characteristics	Tables as in the RIIO business Plan templates
	Activity Indicators	
	Transmission system performance	
	Boundary transfers and capability	
	System flows at entry points	
	Demand and supply at substations	
	Stability or voltage measures	
	Asset data description	
	Asset age	

Reporting	Potential Contents	Information Requirements / Notes
	Asset additions and disposals	
	Asset health, risk, and criticality	
<b>Financials (mainly financial)</b>	Profit and Loss	Tables as in the RIIO business Plan templates
	Balance Sheet	
	Cash flow	NB. The reconciliation table should include reconciliations for the Cost pack
	Pensions – costs, scheme detail PPF levy and Admin costs	
	Pension true up (indicative)	
	Deficit allocation methodology (DAM) Statements	
	DAM reconciliation to previously reported pension costs in last (3 years) RRP	
	Tax computation	
	Allocation of total costs to capital allowance pools – regulatory accounting basis and actual to prior years actual tax submissions	
	Tax clawback for excess gearing and regulatory tax losses	
	Net Debt and interest	
	Reconciliation of pension costs	
	Reconciliation of RRP costs to regulatory accounts and statutory costs	
	Financial model inputs (model will hold the RAV calculations)	
<b>Revenue (mainly financial)</b>	Income against the income terms within the licence(s)	A high level cashflow forecast for the two years after the reporting year. Forecast required financing, undrawn facilities and interest costs.
	<ul style="list-style-type: none"> <li>• Covering all the appropriate terms and 'algebraic' notation with relevant licence conditions</li> <li>• Tables show inputs and calculations</li> </ul>	

## Appendix 2 - Data that will be required in the Gas Transmission RIGs

Reporting	Potential Contents	Information Requirements / Notes
<p><b>Outputs (mainly non financial and volumes)</b></p> <p><i>NB. Not all items listed in this section will form the basis of agreed outputs – and not all will require forecasts. Some of these elements may be moved to other tables</i></p>	Safety	Agreed Outputs Actual Outputs Forecast Outputs
	Reliability	Agreed Outputs Actual Outputs Forecast Outputs
	Availability	Agreed Outputs Actual Outputs Forecast Outputs
	Customer Satisfaction (information will be published on TO website and therefore just a summary may be included in the narrative)	Quantitative survey – results and background data Qualitative survey results Other related information
	NTS Connection Modification (MOD 373) <ul style="list-style-type: none"> <li>• Applications made</li> <li>• Full Connection Offers</li> <li>• Initial connection Offers</li> </ul>	In line with section 6 of the MOD
	Environment <ul style="list-style-type: none"> <li>• Business Carbon Footprint</li> </ul>	Agreed Outputs Actual Outputs Forecast Outputs
	Constraint Management <ul style="list-style-type: none"> <li>• Cost and revenues relating to constraint management</li> </ul>	
	Revenue Driver Information	More specific detail following Initial Proposals
	Uncertainty Mechanisms in general <ul style="list-style-type: none"> <li>• Income Adjusting Events</li> <li>• List of uncertainties</li> </ul>	More specific detail following Initial Proposals
<p><b>Costs (mainly financial)</b></p>	Actual outturn against allowance – this will draw information from the various RIGS tables	This is a summary of information in the RIGs

Reporting	Potential Contents	Information Requirements / Notes
	Ofgem Adjustments	Adjustments made to licensees submissions before publication
	Irregular items	Description and value of irregular item
	Provisions	Description and value of provision
	Operating expenditure (opex) (gross and net of capitalisation) <ul style="list-style-type: none"> <li>• Direct opex (TO and SO)</li> <li>• Closely associated indirect costs (TO)</li> <li>• Business support               <ul style="list-style-type: none"> <li>○ CEO and corporate costs</li> <li>○ IT and telecoms</li> <li>○ Property</li> <li>○ Insurance</li> </ul> </li> </ul>	Tables as in the RIIO business Plan templates Spend against individual activities or resource headings
	Allocation of opex between businesses (where required)	Split of costs between regulated and un regulated businesses
	Excluded services costs and income <ul style="list-style-type: none"> <li>• Excluded services</li> <li>• De Minimis</li> <li>• Consented</li> </ul>	Costs and income for income streams within excluded services, consented and de minimis
	Related party information for services that are provided to the regulated business	Income, cost and profit margins
	Capex <ul style="list-style-type: none"> <li>• Load related (total and scheme detail)</li> <li>• Non load related (total and scheme detail)</li> <li>• Customer contributions</li> <li>• Non operational capex (total and IT scheme detail)</li> <li>• SO Capex (including scheme detail)</li> <li>• Other capex</li> <li>• Flooding expenditure</li> <li>• Volume drivers and unit costs</li> </ul>	Tables as in the RIIO business Plan templates Spend in total and by project where required Forecast information is likely to be required only at the total levels
	Staff costs and numbers (total and by activity)	Numbers of FTEs by activity or business area
	Apprentices numbers and training costs	FTEs recruited and on training schemes

