



## Supporting Document 3: Draft RIIO-GD1 Gas Distribution licence changes

### **Please note**

These draft licence conditions should be read in parallel with the document "RIIO-T1 and GD1: Draft licence conditions – First informal licence drafting consultation".<sup>1</sup> This consultation sets out:

- some of the material issues that still need to be considered across these draft licence conditions as a whole (including consistency of formatting, and numbering<sup>2</sup>), and
- for each specific licence condition, areas that need to be developed further.

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>1</sup> [RIIO-T1 and RIIO-GD1: Draft licence conditions – First informal licence drafting consultation](#)

<sup>2</sup> See for example, Chapter 1, sub-section Approach to licence drafting for RIIO

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**STANDARD CONDITIONS**

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

1. Where the Secretary of State has provided, by a scheme made under Schedule 7 to the Utilities Act 2000, for Section C (in whole or in part) to have effect within this licence:

(a) paragraphs 4 to 8 shall have effect in the licensee's licence; and

(b) the licensee shall be obliged to comply with the requirements of Section C (in whole or, as the case may be, in part) of this licence~~7.~~

~~Such provision made by the Secretary of State in the said scheme shall be treated, for the purposes of paragraphs 5, 6, and 7 of this condition, as if it were a Transportation Services Direction made by the Authority.~~

2. Unless or until -

(a) the Secretary of State has provided, by a scheme made under Schedule 7 to the Utilities Act 2000, for Section C (in whole or in part) to have effect within this licence; or

(b) the Authority has issued to the licensee a direction pursuant to paragraph 4

the standard conditions in Section C (in whole or, as the case may be, in part) shall not have effect within this licence; and the licensee shall not be obliged to comply with any of the requirements of Section C (in whole or, as the case may be, in part) of this licence.

3. Except where paragraph 1 applies to the licensee, paragraphs 4 to 8 of this standard condition shall be suspended and shall have no effect in this licence until such time as the Authority, with the consent of the licensee, issues to the licensee a notice in writing ending the suspension and providing for those paragraphs to have effect in this licence with effect from the date specified in the notice.

4. The Authority may, with the consent of the licensee, issue a direction (a "Transportation Services Direction"). Where the Authority has issued to the licensee a Transportation Services Direction the standard conditions in Section C (in whole or, as the case may be, in part) shall have effect within this licence from the date specified in the direction; and the licensee shall be obliged to comply with the requirements of Section C (in whole or, as the case may be, in part) to the extent and subject to the terms specified in such direction.

5. A Transportation Services Direction:
  - (a) may specify that the standard conditions in Section C (in whole or in part) are to have effect in this licence;
  - (b) shall specify or describe an area (the "transportation services area") within which the licensee shall be obliged to comply with any of the requirements of Section C (in whole or, as the case may be, in part);
6. The Authority may, with the consent of the licensee:
  - (a) vary the terms (as set out in the Transportation Services Direction or elsewhere) under which Section C (or parts thereof) has effect in this licence; or
  - (b) provide for Section C (or parts thereof) to cease to have effect in this licence.
7. The variation or cessation provided for in paragraph 6 shall take effect from the date specified in the variation or cessation notice given to the licensee by the Authority.
8. With effect from the date of cessation referred to in paragraph 7, paragraphs 4 to 7 of this condition shall be suspended and shall cease to have effect in this licence, but the Authority may at any time thereafter, with the consent of the licensee, give to the licensee a notice ending the suspension and providing for those paragraphs to have effect again in this licence with effect from the date specified in the notice.

### **Condition 28: Termination of Shipping Arrangements [GTC/GDC 95]**

1. The licensee shall keep each relevant supplier informed of the terms which, from time to time, are specified terms for the purposes of standard condition 18 (Undertakings to Relevant Gas Transporters) of the standard conditions of gas suppliers' licences as incorporated in that supplier's licence.
  
2. Paragraph 3 shall apply where -
  - (a) the arrangements between the licensee and a gas shipper for the conveyance of gas to any premises ("the old arrangements") have been terminated or expired by effluxion of time and have not been replaced by arrangements made with that or another gas shipper for the like purpose;
  - (b) by reason of sub-section (8) of section 10 of the Act (premises likely to be supplied with gas, subject to section 8A(1), in excess of 2,196,000 kilowatt hours in a twelve-month period) the licensee cannot be required (under sub-section (3) of that section) to maintain the connection of the premises mentioned in sub-paragraph (a) to its pipe-line system; and
  - (c) the old arrangements did not permit ~~of~~ the licensee interrupting the conveyance of gas to the premises mentioned in sub-paragraph (a) ~~(otherwise than in a pipe line system emergency within the meaning of paragraph 1 of standard condition 16 (Security and emergency arrangements) and emergency arrangements)~~ (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 or in pursuance of directions given under section 2(1)(b) of the Energy Act 1976).
  
3. Where this paragraph applies, the licensee shall not, by reason only of the circumstances mentioned in paragraph 2(a), disconnect the premises mentioned in sub-paragraph (a) of paragraph 2 -
  - (a) if and so long as it has reasonable cause to be satisfied that it can expect that such payments as are mentioned in paragraph 4 will be made to it in respect of gas taken out of its pipe-line system for supply to the premises mentioned in sub-paragraph (a) of paragraph 2, and
  - (b) unless the licensee has given 48 hours notice to the owner or the occupier of the premises mentioned in sub-paragraph (a) of paragraph 2 and to any person who, to the knowledge of the licensee, has contracted to supply gas to those premises.

4. The payments referred to in paragraph 3(a) are ones which, as nearly as may be, are the same as those which would have been attributable to the taking out of the gas for supply to the premises mentioned in sub-paragraph (a) of paragraph 2 and due under the old arrangements if they had remained in force and had the gas shipper not, thereafter, introduced any gas into the licensee's pipe-line system nor made arrangements to do so.
5. Where the premises mentioned in sub-paragraph (a) of paragraph 2 are secondary sub-deduct premises, the references to arrangements in paragraph 2(a) shall be construed as references to sub-deduct arrangements; and references in this condition to "the old arrangements" shall be construed accordingly.

