

Appendix I – SGN Detailed Comments on Licence Drafting

Respondent details		Scotia Gas Networks			
Condition number / RIIO tracking number	Condition name	Page/Paragraph Ref	Comments	Suggested alternative drafting (please use tracked changes wherever possible)	
GDC 31	Excluded Services	31.8(b)	The issue of Royalty Income from the NIC needs to be decided on separately and this clause may need to be changed accordingly.		
		31.10	Insert 'be' between 'but not' and 'limited to'		
GDC 48	Discretionary reward scheme revenue amounts	Whole condition	The structure of the condition is confusing. It would be more logical for Part B to detail the DRSXt term and refer back to 48.2(b). Part C could then give the formula for calculating DRSt. 48.6 would then no longer be required as DRSt, DRSWt and DRSXt have already been explained / defined.		
		48.6	There is a significant delay between performance and reward, e.g. rewards for performance in 2013 will not be given until 2016. This delay could potentially weaken the incentive. It would be more appropriate to award rewards annually, then a more direct link could then be made between the investment made by the licensee and any reward given. An annual reward would also help in the issue of charging volatility and would help to smooth prices for customers, rather than the lumpiness in charges that could potentially result from the reward being made in just two payments across the price control period.		
GDC 24	Incentive adjustment in respect of the Broad Measure of Customer Satisfaction	Part F	We are not clear how this will link with the Data Assurance licence condition.		
		Part B. 4.	May be better to have a separate section for definitions rather than defining 'customer' within the BMs		

				Suggest that the definition of I_{t-1} needs to be added.	
			4 and 17	'exceptionally positive outcomes' is too vague a term and is open to interpretation. We note that criteria are set out in (a)-(c) of paragraph 17. We therefore suggest that the wording is changed to 'meets the required criteria as set out in paragraph 17'.	
			17(c)	Some more detail on the criteria that the Authority will assess against needs to be given. This could be in the Guidance Document but if so then the licence condition needs to state this.	
			Whole condition	't' has been missed from several of the terms.	
			Part C Section 3 – definition of CSCt	'planned supply interruptions' should be replaced with 'connections'.	
			Part C Section 3 – definition of CSCDt	As above.	
			Part D 6.	Brackets are missing from the formula.	
			Part D 6.	What is x in 'x-1'?	
			Part D 7.	Words missing in the definition of CMIS _t (the...).	
			Part D	ARCM _t should be defined before MLCM _t .	
			Part E 10.	We do not understand the reference to GDC 20 in terms of calculating the maximum value of SE _t , we had understood that this would be set by the Authority, as per paragraph 9 of Section E.	
			Part E 12.	Replace 'paragraph x' with appropriate paragraph number.	
			Part E 13(a)	Suggest that for consistency 'modified manual' is replaced with 'modified Stakeholder Engagement Reward Guidance'.	
			Part E 16.	Suggest that 'and in whatever context' should be deleted as not clear what value this adds.	
			Part G	Suggest that paragraphs 20 and 21 are moved to Section 2. It is more logical for the details on the processes for modification to be grouped together in one section.	

	GDC 28	Arrangements for the recovery of uncertain costs	General	We are very concerned that there is no mechanism by which we can recover costs incurred in the current price control. In some instances, e.g. TMA costs, these are very significant. This is clearly an error and we would need a mechanism to allow us to recover these at the earliest opportunity. Please see our cover letter for more detail on this.	
			28.1	Why does the Authority need to be able to propose a relevant adjustment? Understand that it may want to be able to propose adjustments as a result of the Fuel Poor and Central Agent cost reviews but this could be done without leaving it open to it being able to propose relevant adjustments to all of the relevant cost categories.	
			28.1 and 28.10	As highlighted in our covering letter, it needs to be made clear in this licence condition that Relevant Costs include those costs that are likely to be efficiently incurred in the future, and not just those that have already been incurred. This is a major concern particularly for smart metering costs, where we expect to incur a huge amount of costs between the two re-opener windows. We would therefore expect to be able to recover at least some of these costs in the first window. Another way to do this could be to introduce a trigger mechanism whereby if licensees hit a certain level of costs, an additional re-opener is triggered. This could potentially be included in the midpoint review. The current drafting of the condition is confusing, as 28.1 appears to suggest that costs must have been 'efficiently incurred', yet 28.10 suggests that these could be forecast costs '..exceeds or is likely to exceed..'	
			28.4	We note that no definitions are given yet for Smart Meter Roll-out costs or Large Load Connection Costs. Sight of these definitions is needed before we can fully comment on the draft.	
			28.7	Again, no definition given for Central Agent Costs.	