Reporting	Potential Contents	Information Requirements / Notes
		Salary costs of trainees Additional cost relating to apprentice training and recruitment
	Year on year movements	Explanation and financial value for movements from year to year
	Insourcing / Outsourcing Analysis	
	Costs of resilience (flooding, security etc)	Opex and capex in total (not by scheme)
	Innovation spending <ul style="list-style-type: none"> <li>• Innovation rollout</li> <li>• Network Innovation Competition</li> <li>• Network Innovation Allowance</li> </ul>	Collect spend on innovation by the different schemes
	E3 Grid benchmarking data	Data used in benchmarking of TOs in the EU
<b>Gas Network Data (mainly non financial)</b>	System characteristics	Tables as in the RIIO business Plan tem
	Activity Indicators	
	System utilisation and performance	
	System demand and capacity	
	Compressor usage – running hrs and energy consumption	
	Environmental Emissions	
	Forecast Scenarios	
	Asset data description	
	Asset age	
	Asset additions and disposals Asset health, risk, and criticality	
<b>Financials (mainly financial)</b>	Profit and Loss	Information as in the RIIO business Plan templates  NB. The reconciliation table should include reconciliations for the Cost pack
	Balance Sheet	
	Cash flow	
	Pensions – costs, scheme detail PPF levy and Admin costs	
	Pension true up (indicative)	
	Deficit allocation methodology (DAM) Statements	
	DAM reconciliation to previously reported pension costs in last (3 years) RRs	

Reporting	Potential Contents	Information Requirements / Notes
	<p>Tax computation</p> <p>Allocation of total costs to capital allowance pools – regulatory accounting basis and actual to prior years actual tax submissions</p> <p>Tax clawback for excess gearing and regulatory tax losses</p> <p>Net Debt and interest</p> <p>Reconciliation of pension costs</p> <p>Reconciliation of RRP costs to regulatory accounts costs</p> <p>Financial model inputs (model will hold the RAV calculations)</p> <p>Future Financing Requirements</p>	<p>A high level cashflow forecast for the two years after the reporting year. Forecasting required financing, undrawn facilities and interest costs.</p>
<p><b>Revenue (mainly financial)</b></p>	<p>Income against the income terms within the licence(s)</p> <ul style="list-style-type: none"> <li>• Covering all the appropriate terms and 'algebraic' notation with relevant licence conditions</li> <li>• Tables show inputs and calculations</li> </ul>	<p>Revenue reporting pack to be based on existing TPCR4 revenue reporting pack amended to cater for eight year price control, new licence conditions and MOD term and updated for the standing data of the TIRG and other transmission revenue incentives.</p>