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**STANDARD SPECIAL CONDITIONS – PART A**

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## Standard Special Condition A30. Regulatory Accounts [GTC/GDC 71]

### Introduction

1. This condition applies to regulatory accounts prepared for financial years commencing on or after 1 April 2013 for the purpose of ensuring that the licensee:

- (a) prepares and publishes Regulatory Accounts within the meaning of Part B below and prepared in accordance with Part C below; and
- (b) maintains (and ensures that any ~~affiliate or related undertaking~~ Affiliate or Related Undertaking of the licensee maintains) such accounting records, other records, and reporting arrangements as are necessary to enable the licensee to comply with that obligation in respect of the businesses specified in Part A below and in accordance with the requirements of Part B.

**Comment [tora1]:** References applicable to the NTS licence (particularly LNG storage) or the D licence (metering) should be omitted by the general text and specific T or D references “pasted in” to the general text in the same manner as they are at present in NTS SpC C1 and DN StSpC D11.

### Part A: Businesses to which licensee’s obligation applies

2. The businesses to which the licensee’s obligation under paragraph 1 applies, in each case to the extent applicable, are:

(a) the transportation business in respect of each Distribution Network (as defined in [GDC 19] Special Condition [x]) (~~Revenue restriction definitions~~ Restriction of revenue in respect of the Distribution Network Transportation Activity: Definitions), or the NTS (as defined in [~~GTC19~~GDC19] Special Condition [x]) (Revenue restriction definitions in respect of the NTS transportation owner activity and NTS system operation activity), separately identifying the NTS transportation owner activity, the NTS system operation activity, the storage business and LNG import and export facilities activities, where applicable;

(b) the ~~metering business~~ Metering Business, separately identifying services provided pursuant to paragraph 1 of Standard Special Condition A10 (Provision and return of meters) [Note we propose to remove this condition for GT and move to become a GD specific standard special see GTC 32] with respect to each Distribution Network (as defined in [GDC19] Special Condition [x]), as appropriate;

(c) the ~~meter reading business~~ Meter Reading Business;

(d) any de minimis business to which this licence relates, separately identifying the allocation or apportionment of each de minimis activity to each of the businesses referred to in sub-paragraphs (a) to (c), and clearly describing each such activity;

(e) other activities to which this licence relates and to which the Authority has given its consent in accordance with paragraph 3(d) of Standard Special Condition A36 (Restriction on activity and financial ring-fencing) separately identifying the apportionment of each such activity to each of the businesses referred to in sub-paragraphs (a) to (c), and clearly describing each service provided; and

**Comment [j2]:** As to sub-paras (b) and (c), we suggest that these paragraphs only apply in the GD licence, and not the GT licence. As such, they could be inserted by an equivalent condition to StSpC D11

(f) the whole business to which this licence relates, as represented by the consolidation of the businesses and activities referred to within subparagraphs (a) to (e), where applicable, and, in addition, details of any de minimis business carried out by a relevant associate of the holder of the licence.

### **Part B: Other matters relating to licensee's obligation**

3. Subject to the requirements of paragraph 4, where the holder of this licence is a parent undertaking as defined in Section 1162 to the Companies Act 2006 and itself prepares either IAS or Companies Act 2006 group accounts, its Regulatory Accounts must be prepared as group accounts in the format required by that Act, otherwise they must prepare Consolidated Accounts.

4. Where the holder of this licence also holds, within the same legal entity, one or more other gas transporter licences for relevant gas transporters, it must:

(a) ensure that such of the businesses referred to in Part A above as are applicable are reflected in the Regulatory Accounts submitted in respect of those licences, such that those Regulatory Accounts, when consolidated, reflect the total business of the licence holder; and

(b) include within each set of Regulatory Accounts prepared in accordance with those licences, a reconciliation to the statutory accounts of the licensee prepared under the Companies Act 2006 which (i) contains sufficient explanation of all reconciling items for all sets of Regulatory Accounts and (ii) covers each of the primary financial statements set out in paragraphs 9(a) to (d).

### **Part C: Preparation of the Regulatory Accounts**

5. For the purposes of this condition, but without prejudice to the requirements of Part E below, the licensee must prepare Regulatory

Accounts for each financial year.

6. Except and so far as the Authority otherwise consents, the licensee must comply with the obligations imposed by the following paragraphs of this Part C in relation to the preparation of Regulatory Accounts.

7. The licensee must keep or cause to be kept for a period approved by the Authority, but not less than the period referred to in section 388(4)(b) of the Companies Act 2006 and in the manner referred to in that section, such accounting records and other records as are necessary to ensure that all of the revenues, costs, assets, liabilities, reserves, and provisions of, or reasonably attributable to, each of the businesses referred to in Part A above are separately identifiable in the accounting records of the licensee (and of any affiliate or related undertaking of the licensee) from those of any other business of the licensee.

**Comment [tora3]:** Will "financial years" have the same meaning as currently provided in Standard Special Condition A3? If so, it will need to be capitalised.

8. The Regulatory Accounts must be prepared on a consistent basis derived from the accounting records and other records referred to in paragraph 7 in respect of each financial year, and must comprise:

- (a) the matters set out in paragraph 9; supported by
- (b) the matters mentioned in paragraph 10; and
- (c) the statement required by paragraph 11.

9. The matters to which paragraph 8(a) refers are:

- (a) an income statement and a statement of comprehensive income (or, as appropriate, a profit and loss account and, as appropriate, a statement of total recognised gains and losses);
- (b) a statement of changes in equity, if appropriate;
- (c) a statement of financial position (or, as appropriate, a balance sheet);
- (d) a statement of cash flows (or, as appropriate, a cash flow statement);
- (e) a Corporate Governance Statement in respect of the whole business to which this licence relates;
- (f) a Directors' Report in respect of the whole business to which this licence relates; and
- (g) a Business **Review** in respect of the whole business to which this licence relates.

**Comment [tora4]:** "Corporate Governance Statement", "Director's Report" and "Business Review" should be defined as they are in Standard Special Condition A30.