			28.23 and 28.25	28.23 states that the Fuel Poor scheme review will be carried out 'with a view to ensuring that it remains efficient and cost-effective for its stated purpose.' However, the drafting in 28.25 suggests that the Authority will only look at 'overall net carbon savings achieved by the scheme'. It is important to understand that the original purpose of the scheme was to extend the gas network to fuel poor customers and in doing so to assist in alleviating fuel poverty. This should not be overlooked in the review.	
			28.9	'net of any cost savings that are fortuitous or otherwise not attributable to prudent management action' is too vague and should either be deleted or clarified.	
			28.36	The definition of Connection Charging Boundary Change Costs should also reference changes to any subsequent Connection Charging Methodologies.	
			28.36	The definition of Specified Street Works Costs, particularly parts (d), (e), and (h) need to be expanded to include the unproductive cost element, or this needs to be separately identified.	
	GDC 8	NTS Exit Capacity Cost Adjustment	Whole condition	Several formulae are missing from the condition. Our comments are based on the assumption that these formulas will be the same as those given in previous drafts.	
			Title	We had previously suggested that the title should mention incentive revenue and had understood that the title had subsequently been changed to 'NTS Exit capacity cost adjustment and incentive adjustment'.	
			Appendix 1	We understand that Ofgem intends to change the way that capacity is booked so that it is booked by offtake rather than zone. The table does not reflect this change.	
	GDC 93	Change coordination for the Utilities Act 2000	General	We do not think that this condition currently applies to gas distributors.	
	GDC 93	Change of Financial Year	General	We note that there are two conditions currently named GDC 93.	

			General	We note that this condition is intended to be deleted as it will be incorporated into the Regulatory Accounts condition (GDC 71). However the current drafting of GDC 71 does not include any reference to a change of financial year.	
	GDC 74	Regulatory Instructions and Guidance	Table in appendix of consultation document	We understand that this table is in draft version, however we note that currently this only contains financial reporting – it should also contain information for reports such as connections and customer service.	
			General	Need sight of the supporting document to be able to comment fully.	
			General	Previous LDWGs have discussed establishing a Working Group to progress the development of the RIGs. Is there a timetable for this to happen?	
			General	Interaction with the Data Assurance condition needs to be considered fully.	
			General	Paragraphs should be named 74 rather than 76.	
			General	There should be a provision for licensees to propose modifications.	
			General	Although not directly related to licence drafting, we need to ensure consistency of definitions where terms are used in different reports. An example is the definition of Public Reported Escapes which is reported under D9 and also in the RRP.	
			General	Paragraphs should be named 74 rather than 76.	
			76.4(b)	Under the Data Protection Act 1998, we are required to ensure that we do not retain personal data for longer than is necessary. For information such as complaints data this must be taken into consideration when setting the length of time for which we are required to retain information.	
			76.5(a)	How does this requirement sit with the licensee's freedom to choose how it delivers its reporting obligations? Without sight of the proposed RIGs, this clause appears to unduly fetter the licensee's discretion.	

			76.5(g)	Insert 'frequency' after 'or the'.	'specifying the date on which it proposes that the provisions of the document to be issues or modified should take effect, which must be a period of not less than...'
			76.5(k)	Provisions around compliance with the RIGs should be detailed in the licence condition rather than in the RIGs document. Suggest that Part E already covers compliance and therefore 76.5(k) should be deleted.	
			76.6	Suggest that this provision should also have regard to the impact on customers, i.e. the RIGs should not be excessive where the impact on customers is minimal.	
			Part C	We suggest that this section might be more accurately named <i>Modification of the RIGs</i> .	
			Part C	The procedure for significant modifications needs to be described.	
			76.9(i)	Suggest there should be a minimum time between the modification being proposed and taking effect. Modifications could require significant changes to our systems and processes and it is important that we are given sufficient notice to develop these.	'considered any representations in response to the notice that are duly made and not withdrawn, and give reasons for its decision.'
			76.10	We do not understand the need for this clause or what circumstance it is envisaged that this would take effect. Any new RIGs or modifications should be fully consulted on. Reference to historic discussions or consultations would not be appropriate as views and circumstances may well have changed since that time.	
			76.11	Suggest that 'collected' is changed to 'reported'.	
			76.9(b)	We note that the requirement for the Authority to 'give reasons for its decision' that current exists in D9.13 has been deleted. This should be included in 76.9(b).	
			76.14	This paragraph may be ambiguous if the RIGs are modified. We propose slightly amended wording to avoid this.	"In reporting for relevant year t, the licensee must act in accordance with the provisions of the RIGs in force as 31 March of the year t-1."
GDC 83	Distributed Gas: Connections Guide and Information Strategy	General and 83.3		Whilst there is certainly some useful information that we can provide, it is important to recognise that the Distributed Gas industry is still in the very early stages. It will therefore be difficult to provide detailed explanations on some aspects, particularly where industry is still discussing the best way forward.	