## Appendix 3 - Data that will be required in the Gas Distribution RIGs

Reporting	Potential Contents	Information Requirements / Notes
<p><b>Outputs and volumes (mainly non financial)</b></p> <p><i>NB. Not all items listed in this section will form the basis of agreed outputs – and not all will require forecasts. Some of these elements may be moved to other tables</i></p>	Safety	Agreed Outputs Actual Outputs Forecast Outputs
	Reliability & availability	Agreed Outputs Actual Outputs Forecast Outputs
	Customer Satisfaction	Overall customer satisfaction score
	<p>Connections</p> <ul style="list-style-type: none"> <li>○ Guaranteed standards of performance</li> <li>○ Third party &amp; water ingress summary and incident reporting</li> <li>○ Voluntary scheme</li> <li>○ Excluded connections</li> <li>○ D10 connections information</li> <li>○ Fuel poor connections scheme</li> </ul>	Agreed Outputs Actual Outputs Forecast Outputs
	<p>Environment</p> <ul style="list-style-type: none"> <li>○ Business Carbon Footprint</li> <li>○ Bio-methane: total capacity connected &amp; total capacity of enquiries and applications in progress</li> <li>○ Distributed gas - detailed record of cost of connections</li> <li>○ Land remediation - number of sites remediated, in different categories</li> <li>○ Aggregate extraction and spoil to landfill</li> <li>○ ISO 14001 non conformities</li> <li>○ Loss of containment</li> <li>○ Publicly reported escapes</li> <li>○ Gas in Buildings</li> <li>○ Fractures and corrosion failures</li> </ul> <p>Note: shrinkage is listed in the Costs section, and environmental emissions in the Revenue section</p>	Agreed Outputs Actual Outputs Forecast Outputs

Reporting	Potential Contents	Information Requirements / Notes
<p><b>Costs (mainly financial)</b></p>	Actual outturn against allowance – this will draw information from the various RIGS tables	This is a summary of information in the RIGS
	Ofgem Adjustments	Adjustments made to licensees submissions before publication
	Provisions	Description and value of provision
	Operating expenditure (opex) <ul style="list-style-type: none"> <li>○ Maintenance costs</li> <li>○ Related party transactions</li> <li>○ Business support               <ul style="list-style-type: none"> <li>▪ CEO and corporate costs</li> <li>▪ IT and telecoms</li> <li>▪ Property</li> <li>▪ Insurance</li> </ul> </li> </ul>	Amount spent against individual activities or resource headings
	Excluded services costs and income <ul style="list-style-type: none"> <li>○ Excluded services</li> <li>○ De Minimis</li> <li>○ Consented</li> </ul>	Costs and income for income streams within excluded services, consented and de minimis
	Related party information for services that are provided to the regulated business	Income, cost and profit margins
	Capital expenditure (capex) <ul style="list-style-type: none"> <li>○ Capex summary               <ul style="list-style-type: none"> <li>▪ LTS &amp; storage</li> <li>▪ Reinforcement</li> <li>▪ Governor replacement</li> <li>▪ Connections</li> <li>▪ Fuel poor connections scheme</li> <li>▪ Other (including IT, system operations, Xoserve, transport and plant)</li> <li>▪ Capitalised overheads</li> </ul> </li> </ul>	Spend in total and by project where required Forecast information at the total level
	Replacement expenditure (REPEX)	Spend related to the replacement of mains pipe-lines. Broken down by tier and services. Forecast information.

Reporting	Potential Contents	Information Requirements / Notes
	Staff costs and numbers (total and by activity)	Numbers of FTEs by activity or business area
	Apprentices numbers and training costs	FTEs recruited and on training schemes Salary costs of trainees Additional cost relating to apprentice training and recruitment
	Shrinkage	Amounts spent on shrinkage gas split by component and by LDZ.
	Streetworks	The amounts spent on street works activities.
	LP Gasholders Removal	Costs and workload associated with the decommissioning, demolition and land remediation of low pressure gasholders.
	Smart Metering	Smart metering costs for opex, repex and capex, workload and FTE numbers.
	Year on year movements	Explanation and financial value for movements from year to year
	Innovation spending <ul style="list-style-type: none"> <li>○ Innovation rollout</li> <li>○ Network Innovation Competition</li> <li>○ Network Innovation Allowance</li> </ul>	Collect spend on innovation by the different schemes
<b>Gas Network Data (mainly non financial)</b>	System characteristics	Information as in the RIIO business Plan templates
	Activity Indicators	
	LTS asset data	
	Capacity & storage asset data	
	Network asset data	
	Additional data	
	Capacity & demand data	
	Modern equivalent asset value (MEAV)	