10. The matters to which paragraph 8(b) refers are explanatory notes to the Regulatory Accounts that:

- (a) provide a summary of the accounting policies adopted by the licensee for the purpose of producing Regulatory Accounts in respect of the whole business to which this licence relates;
- (b) comply with the requirements applicable for preparing annual accounts in Chapter 4 of Part 15 of the Companies Act 2006 and of the reporting requirements of the applicable regulatory framework in respect of each business to which this licence relates.

#### **Part D: Bases of charge or apportionment**

11. Subject to paragraph 12, the licensee must include within its Regulatory Accounts ~~a statement that~~ in respect of each of the businesses referred to in Part A above, ~~that~~ shows separately and in appropriate detail the amount of any revenue, cost, asset, liability, reserve, or provision which has been:

- (a) charged from any ultimate controller of the licensee, or from any subsidiary of such ultimate controller (other than the licensee or any of its

subsidiaries), in relation to the provision of goods or services to the licensee; or

(b) charged from the licensee, or from any subsidiary of the licensee, in relation to the provision of goods or services to any ultimate controller of the licensee, or to any subsidiaries of such ultimate controller (other than the licensee or any of its subsidiaries); or

(c) determined by apportionment or allocation between any of the businesses referred to in Part A above or any other business of the licensee or affiliate or related undertaking (and, where this sub-paragraph applies, the statement must include a description of the basis of the apportionment or allocation).

12. The requirements of paragraph 11 apply only in respect of goods and services received or supplied for the purposes of the businesses referred to in Part A above.

13. Unless the Authority so specifies in directions issued for the purposes of this condition, or with the Authority's prior written consent, the licensee must not in relation to the Regulatory Accounts prepared in respect of any financial year change the bases of charge, apportionment, or allocation referred to in paragraph 11 from those applied in respect of the previous financial year.

14. Where the licensee has changed its bases of charge, apportionment, or allocation or changed any of its accounting policies or the manner of their application from those adopted for the immediately preceding financial year, the licensee must, if so directed by the Authority, in addition to preparing Regulatory Accounts on the changed bases that it has adopted, also prepare such Regulatory Accounts by reference to the bases, accounting policies, and manner of application that applied in respect of that immediately preceding financial year.

#### **Part E: Consistency with statutory accounts**

15. Regulatory accounts and information prepared under Parts C and D above must, so far as is reasonably practicable and except with the Authority's approval, having regard to the purposes of this condition:

(a) have the same content and format as the most recent or concurrent statutory accounts of the licensee prepared under Part 15 of the Companies Act 2006; and

(b) comply with all relevant accounting and reporting standards currently in force under the applicable accounting frameworks as set out in Part 15 of the Companies Act 2006.

16. This paragraph applies if the Regulatory Accounts are group accounts of the licensee's gas transportation business, including those aspects of the business carried on in relevant affiliates, and for which there are no comparable statutory accounts of the licensee prepared under Part 15 of the Companies Act 2006.

17. Where paragraph 16 applies, the licensee must prepare a statement that:

- (a) reconciles the Regulatory Accounts to its most recent or concurrent statutory accounts and containing appropriate explanation of all reconciling items; and
- (b) has been audited and reported upon by the appropriate auditor engaged under Part F below.

18. The statement referred to in paragraph 17 must be submitted to the Authority by 31 July after the end of the financial year to which the Regulatory Accounts relate, but is otherwise exempt from the requirements of Part I below.

#### **Part F: Audit and delivery of Regulatory Accounts**

19. Unless the Authority otherwise consents, the licensee must:

- (a) procure an audit by an appropriate auditor of such parts of its Regulatory Accounts and the Directors' Report and Business Review as would be specified in the Companies Act 2006 as being required to be so audited if the licensee were a Quoted Company and those accounts were the statutory accounts of the licensee drawn up to 31 March and prepared under Part 15 of the Companies Act 2006;
- (b) procure a report by that auditor, addressed to the Authority, that states whether in the auditor's opinion those accounts (and, if applicable, the reconciliation information mentioned in paragraph 4) fairly present the financial position, financial performance, and cash flows of, or reasonably attributable to, each of the businesses referred to in Part A in accordance with the requirements of this condition; and
- (c) deliver those accounts and the auditor's report required under paragraph ~~20(b)~~19(b) to the Authority as soon as is reasonably practicable, and in any event before their publication of such accounts under Part I below and not later than 31 July following the end of the financial year to which the Regulatory Accounts relate.

#### **Part G: Terms of appointment of the appropriate auditor**

20. For the purposes of Part F above, the licensee must, at its own expense, enter into a contract of appointment with an appropriate auditor which includes a term requiring that the audit of the licensee's Regulatory Accounts must be conducted by that auditor in accordance with all such relevant auditing standards in force on the last day of the financial year to which the audit relates as would be appropriate for accounts prepared in accordance with the provisions of Part 15 of the Companies Act 2006.

#### **Part H: Agreed upon procedures for the appropriate auditor**

21. The licensee must, at its own expense, enter into a contract of appointment with an appropriate auditor for the completion of Agreed Upon Procedures that are to apply for the purposes of enabling that auditor to review:

(a) the licensee's compliance with its obligations in respect of the prohibition of cross-subsidy and discrimination generally and, in particular, under such ~~standard or standard special conditions (A6, A35 and A46~~ [Standard Special Conditions \(A6 \(Conduct of Transportation Business\), A35 \(Prohibition of Cross-Subsidies\) and A46 \(Non-discrimination in the provision of metering activities\)](#) [propose that A46 becomes a GD specific standard special condition, see GTC 32]) of this licence as specifically impose such prohibitions; and

(b) the statement that by virtue of Part D above is required to be included in the Regulatory Accounts concerning the bases of charge, apportionment, and allocation applied by the licensee in relation to those accounts.

22. The contract of appointment must require that the Agreed Upon Procedures are to be conducted in relation to each financial year and that the licensee will arrange for the appropriate auditor to address a report to the Authority by 31 July following the end of each such year which:

(a) states that he has, in a manner consistent with the relevant auditing standards, completed the Agreed Upon Procedures issued by the Authority in respect of the financial year under report; and

(b) sets out his findings.