	GDC 25	Revenue adjustments for performance in respect of gas shrinkage and environmental emissions	25.2(a)	Suggest that 'have expectations for' be replaced with 'understand the calculations for'.	
			25.4	Insert a comma between '..rolling incentive mechanism' and 'the outputs of which..'	
			Part C	Please see our comments on this in our response to the Initial Proposals.	
			25.9(b) and 25.18	We note that there seems to be some indecision on whether individual DNs should be able to pursue a modification to the Shrinkage and Leakage Model – the draft has changed several times on this aspect. The current drafting is ambiguous. It is not clear whether a DN can individually propose a modification and, if so, whether this modification can be implemented if other DNs do not wish to implement the change. We suggest that this should be allowed, and that other DNs would be required to follow suit should Ofgem direct that the modification should proceed. Certainly the licence condition needs to be clear either way.	
			25.22	There should be a clear restriction in terms of the time in which the Authority has to make a decision in relation to the proposed modification. This is an issue currently with a modification that has been proposed but on which the Authority has not yet reached a decision. The modification process is already fairly long when the consultation periods are taken into account; it is therefore important that a decision is reached in a timely manner to ensure that customers receive a benefit at the earliest opportunity.	
			25.23	This clause seems to give the Authority carte blanche to direct changes to the model without prior consultation. We do not think that this is appropriate and are not clear what scenario Ofgem are envisaging where this clause would be required.	
			25.24	Consider that 12 months from the implementation would be a more appropriate time for an independent expert to review the implementation as the report is run on a yearly basis.	

			Part G	We note Ofgem's response to previous comments on the requirement for DNs to provide a report on the use of smart metering data, which appear to suggest that this is almost a trial to assess whether smart metering data could be useful in terms of the leakage and shrinkage model. We consider that it would be more appropriate for the provision of this report to be done on a voluntary basis, certainly to begin with, rather than being in the licence. This would seem appropriate given the uncertainty of the usefulness of the report and the early stages that smart metering is currently at.	
			25.28	Notwithstanding the above comment, it is highly unlikely that there will anything to report in the SLSM report by July 2014.	
			25.30(a)	It is not appropriate for DNs to provide an update on the status of the national smart metering implementation programme as the implementation is not something that we will be involved in.	
			25.30(c) and (d)	Suggest should refer to 'licensees' rather than 'licensee', as we understand that this would be a joint, single report.	
	GDC 22	Mains and Services Replacement Expenditure	General	Paragraphs should be named 22.1, 22.2 etc.	
			General	Terms should be consistent with those used by the HSE. We understand that the definitions have been widened to try to ensure that the same aspects are covered, however it would be simpler and more logical to use the same terms and definitions. Examples of this are given in our comments on the definitions below.	
			2.	We suggest that the definitions of Formula Year t and PCFM Variable Value be removed from this condition and listed in the general list of definitions.	
			7.	Diameter band table. >12-18 is a very wide range of diameter and costs are likely to vary significantly between the lower and upper limits. We suggest that this should be split into two bands.	