Reporting	Potential Contents	Information Requirements / Notes
	Asset health, risk, and criticality	
	Accuracy of pipeline records	
<b>Financials (mainly financial)</b>	Profit and Loss	Information as in the RIIO business Plan templates  NB. The reconciliation table should include reconciliations for the Cost pack
	Balance Sheet	
	Cash flow	
	Pensions – costs, scheme detail PPF levy and Admin costs	
	Pension true up (indicative)	
	Deficit allocation methodology (DAM) Statements	
	DAM reconciliation to previously reported pension costs in last (3 years) RRP	
	Tax computation	
	Allocation of total costs to capital allowance pools – regulatory accounting basis and actual to prior years actual tax submissions	
	Tax clawback for excess gearing and regulatory tax losses	
	Net Debt and interest	
	Reconciliation of pension costs	
	Reconciliation of RRP costs to regulatory accounts costs	
	Financial model inputs (model will hold the RAV calculations)	
<b>Revenue (mainly financial)</b>	Inputs <ul style="list-style-type: none"> <li>○ Basic Information</li> <li>○ Transportation Activity</li> <li>○ Other Revenue</li> </ul>	Input revenues, incentives and adjustments, including MOD term
	This will be similar to the GDPCR revenue reporting pack, and will include calculations of allowed revenue. It will be updated to include all new incentives and revenue terms within the licence.	

## Appendix 4 - Indicative tables showing proposed changes to the price control related licence conditions within the GT licence

The aim of the tables below are to map the existing SpC C8 conditions to the new proposed licence conditions (where these new proposed conditions are updating or replacing existing arrangements under the current licence). These tables do not include new proposed draft RIIO GT Special conditions that do not replace existing terms or provisions within Special Condition C8. We set out a list of the additional Special Conditions not included in these tables for ease of reference.

### Special Condition C8B: NTS transportation owner activity revenue restriction

We propose to replace most of Special Condition C8B with GTC 20 (Restriction of NTS Transportation Owner Activity Revenue). However, some sections of this condition are expected to be moved to other licence conditions. These are mapped below.

Paragraph of the existing licence condition within Special Condition C8B	RIIO Tracking number of the new licence conditions proposed					
	GTC 20	GTC 21	GTC 28	GTC 9 & 11	GTC 16	GTC 29
1. (Principal restriction)	✓	-	-	-	-	-
2. (NTS transportation owner revenue (TOR))	✓	-	-	-	-	-
3. (Maximum NTS transportation owner revenue (TOMR))	(a) Principal formula	✓	-	-	-	-
	(b) (NTS transportation owner cost pass-through adjustment term TOF)	✓ (term in Principal formula)	✓	-	-	-
	(c) (NTS transportation owner incentive revenue adjustment TOG)	✓ (term in Principal formula)	-	-	✓ (replacement for IFI)	-
	(d) (NTS transportation owner revenue adjustment TOK)	✓	-	-	-	-
	(e) (NTS transportation owner income adjustment TOIAT)	-	-	✓	-	-
4. (Disapplication of the NTS transportation owner activity revenue restriction)	-	-	-	-	-	✓
5. (Capital Expenditure Safety Net)	Not retained under RIIO-T1					

**Special Condition C8C: NTS System Operation Activity Revenue Restriction**

We propose to replace most of Special Condition C8C with GTC 7 (Restriction of NTS System Operation Activity Charges). However, some sections of this condition are expected to be moved to other licence conditions. These are mapped below.

Paragraph of the existing licence condition within Special Condition C8C	RIIO Tracking number of the new licence conditions proposed					
	GTC 7	GTC 117	GTC 20	GTC 29	GTC 131	
1. (Principal restriction)	✓	-	-	-	-	
2. (NTS system operation revenue (SOR))	✓	-	-	-	-	
3. (Maximum NTS system operation revenue (SOMR))	(a) Principal formula	✓	-	-	-	
	(a) DELINC	-	-	✓ (Propose that permits move from SO to TO)	-	✓
	(b) (Determination of any adjustment factor to be applied to maximum NTS system operation revenue SORA)	-	✓	-	-	-
	(c) (NTS SO revenue adjustment SOK)	✓	-	-	-	-
	(d) (Associated SO charges SOROC)	✓ (part of SOR)	-	-	-	-
4. (Disapplication of the NTS SO activity revenue restriction)	-	-	-	✓	✓	

**Special Condition C8D: NTS gas entry incentives, costs and revenues**

We propose to replace Special Condition C8D with a number of conditions. These are mapped below.