23. If the Authority is satisfied that the appropriate auditor's report submitted under this Part H demonstrates that the licensee has complied with the obligations to avoid discrimination and cross-subsidies imposed on the licensee, the report shall be deemed to represent the results of an audit of those obligations.

#### **Part I: Publication and provision of Regulatory Accounts**

24. Subject to paragraph 26, and unless the Authority after consulting with the licensee otherwise directs, the licensee must publish its Regulatory Accounts (excluding the statement required to be included in them by virtue of Part D above and any other information agreed by the Authority to be confidential):

(a) as a stand-alone document in accordance with this condition;

(b) by 31 July after the end of the financial year to which the accounts relate;

(c) on, and in a way that is readily accessible from, its website or that of an affiliate or ultimate controller of the licensee provided that link is both clear and readily accessible; and

(d) in any other manner which, in the opinion of the licensee, is necessary to secure adequate publicity for the accounts.

25 The Licensee must provide a copy of the Regulatory Accounts free of charge:

(a) to Consumer Focus (or any successor entity), no later than the date on which the Regulatory Accounts are published; and

(b) to any person requesting a copy.

26. The licensee is not required to publish Regulatory Accounts for the ~~storage and LNG import and export facilities businesses,~~ metering business or the meter reading business if such publication would or might seriously and prejudicially affect the interests of the licensee, or of any ultimate controller of the licensee, or of any subsidiary of any ultimate controller.

**Comment [tora5]:** See comment on para 33 below.

27. Any question arising under paragraph 26 as to whether a person's interests would or might be seriously and prejudicially affected is to be referred (except in so far as the Authority consents otherwise) to the Authority for determination.

### **Part J: Interpretation and definitions**

28. Any consent by the Authority given in relation to a provision of this condition may be given in relation to some or all of the requirements of the provision and subject to such conditions as the Authority considers appropriate or necessary having regard to the purposes of this condition.

29. If the Authority, having particular regard to any representations received from the licensee and other persons about the extent to which there is competition in metering or meter reading, considers it appropriate that references to

~~either: (a) the metering business and meter reading business; or~~

~~(b) the LNG Storage Business; or~~

(a) the metering business and/or meter reading business;

(b) NOT USED; or

(c) NOT USED

~~(e) LNG import or export facility activity,~~

**Comment [j6]:** Insert references into NTS licence only through Special Condition C1

should be deleted from this condition, then those references will cease to have effect in this condition from the date or dates specified in a notice published by the Authority for that purpose.

30. The requirement under paragraph 9 of this condition for the licensee to include a Business Review, a Corporate Governance Statement, and a Directors' Report in its Regulatory Accounts is to be read as if the requirement applied to the licensee as a Quoted Company, whether or not it is such a company, such that:

(a) the Business Review has the coverage and content of the business review that a Quoted Company is required to prepare under section 417 of the Companies Act 2006;

(b) the Corporate Governance Statement has the coverage and content of a corporate governance statement that a Quoted Company is required to



prepare under the ~~Combined Code on UK~~ Corporate Governance [Code](#) issued under the Financial Services Authority's listing rules and interpretations on corporate governance; and

**Comment [tora7]:** "Financial Services Authority" should be defined.

(c) the Directors' Report has the coverage and content of the directors' report that a Quoted Company is required to prepare under sections 415, 416, 417, 418(2), and 419(3) and (4) of the Companies Act 2006.

31. Regulatory Accounts prepared in respect of the financial year beginning on 1 April 2012 are subject to the provisions of this condition in the form in which it was in force at 31 March 2013.

33. For the purposes of this condition:

**Agreed Upon Procedures**

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 21 of this condition.

[Appropriate Auditor – removed definition as included in SSC A3]

**Consolidated Accounts**

means the regulatory accounts of the licensee incorporating the results of all subsidiaries and the financing disclosure requirements of any subsidiary of the licensee as if they were part of the Consolidated Accounts

**Quoted Company**

has the meaning given in section 385 of the Companies Act 2006

~~**LNG Storage Business**~~

~~means the activities of the licensee connected with the development, administration, maintenance and operation of the LNG Storage Facilities by the licensee for the storage of gas in Great Britain and with the Supply of LNG Storage Services relating to those facilities.~~

~~**LNG Storage Facilities**~~

~~means containers for the storage of LNG operated by the licensee and any other facilities used by the licensee in connection with the storage of LNG in Great Britain~~

**Supply of LNG Storage Services**

~~which both are operated by the person who holds this licence and were so operated at a time during the period of 12 months ending with 1 March 1996~~  
~~means the undertaking and performance for gain or reward of engagements in connection with the storage of gas in the LNG Storage Facilities~~

**LNG import or export facility**

~~has the meaning given in section 48(1) of the Act~~

## Standard Special Condition A40. Regulatory Instructions and Guidance [GTC/GDC 74]

[Paragraph numbers and general format of condition to follow approach used in existing Standard Special A conditions]

### Introduction

[76.1](#) ~~76~~The purpose of this condition is to set out the scope, contents, and common governance arrangements for the Regulatory Instructions and Guidance ("RIGs") published by the Authority pursuant to this condition.

**Comment [tora8]:** The clause numbering throughout this paragraph is incorrect, all references to 76 should be replaced with 74.

[76.2](#) ~~77~~The RIGs are the primary means by which the Authority directs the licensee to collect and provide the information [to the Authority](#) that the Authority needs to enable it to administer the [Price Control Conditions](#) ~~as that terms is defined in [GDC 19], and the Final Proposals.~~

**Comment [tora9]:** As to the reference to "Special Conditions", we suggest that this term be replaced by "Price Control Conditions" and that a definition be provided in GDC19 that expressly sets out the relevant price control conditions.

### Part A: Licensee's obligations under this condition

[76.3](#) ~~78~~Unless and so far as the Authority otherwise consents, the licensee must have in place and maintain appropriate systems, processes, and procedures to enable it:

**Deleted:** Special

**Deleted:** of this licence

- (a) to estimate, measure, and record the information detailed in the RIGs ("Specified Information"); and
- (b) to provide such information to the Authority in respect of such periods and within such timeframes as are specified in the RIGs.