			9.	We do not consider it appropriate that the Authority are able to further revise the RE value at some future point and we are not clear why Ofgem consider the need to have an option to do so.	
			16. Definition of Above Risk Threshold Tier Two Mains	In line with our explanation above, we suggest that 'Threshold Risk Score' should be changed to 'Risk-Action Threshold' to ensure consistency with the HSE Enforcement Policy 2013-21.	
			16. Definition of decommissioning (b)	Suggest that 'service' is replaced with 'pipe'.	
			16. Definition of Decommissioning (c) and (d)	As explained above, these definitions are not consistent with those used by the HSE. We suggest that the definition is updated accordingly.	
			16. Definition of Replaced	The entire definition should refer to mains as well as services.	
			16. Definition of Replaced (c) and (d)	Suggest that these categories are not replacement but rather means of managing risk, i.e. OFF RISK.	
			16. Definition of Included Mains	Suggest that 'Decommissioning' be changed to 'risk management' and that 'all decommissioned' be changed to 'all risk managed'.	
			16. Definition of Non-Domestic Services Replaced	See comments for definition of Replaced.	
			16. Definition of Threshold Risk Score	As explained above, suggest that this be changed to Risk-Action Threshold to ensure consistency with the HSE Enforcement Policy.	
			16. Definition of Threshold Risk Score	Regulation 13 should be changed to Regulation 13A.	
	GDC 76	Data Assurance requirements	General	Previous LDWGs have discussed establishing a Working Group to progress the development of this condition and the associated Data Assurance Guidance (DAG). Is there a timetable for this to happen?	
			General	Need sight of the supporting document to be able to comment fully.	
			76.1	We strongly believe that the impacts of inaccurate or incomplete reporting vary dependent on the matter being reported and the consequential implications for consumers. We therefore recommend that this paragraph refers to the "subsequent consequences ".	

			76.3(b)	This paragraph needs to be broadened to reflect provisions within RIGs condition (76.11 – 76.13) for the reporting of new classes of information.	Additional text proposed: “... provide accurate and complete Data, unless otherwise provided for in this licence, the Regulatory Instructions and Guidance or other direction or guidance issued by the Authority. ”
			76.4	Should this paragraph also cross reference the RIGs condition?	
			76.9	Sub-paragraphs duplicate 76.3. Alternative wording suggested.	Alternative wording: “The purposes of the DAG are to establish a process under which the licensee must comply with its obligations as set out in paragraph 76.3. ”
			76.14 & 15	We suggest that all of these modification sections should make provision for the licensees to recommend changes; the detail of how this operates could be captured in the supporting document.	Additional text: “Where the licensee identifies a potential modification to the DAG that would better facilitate the achievement of the obligations set out in Part A in this condition, they may propose a modification to the Authority in accordance with the procedure set out in [section X] of the DAG.”
			76.19	We suggest the definition of Risk Assessment be amended slightly.	Suggested wording: “means an assessment of the likelihood and potential impact on customers, network users and end consumers of any inaccurate or incomplete reporting, or any misreporting, of Data by the licensee to the Authority under this licence.”
	GDC 112	Application of Section C (Transportation Services Obligations)		No comments.	
	GDC 95	Termination of Shipping Arrangements		No comments.	
	GDC 71	Regulatory Accounts	General	For consistency with other licence conditions, paragraphs should be named 71.x.	

			1.	If this condition comes into force from 1 April 2013, there is a potential break in the obligation with the first year that this condition requires us to report being 2013/14. We suspect that this is unintentional but we may need something to cover FY 2012/13.	Additional text: <i>For the avoidance of doubt, the licensee should prepare Regulatory Accounts for the consolidated transmission business for the year commencing on or after 1 April 2012 in accordance with the licence condition in force as at 31 March 2013.</i>
			17.	We're not clear why this paragraph is required. Is this to comply with EU Directive?	
			23.	We suggest that the definition of Agreed Upon Procedures may need to be modified (see alternative drafting). Also, we suggest that consideration needs to be given as to whether this definition would be acceptable to auditors.	<i>"means procedures from time to time agreed between the Authority, the Appropriate Auditor, and the licensee for the purpose of enabling the Appropriate Auditor to review and report to the Authority on matters relating to the requirements referred to at paragraph 16 of this condition."</i>
GDC 21	Distribution Network allowed pass-through items		21.13	We are not clear why only 95% of Third Party Damage and Water ingress costs are allowed as pass through costs, although this is in the current condition.	
GDC 11	The Network Innovation Allowance		11.1	The condition should describe what the NIA is.	
			11.8 Definition of BPCt	The drafting is incorrect. It is irrelevant whether you are part of a Gas Distribution Group – a cap will still apply. Notwithstanding this, it is unclear what is intended by the drafting. Is the cap on bid costs that are recoverable in any year intended to be the lesser of £175k or 5% of annual NIC funding requested, total NIC project costs in that year, or the total project costs for an individual project? Ofgem's August decision letter states that it is 5% of total project costs; we agree with this and suggest that the drafting be changed accordingly.	
			11.9	The value of Z should be 0.25 according to the August decision document.	
			11.10	'innovation incentive revenue' is not a defined term. We suggest that this is replaced with NIA.	
			11.18	Definition of Gas Distribution Group. Suggest that 'Gas' should be inserted before 'Distribution Licensee'.	