Paragraph of the existing licence condition within Special Condition C8D		RIIO Tracking number of the new licence conditions proposed							
		GTC 7	GTC 117	GTC 20	GTC 120	GTC 121	GTC 3	GTC 126	GTC 131
Part A – The Gas Entry Revenue Restriction Calculations	1. Principal formula	No longer applicable, in separate conditions							
	2. Maximum revenue entitlement allowed in respect of the release of incremental obligated entry capacity	✓ for TPCR3 & TPCR4 triggered capacity	-	✓ (Part of TOMOD term)	-	-	✓ (for RIIO-T1 triggered capacity)	-	-
	3.(a) Entry capacity operational buy-back incentive revenue	✓ (term in main allowed revenue formula)	-	-	✓	-	-	-	-
	3.(b) Entry capacity operational buy-back performance measure	✓ (term in main allowed revenue formula)	-	-	✓	-	-	-	-
	3.(c)-(e) Entry capacity constraint management costs	✓ (term in main allowed revenue formula)	-	-	✓	-	-	-	-
	3.(f) Accelerated release of incremental obligated entry capacity	Further consideration of need under RIIO is required							
	3.(g)- (j) Incremental capacity delivery incentive payments	-	-	✓ (term in allowed revenue formula)	-	-	-	-	✓

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Paragraph of the existing licence condition within Special Condition C8D		RIIO Tracking number of the new licence conditions proposed							
		GTC 7	GTC 117	GTC 20	GTC 120	GTC 121	GTC 3	GTC 126	GTC 131
	3.(k)-(n) Review of entry capacity operational buy-back scheme	Provisions retained, but potentially covered by Disapplication condition GTC 29							
	3.(o) Buy-back cost allocation rules	Further consideration of need under RIIO is required							
	4. Milford Haven entry capacity specific incentive	Propose to remove – no longer needed							
	5. Entry capacity incremental buy-back costs and incentive revenue	✓ (term in allowed revenue formula)	-	-	✓	-	-	-	-
Part B – Revenue calculations	6. Attributing revenues from the sale of entry capacity to TOR and SOR	✓	-	✓	-	-	-	-	-
	7. Entry capacity and revenue allocations	-	-	-	-	-	-	✓(covered by statement produced by this condition)	-
	8. Annual Revenues from entry capacity sales	Propose to remove – covered by terms in GTC 7 and GTC 20							
Part C – Capacity release obligations	9. (a)-(d) Obligations to release capacity	-	-	-	-	-	-	✓	-
	9. (e) Obligations to offer capacity for sale in a clearing allocation	Further consideration of need under RIIO is required							
	9. (f)-(p) Determination of incremental obligated entry capacity	-	-	-	-	-	✓	-	-



RIIO-T1 and GD1: Draft licence conditions – First informal licence drafting consultation

Paragraph of the existing licence condition within Special Condition C8D		RIIO Tracking number of the new licence conditions proposed							
		GTC 7	GTC 117	GTC 20	GTC 120	GTC 121	GTC 3	GTC 126	GTC 131
	10. Entry capacity substitution obligation	-	-	-	-	✓	-	-	-
	11. Entry capacity transfer obligation	-	-	-	-	✓	-	-	-
	12. Entry capacity trade obligation	-	-	-	-	✓	-	-	-
Part D – Entry capacity constraint management cost allocation	13. Statement of entry capacity constraint management cost allocation rules	Further consideration of need under RIIO is required							
Annex A to Special Condition C8D (drafting from TPCR3 licence relating to entry capacity revenue drivers, plus Part D – Schedule A)	✓ (Propose to retain Annex to establish terminal values for TPCR3 & TPCR4 triggered capacity)	-	-	-	-	-	-	-	-

**Special Condition C8E: NTS gas exit incentives, costs and revenues**

We propose to replace Special Condition C8E with a number of conditions. These are mapped below.