[76.4](#) ~~79~~To facilitate compliance with paragraph 76.3, the accounting records and other records kept by the licensee with respect to the Specified Information must:

- (a) be so arranged as to ensure that such information can be separately identified and reasonably attributed as between the licensee's business and the business of any affiliate or related undertaking of the licensee; and
- (b) be maintained for a period of eight years, or such shorter period as set out in the RIGs, from the date that they are made.

### Part B: Scope and content of the RIGs

[76.5](#) ~~80~~Subject to paragraphs 76.6 and 76.7, the matters that may be included, or for which provision may be made, in the RIGs are:

- (a) instructions and guidance on the establishment of systems, processes, procedures, and ways for recording and providing Specified Information;

- (b) instructions and guidance on the standards of accuracy and reliability that are applicable to the recording of Specified Information (including different classes of such information);
- (c) a timetable for the development of such systems, processes, and procedures as are required to achieve such standards;
- (d) the methodology for calculating or deriving numbers comprising Specified Information;
- (e) provision with respect to the meaning of words and phrases used in defining Specified Information;
- (f) requirements as to the form and manner in which, or the frequency with which, Specified Information must be recorded;
- (g) requirements as to the form and manner in which, or the [frequency](#) with which, Specified Information must be provided to the Authority;
- (h) requirements as to which (if any) of the Specified Information is to be subject to audit, the terms on which an auditor is to be appointed by the licensee for that purpose, and the nature of the audit to be carried out by that person;

[\(i\) requirements as to the circumstances in which the Authority may appoint an Examiner to examine the recording of Specified Information by the licensee;](#)

**Comment [j10]:** Condition needs to provide for both appointment as well as role of examiner

[\(j\)](#) ~~(j)~~ requirements for the recording of Specified Information that is reasonably necessary to enable an Examiner nominated by the Authority in accordance with the relevant terms of the RIGs to determine the accuracy and reliability of the Specified Information;

[\(k\)](#) ~~(j)~~ a statement on whether and to what extent each category of the Specified Information is required for the purposes of the RIGs; and

**Comment [tora11]:** how will the obligation work in practice, can Ofgem provide an example?

[\(l\)](#) ~~(k)~~ provision about how the Authority intends to monitor, assess, and enforce compliance with the RIGs (as to which, see also Part E below).

[76.6](#) ~~81~~ The provisions of the RIGs must not exceed what is reasonably required to achieve the purposes of this condition, having regard to the materiality of the costs likely to be incurred by the licensee in complying with those provisions.

[76.7](#) ~~82~~ No Specified Information may exceed what could be requested from the licensee by the Authority under paragraph 1 of [standard condition B4 (ET)/ standard special condition A26 (GT and GD)] (Provision of Information to the Authority) [excluding any reference to paragraph 8 of that condition].

### Part C: Development and modification of the RIGs

[76.8](#) ~~83~~ The Authority may issue new RIGs or modify any existing RIGs by issuing a direction for that purpose to every licensee in whose licence this condition has effect.

[76.9](#) ~~84~~A direction issued by the Authority under paragraph 76.8 shall be of no effect unless the Authority has first:

- (a) given notice to all licensees in whose licence this condition has effect that it proposes to issue new RIGs or (as the case may be) to modify the RIGs:
  - (i) specifying the date on which it proposes that the provisions of the document to be issued or modified should take effect;
  - (ii) setting out the text of the RIGs to be issued or (as the case may be) modified and the Authority's reasons for proposing to issue or modify it; and
  - (iii) specifying the time (which must not be less than a period of 28 days from the date of the notice) within which representations [in response](#) to such proposals may be made; and
- (b) considered any representations in response to the notice that are duly made and not withdrawn.

[76.10](#) ~~85~~The requirements for the issuing of new RIGs or modification of existing RIGS set out in paragraph 76.9 may be satisfied [by actions taken by the Authority](#) before as well as after the coming into effect of this condition.

#### **Part D: Requirements for new or more detailed information**

[76.11](#) ~~86~~This Part D applies if any modified or new RIGs have the effect of introducing a requirement to provide:

- (a) a new category of Specified Information; or
- (b) an existing category of Specified Information to a greater level of detail,

and such information [\(or level of detail\)](#) has not previously been collected by the licensee, whether under the provisions of the RIGs or otherwise.

[76.12](#) ~~87~~Where this Part D applies, the licensee may provide estimates to the Authority in respect of the relevant category of Specified Information for any Formula Year specified by the Authority.

[76.13](#) ~~88~~ The estimates that are mentioned in paragraph 76.12 may be derived from such other information available to the licensee as may be appropriate for that purpose.

#### **Part E: Compliance with the provisions of the RIGs**

[76.14](#) ~~89~~The licensee must at all times ~~act in accordance~~ comply with the provisions of the RIGs for the time being in force pursuant to this condition.

**Comment [j12]:** Not clear what this provision adds

[76.15](#) ~~90~~Any licensee that is a DN Operator and operates one or more Distribution Networks (as defined in [GDC 19] Special Condition [x] ([Restriction of revenue in respect of the Distribution Network Transportation Activity: Definitions](#))) in a single legal entity must comply with the requirements of this condition separately in respect of each such network.

[76.16](#) ~~91~~Nothing in this condition requires the licensee to provide any documents that it could not be compelled to produce or give in evidence in civil proceedings before a court.

## Part F: Interpretation

[76.17](#) ~~92~~ For the purposes of this condition:

**Examiner** means, in relation to the RIGs, a person whose degree of knowledge and experience of the matters that are the subject of the RIGs will enable him to properly carry out and complete the tasks required of him under the terms of his nomination by the Authority pursuant to the provisions of the RIGs; ~~;~~ [and](#)

**Final Proposals** ~~means the document entitled [add title of Final Proposals document] which was published on [-]~~

**Specified Information** means information (or a category of information) that is so described or defined in the RIGs.

## [GTC/GDC 76] Standard Special Condition [x]. Data Assurance requirements

### Introduction

[76.1](#) ~~92.1~~ This condition requires the licensee to undertake processes and activities for the purpose of reducing the risk, and subsequent impact, of any inaccurate or incomplete reporting, or any misreporting, of information to the Authority.