				Definition of NIC Eligible Bid Preparation Costs. We suggest that this should refer to the NIC Governance Document rather than the NIA Governance Document to ensure that all relevant information is in one document.	
				Definition of Network Innovation Annual Report. We suggest that this also needs to refer to the NIA Governance Document	
				Definition of NIA percentage. Suggest that this should also refer to Appendix II.	
			Appendix I – Maximum BPC value	It will not be possible for these values to be set in advance as they are a function of the cost of each NIC project cost. These project costs will not be known prior to this licence condition coming into force.	
	GDC 32	Restriction of charges for Tariff-Capped Metering Activities	General	We are not clear why this condition is being updated.	
			32.1	We note that Metering Activities is capitalised but this is not a defined term in the condition.	
			32.3	We note that Tariff-Capped Metering Activity is capitalised but this is not a defined term in the condition.	
			32.5	We are not clear why the definition of RPI has been changed.	
	GDC 30	Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network	30.7 (f)	No comments.	

	GDC 9	The Innovation Roll-out Mechanism	General	<p>As we understand it, the purposes of this condition are: (a) to allow licensees to apply for funding to roll out a Proven Innovation; (b) to allow the Authority to determine and direct the IRM value; and (c) to allow the Authority to adjust the IRM value once the actual expenditure is known.</p> <p>The current drafting is not at all clear. For example, 9.1 only describes the revision of IRM, not the application for or determination of the original IRM.</p> <p>It should also be clear that we may wish to apply to roll out a proven innovation over a number of years – we should be able to adjust our allowed expenditure for more than one year.</p>	
			9.4(a)	<p>We note that this refers to three windows when actually only two are specified and they are specified in Part C, not Part D. As we have said in many occasions in the Licence Drafting Working Group and Innovation Working Group, we do not consider two windows to be sufficient. We do not believe it is appropriate that proven innovations that are capable of delivering immediate benefits to current customers and / or GDNs should be delayed due to timing of windows or administrative arrangements. The current drafting suggests that we are only able to apply for costs that have not yet been incurred. However the first opportunity to apply in the current drafting is 1 May 2015, with determination from the Authority by October 2015, therefore we would be unable to roll out any innovations that we expect to incur material costs before April 2016.</p>	
			9.6(c)	<p>It needs to be made clear that this provision only applies where the commercial benefits would cover the costs of the roll out.</p>	<p>Will not enable the licensee to receive commercial benefits from the roll out that will allow the licensee to recover the additional costs of the roll out within the remainder of the Price control Period.</p>
			9.9(b)	<p>As explained above, if we are only able to recover costs that have not yet been incurred then it is important that there are sufficient windows to apply for funding such that we are not forced to delay any roll out.</p>	

			9.7	As in many other areas, we do not agree with the logic of applying the Efficiency Incentive Rate to set a materiality threshold. In addition, we suggest that the materiality threshold should be based on Average Annual Base Revenue to ensure that we are not prevented from rolling out an innovation if for some reason out costs and hence our revenue is particularly high in one year.	
			9.10 (a) and (b)	As explained above this does not allow us to recover any costs incurred in 2013 and 2014.	
			9.20	If directed by the Authority by 30 November, there is a risk this doesn't provide us with sufficient notice to adjust notice of charges for the following year.	
			Part F	We do not understand how these figures can be fixed in the licence as, under the current drafting, the IRM figure is zero until the licensee applies and the Authority determines on a figure. The figures will therefore only be known at a later date. For 2013/14, 2014/15 and 2015/16 these will be zero as the drafting does not allow for licensees to apply for IRM for these years or receive revenue until 1 April 2016.	
			Part H: Definition of Proven Innovation	Transmission Operator should be replaced with Gas Distribution Network.	
			Part H: Definition of Proven Innovation	There is a circular argument here. The definition of Proven Innovation is an Innovation that has been successfully trialled or demonstrated on our network or elsewhere. However included in the definition of Innovation is that it is not, or is not within the scope of, an Ordinary Business Arrangement, i.e. it is not being used or capable of being used on ours or another's network. We understand the intent here but suggest there might need to be a slight rewording.	
			Part H: Definition of Proven Innovation	Another circular argument. The definition of new Network Equipment refers back to Network Equipment, which is defined as equipment that already forms part of the existing network.	