Paragraph of the existing licence condition within Special Condition C8E		RIIO Tracking number of the new licence conditions proposed								
		GTC 7	GTC 117	GTC 20	GTC 120	GTC 121	GTC 4	GTC 126	GTC 131	GTC 132
1. NTS system operation exit incentives and costs (SOExIRC)	(a) Principal formula	No longer applicable, in separate conditions								
	(b) Buy-back and interruptions incentive revenue (ExCBBIIR)	Propose to remove – no longer applicable (related to interim and transitional periods only)								
	(c) Constrained storage target (ExCIT)	✓ (Propose to replaced with TSS term)	-	-	-	-	-	-	-	✓
	(d) Exit capacity investment incentive revenue (ExCIIR)	✓ (for TPCR3 & TPCR4 triggered capacity)	-	✓ (for RIIO-T1 triggered capacity)	-	-	✓ (for RIIO-T1 triggered capacity)	-	-	-
	(e) Long run contracting incentive revenue (ExLRCIR)	✓ (Propose to replaced with TSS term)	-	-	-	-	-	-	-	✓

RIIO-T1 and GD1: Draft licence conditions – First informal licence drafting consultation

Paragraph of the existing licence condition within Special Condition C8E	GTC 7	RIIO Tracking number of the new licence conditions proposed							
		GTC 117	GTC 20	GTC 120	GTC 121	GTC 4	GTC 126	GTC 131	GTC 132
(f) Incentive revenue from sale of NTS non-obligated exit capacity (ExNOCIR)	✓ (term in allowed revenue formula)	-	-	✓	-	-	-	-	-
(g) Cap on incremental investment buy-back exposure (ExXSIBBC)	✓ (term in allowed revenue formula)	-	-	✓ (Final two paras no longer needed)	-	-	-	-	-
(h) Charges foregone (ExNTSSIC)		Propose to remove – no longer applicable (related to interim and transitional periods only)							
(i) Buy back cost allocation rules		Further consideration of need under RIIO is required							
2. NTS gas exit revenues (TOExR)	(a) NTS transportation owner revenues	-	-	✓	-	-	✓	-	-
	(b) NTS system operation revenues	✓	-	-	-	-	-	-	-
3. Capacity release obligation	(a)-(d) Obligations to release capacity	-	-	-	-	-	-	✓	-

RIIO-T1 and GD1: Draft licence conditions – First informal licence drafting consultation

Paragraph of the existing licence condition within Special Condition C8E	GTC 7	RIIO Tracking number of the new licence conditions proposed								
		GTC 117	GTC 20	GTC 120	GTC 121	GTC 4	GTC 126	GTC 131	GTC 132	
4. Statements required from the licensee	(a) NTS exit capacity baseline statement	-	-	-	-	-	-	✓	-	-
	(b) NTS exit capacity substitution statement	-	-	-	-	✓	-	-	-	-
	(c) NTS exit revision methodology statement	-	-	-	-	✓	-	-	-	-
	(d) Report on incremental investment in the transitional period	Propose to remove – no longer applicable (related to transitional period only)								
	(e) Statement of obligated incremental exit capacity in the enduring period	-	-	-	-	-	-	✓	-	-
5. Project permits	-	-	✓	-	-	-	-	-	✓	-
Annex A to Special Condition C8E (Table 1 and Table 2)	-	-	-	-	-	-	-	✓	-	-

### **Additional proposed Special Conditions**

- [GTC19] Special Condition [x]. Definitions
- [GTC24] Special condition [x]. Incentive adjustments relating to the licensee’s Stakeholder Satisfaction Output
- [GTC 26] Special Condition [x]. Annual Iteration Process for the GT1 Price Control Financial Model
- [GTC 27] Special Condition [x]. Specified financial adjustments – Transmission Owner
- [GTC 29] Special Condition [x]. Disapplication
- [GTC30] Special Condition [x]. Allocation of revenues and costs for calculations under the price control in respect of the NTS transportation owner activity and NTS system operation activity
- [GTC 31] Special Condition [x]. Services treated as Excluded Services
- [GTC36] Special Condition [x]. System Management Services
- [GTC37] Special condition [x].Transmission Planning Code
- [GTC38] Special condition [X]. Licensee’s Network Model
- [GTC 47] Special Condition [x]. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments - Transmission
- [GTC50] Special Condition [x]: Restriction of Prices for Liquefied Natural Gas (LNG) Storage Services
- [GTC56] Special Condition [x]: Gas Conveyed to Independent Systems
- [GTC 57] Special Condition [x]. Governance of GT1 Price Control Financial Instruments
- [GTC 64] Special Condition [x]. Legacy price control adjustments – Transmission Owner
- [GTC 65] Special Condition [x]. Specified financial adjustments – System Operator
- [GTC66] Special Condition [x]. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator
- [GTC 67] Special Condition [x]. Legacy price control adjustments – System Operator
- [GTC73] Special Condition [X]. Methodology for Network Output Measures
- [GTC118] Special Condition [x]. Specification of the Network Flexibility Output and Assessment of Allowed Expenditure for Network Flexibility
- [GTC 131] Special Condition [x]. Delivery Incentive
- [GTC 132] Special Condition [x]. Transmission Support Services