[76.2](#) ~~92.2~~ This condition comes into effect in this licence on the earlier of:

- (a) the date on which a Data Assurance Direction issued by the Authority in accordance with the provisions of Part B below has effect; and
- (b) 1 April 2015.

**Comment [tora13]:** The definition of "Data Assurance Direction" i.e. a direction by the Authority does not work with this paragraph which states "issued by the Authority". Thus suggest deletion of "issued by the Authority" in this sub-para.

### Part A: Licensee's obligations under this condition

[76.3](#) ~~76.1~~ The licensee must:

- (a) comply with the provisions of the Data Assurance Guidance ("the DAG"), being the document having the scope and contents set out in Part C of this condition, as if it were a condition of this licence;
- (b) subject to paragraph 76.4 of this condition, where required to provide Data ~~to the Authority~~ under the provisions of this licence, provide accurate and ~~complete~~ reliable Data;
- (c) carry out a Risk Assessment in accordance with such provisions and timescales as are specified for that purpose in the DAG, and ensure that it has used reasonable endeavours to mitigate such risks as it has identified in that assessment;
- (d) if directed by the ~~authority~~ Authority, procure an independent review of its Internal Audit Function in accordance with such provisions and timescales as are specified for that purpose in the DAG; and
- (e) provide to the Authority, in accordance with such provisions and timescales as are specified for that purpose in the DAG, a report that contains:
  - (i) the results of the licensee's Risk Assessment;
  - (ii) a description of the Data Assurance ~~activities~~ Activities that the licensee intends to undertake during the coming ~~year~~ Formula Year to mitigate the risks identified in that assessment;

**Comment [tora14]:** Suggest delete "to the Authority" as the definition of "Data" stated "means information submitted to the Authority".

**Comment [tora15]:** See comment on para 76.4.

**Deleted:** its best

- (iii) a description of the Data Assurance ~~activities~~ Activities undertaken by the licensee during the preceding ~~year~~ Formula Year; and
- (iv) if required, the details and results of the independent review procured by the licensee of its Internal Audit Function.

76.4 ~~76.2~~ Data provided to the level of accuracy and ~~completeness~~ reliability required under the relevant licence condition will be considered to be accurate and complete for the purposes of this condition.

**Comment [tora16]:** This should refer to "accuracy and reliability" to track the wording of para 74.5(b) of the RIGS condition.

76.5 ~~76.3~~ The licensee must have in place and maintain appropriate systems, processes, and procedures to enable it to perform its obligations under paragraph 76.3.

76.6 ~~76.4~~ The licensee must comply with any direction given by the Authority that requires it to carry out (or, where appropriate, to procure and facilitate the carrying out of) a specific Data Assurance Activity in accordance with the provisions of Part E.

#### **Part B: Requirement for consultation before giving a direction**

76.7 ~~76.5~~ A Data Assurance Direction is of no effect unless, before issuing it, the Authority has first:

- (a) given notice to all licensees in whose licence this condition has effect that it proposes to issue the direction:
  - (i) specifying the date on which it proposes that it should have effect;
  - (ii) setting out the text of the direction and the Authority's reasons for proposing to issue it; and
  - (iii) specifying the time (which must not be a period of less than 28 days from the date of the Notice) within which representations or objections with respect to the proposal may be made; and
- (b) considered any representations or objections in response to the Notice that are duly made and not withdrawn.

#### **Part C: Scope and contents of the Data Assurance Guidance**

~~76.6 The Data Assurance Guidance ("the DAG") is the document of that name issued and from time to time revised by the Authority under Part D of this condition.~~

76.8 ~~76.7~~ The purposes of the DAG are to establish a process under which the licensee must:



- (a) carry out a Risk Assessment and mitigate against risks identified in that Risk Assessment;
- (b) report to the Authority under this condition; and
- (c) if required, procure an independent review of its Internal Audit Function.

**76.9** ~~76.8~~ Subject to paragraphs 76.12 and 76.13, the DAG may include, or make provision for, any of the following matters:

- (a) the Data to which the Risk Assessment applies;
- (b) the format of the Risk Assessment;
- (c) the frequency with which and the timescales within which the Risk Assessment is required to be carried out;
- (d) the format of the independent review that may be required of the licensee’s Internal Audit Function and the associated reporting requirements;
- (e) the format of the reporting requirements detailed in paragraph 76.3(e); and
- (f) the frequency with which and the timescales within which the licensee should report on its Data Assurance Activity to the Authority.

**Comment [tora17]:** The reference to “Data Assurance programme”, should this be “Data Assurance Activity”?

**Deleted:** programme

**76.10** ~~76.9~~ References in paragraph 76.10 to the format of an assessment, review or reporting requirement includes references to its form, layout, scope and content.

**76.11** ~~76.10~~ The provisions of the DAG must not exceed what is required to achieve the purposes of this condition, having regard to the materiality of the costs likely to be incurred by the licensee in complying with those provisions and the impact on consumers of the potential errors.

**Comment [tora18]:** How will an assessment be made of “the impact on consumers of the potential errors”? Is this part of a “Risk Assessment”?

**76.12** ~~76.11~~ No information to be provided to the Authority under or pursuant to the requirements of the DAG may exceed what could be requested from the licensee by the Authority pursuant to Standard Special Condition A26 (Provision of Information to the Authority).

**Comment [tora19]:** As to the reference to Standard Licence Condition 24, this needs to be replaced by a reference to Standard Special Condition A26 as SLC24 is switched off in the NTS and DN licences.