	GDC 64	Legacy price control adjustments	General	We are unclear if this condition is intended to be used for a single, one-off adjustment or for multiple adjustments during the period. The drafting is not consistent with either approach. We suggest that this should be a one off adjustment, determined in November 2013 for adjustment in 2014/15.	
			General	This condition is very dependent on the Financial Handbook for setting out how the calculations that underpin these adjustments will be calculated, but these sections are currently not in the Handbook. It is therefore very difficult to understand the process that will be followed for agreeing these adjustments. Please note that it is likely we may have significant comments at the second licence drafting consultation once we have had sight of the appropriate chapters of the Handbook.	
			General	We are concerned that much of the text has been moved out of the licence condition into the Handbook or to formulae in the PCFM. As expressed in previous comments, we consider that as much of the detail as possible should included in the licence condition, and that the Handbook should only be used to provide further guidance on how the calculations are carried out.	
			64.1(a)	Should this read Parts A to F?	
			64.1(b)	Suggest that 'PCFM Variable' is inserted between 'revised' and 'values'.	The Formula Years to which the revised PCFM Variable Values referred to in sub-paragraph (a) relate,
			64.2	Definition of PCFM Variable Value (a). Suggest that the relevant Special Conditions should be specified. We are not clear on how these revised values will be determined.	
			64.3	Suggest deleting 'for the purposes of [GDC 20] Special Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity)', as this makes it difficult to read and is already detailed in the definition for Formula Year t.	
			64.4	Should reference Chapter 10.	
			64.3 and 64.8	Again, confusion over whether this condition is intended to allow an adjustment in 2014/15 only (as determined in November 2013), or in future years across the period.	

			64.8 and 64.9	Lack of notations in formulae.	
			64.36 (b)	14 days is not long enough to allow us to fully consider and understand the proposed change. We suggest that this is changed to at least 28 days.	
			64.38	This clause is not appropriate. It should be a requirement for the Authority to make a direction by 30 November. If not, then, as discussed at the licence drafting working group, in the absence of a determination from the Authority, the GDNs should run the model and generate the MOD value. Critically, we do not think it is appropriate for the value generated for Yr 3 to be used in Yr 4 as this could result in significant charging volatility.	
	GDC 47	Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments	General	There are several references to transmission rather than gas distribution.	
			47.2	Definitions are the same as those in GDC 64. Rather than repeating these several times, we suggest inserting a general section for definitions for the Finance Conditions.	
			47.7	The wrong table is included in the Appendix.	
			47.8	There are other PCFM Variables that will need to be updated such as IAE, RE and IRM. This condition needs to provide for these updates.	
			47.9(a)	There seems to be some confusion with the PCFM Variables and the use of the term 'revised'. We had understood that the PCFM variables could be put into the model when the actuals are available, e.g. 13/14 actuals for doing the MOD run for 2014/15 in November 2014, and subsequently revised if there are any errors. The way that the condition is currently drafted does not reflect this.	
			47.11	'that' should be deleted after 'paragraph 47.9'.	

			47.15(b)	14 days is not long enough to allow us to fully consider and understand the proposed change. We suggest that this is changed to at least 28 days.	
			47.17	This clause is not appropriate. It should be a requirement for the Authority to make a direction by 30 November. If not, then, as discussed at the licence drafting working group, in the absence of a determination from the Authority, the GDNs should run the model and generate the MOD value. Critically, we do not think it is appropriate for the value generated for Yr 3 to be used in Yr 4 as this could result in significant charging volatility.	
			Part E: Interpretation	Again, suggest that a common interpretation / definitions section be included for the finance conditions.	
GDC 27	Specified financial adjustments	27.2		Again, suggest that a common interpretation / definitions section be included for the finance conditions.	
		27.3		Note that 'pension scheme administration' is not a defined term.	
		27.3		Should refer to GD1 Handbook rather than ET1.	
		27.9		Suggest this clause is deleted as it appears to be a repeat of 27.7.	
		27.23		Should refer to Chapter 5 rather than 6.	
		27.27		Each provision here should also refer to the Financial Handbook.	
		27.27(d)		14 days is not long enough to allow us to fully consider and understand the proposed change. We suggest that this is changed to at least 28 days.	