# Appendix 5 - Consultation Response and Questions

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1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document. In particular, we would like to hear from consumers, gas and electricity transmission and distribution companies and any other interested parties.

1.2. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter and which are replicated below.

1.3. Responses should be received by 21 September 2012 and should be sent to:

- [RIIO.T1@ofgem.gov.uk](mailto:RIIO.T1@ofgem.gov.uk)

1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website [www.ofgem.gov.uk](http://www.ofgem.gov.uk). Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.6. Next steps: Having considered the responses to this consultation, Ofgem intends to publish a Second Consultation on licence drafting in the autumn. Any questions on this document should, in the first instance, be directed to:

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RIIO-T1  
9 Millbank, London, SW1P 3GE  
0207 901 7406  
[thomas.mackenzie@ofgem.gov.uk](mailto:thomas.mackenzie@ofgem.gov.uk)

## **CHAPTER: Two**

**Question 1:** We invite stakeholders to comment on the proposed changes to the SLCs SpCs in NGET's licence as outlined in this chapter and the actual licence drafting in Supporting Document 1.

**Question 2:** We invite stakeholder views as to whether SLC C18: Requirement to offer terms for connection or use of the GB transmission system during the transition period [ETC 92] remains relevant or should be removed.

**Question 3:** We invite stakeholders views as to whether SpC D15: Obligations relating to the preparation of TO offers during the transition period [ETC 92] remains relevant or should be removed.

**Question 4:** Relevant Licensees are requested to provide written evidence to support the position that arrangements set out within B14: BETTA run-off arrangements scheme [ETC 93] have come to an end and hence the condition may be removed.

### **CHAPTER: Three**

**Question 1:** We invite stakeholders to comment on the proposed changes to the SpCs in NGGT's licence as outlined in this chapter and the actual licence drafting in Supporting Document 2.

### **CHAPTER: Four**

**Question 1:** We invite stakeholders to comment on the proposed licence changes to the GD sector as outlined in this chapter and the actual licence drafting in Supporting Document 3.

**Question 2:** Should we include all above risk threshold tier 2 mains within the driver? An alternative would be that the revenue driver covers only the above threshold tier 2 mains not identified at the review period, and fund all relevant tier 2 mains identified at review within an ex ante allowance?

**Question 3:** Should we include services connected to the above risk threshold tier 2 mains within the revenue driver?

### **CHAPTER: Five**

**Question 1:** We invite stakeholders to comment on the proposed changes to the common SLCs, SSCs and SpCs for GT and GD as outlined in this chapter and the actual licence drafting in Supporting Document 2 (for GT) and 3 (for GD).

### **CHAPTER: Seven**

**Question 1:** We invite stakeholders to comment on the proposed changes to the common licence conditions or introduction of new common licence condition as outlined in this chapter and the working drafts in the three Supporting Documents.

**Question 2:** We welcome views on a suggestion from a Licensee that we do not need to set out the list of Excluded Services under Part C in GDC 31 as the excluded service examples are by definition excluded services for gas distribution, and thus superfluous to licence condition.

### **CHAPTER: Eight**

**Question 1:** We invite stakeholders to comment on the associated documents that we propose to create and their content.

## Appendix 6 - Feedback Questionnaire

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1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

1.2. Please send your comments to:

**Andrew MacFaul**  
Consultation Co-ordinator  
Ofgem  
9 Millbank  
London  
SW1P 3GE  
[andrew.macfaul@ofgem.gov.uk](mailto:andrew.macfaul@ofgem.gov.uk)