**Part D: Development and modification of Data Assurance Guidance**

**76.13** ~~76.12~~ The DAG may be issued or modified by the Authority by direction.

**76.14** ~~76.13~~ A direction issued by the Authority under paragraph 76.14 is of no effect unless the Authority has first:

- (a) given notice to all licensees in whose licence this condition has effect that it proposes to issue the DAG or (as the case may be) to modify the DAG;

**Deleted:** [condition SLC 24 of the gas transmission licence standard conditions/condition B4 of the electricity transmission licence standard conditions/condition A6 of the electricity distribution licence standard conditions]

- (i) specifying the date on which it proposes that the provisions of the document to be issued or modified should take effect;
  - (ii) setting out the text of the DAG to be issued or (as the case may be) modified and the Authority's reasons for proposing to issue or modify it; and
  - (iii) specifying the time (which must not be less than a period of 28 days from the date of the Notice) within which representations to such proposals may be made; and
- (b) considered any representations in response to the Notice that are duly made and not withdrawn.

**Part E: Authority's power to specify Data Assurance Activity**

76.15 ~~76.14~~ The Authority may, after consulting with the licensee, issue a direction, in accordance with the provisions of paragraph 76.14, requiring the licensee to carry out (or, where appropriate, to procure and facilitate the carrying out of) such Data Assurance Activity as may be specified in the direction.

Deleted: 17

76.16 ~~76.15~~ The requirements for the direction under paragraph 76.15 are that it must:

- (a) contain a description of the Data Assurance Activity to be carried out by the licensee (or, where appropriate, by a person nominated by the Authority) for the purpose of ensuring the accuracy and completeness of Data provided to the Authority;
- (b) if it refers to a person nominated by the Authority, specify the steps that must be taken by the licensee to procure and facilitate the carrying out of that activity by that person;
- (c) contain a description of the Data to which the activity that is described in the direction must apply;
- (d) contain an explanation of why the Authority requires the licensee to carry out that activity;
- (e) specify any relevant dates by which that activity must be completed; and
- (f) specify the form and content of any information relating to that activity that the licensee must provide to the Authority.

**Part F: Derogations**

76.17 ~~76.16~~ The Authority may, after consulting with the licensee, give a direction ("derogation") to the licensee that relieves it of its obligations under this condition to such extent, for such a period of time, and subject to such conditions as may be specified in the direction.

## Part G: Interpretation

[76.18](#) ~~76.17~~ For the purposes of this condition:

<b>Data</b>	means the information submitted to the Authority under this licence in respect of which the licensee must carry out a Risk Assessment as specified in the DAG <del>;</del>
<b>Data Assurance Activity</b>	means, in respect of Data, the activity undertaken by the licensee (or a person nominated by the Authority, as the case may be) to address the risks identified in the Risk Assessment <del>;</del>
<b>Data Assurance Direction</b>	means a direction by the Authority to bring into effect this condition <del>;</del>
<b>Internal Audit Function</b>	means the licensee's function of assuring that its risk management, governance and internal control processes are operating effectively <del>;</del> <a href="#">and</a>
<b>Risk Assessment</b>	means an assessment of the likelihood and potential impact of any inaccurate or incomplete reporting, or any misreporting, of Data by the licensee to the Authority under this licence.

**STANDARD SPECIAL CONDITIONS – PART D**

## [GDC 83] Standard Special [x]. Distributed Gas: Connections Guide and Information Strategy

### Introduction

83.1 The purpose of this condition is to ensure that the licensee:

- (a) makes information publically available ~~to the public~~, including through the publication of the Distributed Gas Connections Guide provided for below, that will assist any person who might wish to enter into arrangements with the licensee that relate to the connection of Distributed Gas plant to the licensee's Distribution Network ~~to~~ understand and evaluate the process for doing so; and
- (b) implements a Distributed Gas Information Strategy in respect of that information and also of other information more generally related to Distributed Gas connections.

### Part A: Scope and contents of the Distributed Gas Connections Guide

83.2 Where the Authority gives the licensee a direction to do so, the licensee must use its best endeavours to work collectively with ~~such other licensees as are also subject to a direction under this condition ("relevant licensees")~~ other DN Operators to prepare and maintain a common set of documents, approved by the Authority and to be known as the Distributed Gas Connections Guide, that:

- (a) is in such form as may be specified in the direction ~~for the purposes of this condition~~ made by the Authority under this paragraph; and
- (b) contains such information as the licensee can reasonably provide that identifies or relates to the matters specified in paragraph 83.3.

83.3 Those matters must (without limitation) include:

- (a) details of the statutory and regulatory framework (including health and safety considerations) that applies to Distributed Gas connections;
- (b) the likely cost elements, charges, and timescales involved in the application process typically operated by ~~Gas~~ DN Operators in respect of such connections;
- (c) details of the arrangements and opportunities available for competitive activity in the provision or procurement of such connections; and
- (d) engineering and other technical matters relevant to the commissioning, ~~injection~~, and maintenance of such connections

**Comment [tora20]:** This is because an absolute obligation is not appropriate as it would make compliance dependent on others.

**Comment [tora21]:** This is because the licensees in question are DN Operators and therefore the defined term should be used.

**Comment [tora22]:** What does this mean? Should it be, "details of the arrangements and opportunities that a person seeking connection may have for obtaining particular services from competing services providers"?

[and the injection of gas into the pipe-line systems of DN Operators.](#)

## **Part B: Preparation and revision of the Distributed Gas Connections Guide**

83.4 The licensee must, together with the ~~relevant licensees~~[other DN Operators](#):

- (a) prepare and issue the Distributed Gas Connections Guide, as approved by the Authority, within a period of three months after the date of the Authority's direction; and
- (b) except where the Authority otherwise consents, review and ~~and~~ where appropriate ~~and~~ revise the [Distributed Gas Connections](#) Guide in each following Formula Year to ensure that, so far as is reasonably practicable, the information contained in it is up to date and accurate in all material respects.

## **Part C: Licensee's Distributed Gas Information Strategy**

83.5 Where the Authority gives the licensee a direction to do so, the licensee must prepare a Distributed Gas Information Strategy, for the approval of the Authority, which sets out how the licensee intends to ensure that ~~all existing and potential users of its Distribution Network~~ [both parties whose facilities are connected to the pipe-line system to which this licence relates and parties who may potentially seek to connect their facilities to the pipe-line system to which this licence relates](#) are able to receive an adequate level of information and a satisfactory standard of service in relation to the Distributed Gas connections process and matters relevant to it.