			27.29	This clause is not appropriate. It should be a requirement for the Authority to make a direction by 30 November. If not, then, as discussed at the licence drafting working group, in the absence of a determination from the Authority, the GDNs should run the model and generate the MOD value. Critically, we do not think it is appropriate for the value generated for Yr 3 to be used in Yr 4 as this could result in significant charging volatility.	
			Part E: Interpretation	Again, suggest that a common interpretation / definitions section be included for the finance conditions.	
	GDC 26	Annual Iteration Process for the GD1 Price Control Financial Model	26.1	Again, suggest that a common interpretation / definitions section be included for the finance conditions.	
			26.5	It would be useful to state in the licence condition that GDNs will receive an updated version of the model each year before it is populated.	
			26.7	Suggest this clause should refer to the provision of notice of these values to the licensees.	
			26.10	This clause is not appropriate. It should be a requirement for the Authority to make a direction by 30 November. If not, then, as discussed at the licence drafting working group, in the absence of a determination from the Authority, the GDNs should run the model and generate the MOD value. Critically, we do not think it is appropriate for the value generated for Yr 3 to be used in Yr 4 as this could result in significant charging volatility.	
			Part C: Interpretation	Again, suggest that a common interpretation / definitions section be included for the finance conditions.	

	GDC 57	Governance of GD1 Price Control Financial Instruments	57.7	A manifest error could certainly result in a significant impact and therefore this clause is inappropriate and should be deleted. 57.7 allows licensees to represent that the modification would in fact have a significant impact. We are not clear why either of these clauses are included as they effectively cancel each other out and the result is that the normal process would be followed. We suggest that both clauses be deleted.	
			Part B	As has been discussed at the licence drafting working group, we suggest that it would be sensible for the Authority to log up any minor modifications for the year and to carry out one consultation on them all rather than to consult on each separately.	
			57.10 and 57.13	These should give a 'not earlier than' date from which the modification would have effect.	

Appendix II – SGN Comments on Financial Handbook

SGN Comments on Financial Handbook		
Page / ref	Comments	Suggested wording
General	Large sections remain to be developed. Comments provided reflect only those completed sections of the Handbook. Clarity on when a complete draft Handbook will be available for review and comment would be appreciated.	
Page 2	As the handbook is intended to be accessible to those not involved in the Finance WG, we suggest that the hierarchy of the licence condition, financial handbook and model should be set out here to minimise any confusion.	
Page 5, paragraph 1	Several conditions other than GDC 57 refer to the Handbook and these should also be referenced here.	
Page 5, third bullet	We are not clear why Totex is singled out here as many variables are likely to change across the price control period.	
Page 8	As mentioned in our comments on the licence drafting, we would need to see the whole PCFM so that we can fully understand Ofgem's workings.	
Page 8	Could you confirm when this audit be carried out?	
Page 9, paragraph 1.15	The direction should also provide the methodologies and/or calculations as to how these values have been calculated.	
Page 10, paragraph 1.16	This should read end of January for GDNs.	
Page 12, paragraph 1.28	We suggest that the group will also need to meet in November to discuss the MOD adjustment.	
Page 12, paragraph 1.30	A decision being made 'on the day', relies on full information being provided to the licensees well in advance of the meeting. We are not sure how practicable this is given that it is likely that there will be questions.	
Page 16	Title 'Percentage' should read 'Cost of Debt Percentage'.	

Appendix III – Proposed Revised Standard Licence Condition 7 Drafting

We propose revisions to Paragraph 3 of SLC 7, as detailed below.

*3. Where the licensee has, as required by paragraph 1 or 2, **investigated, and, where gas has been found to be taken**, recovered, or attempted to recover, the value of the gas taken or, as the case may be, the specified amount, then any standard condition of this licence that limits has the effect of limiting, the charges made in pursuance of transportation arrangements or the revenue derived therefrom which is specified in a scheme designated by the Authority for the purposes of this condition shall be modified as provided in that scheme to take account of –*

(a) the costs of any such investigation;

(b) any amount recovered as so mentioned in paragraph 1;

(c) the costs of any such recovery or attempted recovery so mentioned; and

(d) any costs to the licensee attributable to any gas being acquired, or not being disposed of, by it by reason of the taking of the gas,

*so as to secure that, as nearly as may be and taking one year with another, the licensee suffers no financial detriment, and acquires no financial benefit, as a result of, the taking or **possible** taking of the gas and its compliance with paragraph 1.*