83.6 ~~In particular, the~~ [The](#) scope and contents of the Distributed Gas Information Strategy must cover how the licensee will provide information to ~~all such users~~ [the parties referred to in paragraph 83.5](#), in a form and manner tailored to their particular needs.

83.7 The licensee must submit the Distributed Gas Information Strategy for the approval of the Authority within the time period set out in the Authority's direction (which must not be a period of less than 28 days).

83.8 The licensee must implement its Distributed Gas Information Strategy, as approved by the Authority, with effect from such date as may be specified by the Authority when it approves the strategy.

## **Part D: Review and revision of the Distributed Gas Information Strategy**

83.9 The licensee must review its Distributed Gas Information Strategy at least once ~~a year~~ [in each Formula Year](#) with a view to ensuring that it remains fit for the purposes envisaged by Part C above and, with the consent or at the direction of the Authority, must make any changes to the strategy that may be necessary to enable it to better achieve those purposes.

83.10 Where any changes to the [Distributed Gas](#) Information Strategy are proposed the revised [Distributed Gas](#) Information Strategy must be submitted to the Authority for ~~Approval~~[approval](#) and the Authority must respond within a reasonable period [of time](#).

#### **Part E: Procedure for directions under this condition**

[Text for issuing direction to be aligned across all conditions]

83.11 Before the Authority gives a direction under this condition, it must inform the licensee of its intention to do so in a Notice that:

- (a) states the date on which it is proposed that the direction should take effect;
- (b) sets out the proposed contents of the direction with respect to the form in which the Distributed Gas Connections Guide or the Distributed Gas Information Strategy (as the case may be) is to be prepared and maintained for the purposes of this condition; and
- (c) specifies the time (which must not be less than a period of 28 days from the date of the Notice) within which representations with respect to the proposed direction may be made.

83.12 The Authority must consider any representations that are duly made and are not withdrawn.

~~83.13 A direction under this condition may be given at any time in a Formula Year. [considering removing this clause as does not add anything to condition]~~

#### **Part F: Availability of the [Distributed Gas Connections](#) Guide and the [Distributed Gas Information](#) Strategy**

83.14 The licensee must give the Authority a copy of the Distributed Gas Connections Guide and the Distributed Gas Information Strategy and of each approved revision of either document.

83.15 The licensee must also:

- (a) give or send a copy of the Distributed Gas Connections Guide to any person who requests one and who makes such payment to the licensee as it may require (which must not exceed such amount as the Authority may from time to time approve for that purpose in respect of the document); and
- (b) publish the Distributed Gas Connections Guide in such manner as the licensee believes will ensure adequate publicity for it (including by making it readily accessible from the licensee's Website).

#### **Part G: Interpretation**

- 83.16 The requirements for consultation under Part E above may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.
- 83.17 In this condition, **Distributed Gas** has the meaning given to it in [\[GDC19\]](#) Special Condition [X] (Restriction of revenue in respect of the Distribution Network Transportation Activity: Definitions) and the expressions "Distributed Gas Connections Guide" and "Distributed Gas Information Strategy" are to be read in accordance with that meaning.



**SPECIAL CONDITIONS: RELATED TO  
RESTRICTION OF ALLOWED REVENUE**

**[GDC19] Special Condition [x]. Restriction of revenue in respect of the Distribution Network Transportation Activity: Definitions**

- Currently Special Condition E1
- To be reviewed and amended for inclusion with Second Informal Licence Consultation.

## [GDC 20] Special Condition [x]. Restriction of revenue in respect of the Distribution Network Transportation Activity

### Introduction

20.1 The purpose of this condition is as follows:

- (a) to establish the charging restrictions that determine the level of Maximum Distribution Network Transportation Activity Revenue that may be recovered by the licensee through Distribution Network Transportation Charges; and
- (b) to set out the obligations of the licensee in respect of those restrictions.

[Distribution Network Transportation Charges and Maximum Distribution Network Transportation Activity Revenue not currently defined **terms**]

**Comment [tora23]:** We suggest that these definitions are set out in GDC19.

### Part A: Licensee's obligation

20.2 The licensee, in setting transportation charges, shall use its best endeavours to ensure that, in Formula Year  $t$ , Distribution Network Transportation Charges ( $R_t$ ) shall not exceed Maximum Distribution Network Transportation Activity Revenue ( $AR_t$ ) in that year.

### Part B: Calculation of Maximum Distribution Network Transportation Activity Revenue ( $AR_t$ )

20.3 Maximum Distribution Network Transportation Activity Revenue, in Formula Year  $t$ , is derived in accordance with the following formula (in this condition, the "Principal Formula"):

$$AR_t = BR_t + PT_t + EX_t + BM_t + SHR_t + EEI_t + DRS_t + NIA_t - K_t$$

20.4 In the Principal Formula:

$AR_t$  means the amount of Maximum Distribution Network Transportation Activity Revenue in Formula Year  $t$ ;

$BR_t$  means the amount of ~~base~~ Base Distribution Network Transportation Activity Revenue in Formula Year  $t$  and is derived in accordance with the formula set out in Part C of this condition;

$PT_t$  means the amount of the revenue adjustment made in Formula Year  $t$  in respect of ~~Allowed Pass-through Items as~~ Distribution Network allowed pass-through items and is derived in accordance

**Comment [tora24]:** As "base Distribution Network Transportation Activity Revenue" is used throughout these price control conditions, we suggest that a definition be provided in GDC19 that "Base Distribution Network Transportation Activity Revenue is the amount calculated in accordance with paragraph 20.5 of GDC20 (Special Condition [x] Restriction of revenue in respect of the Distribution Network Transportation Activity)". Therefore "base" would be capitalised in this condition and where referred to later in the price control conditions

with [Part A of \[GDC 21\] Special Condition \[x\]](#) (Distribution Network allowed pass-through items)-;

- $Ex_t$  means the amount of the revenue adjustment made in Formula Year t in respect of NTS Exit Capacity costs and incentives ~~as and is~~ derived in accordance with [Part B of \[GDC 8\] Special Condition \[x\]](#) (NTS Exit Capacity Cost Adjustment)-;
- $BM_t$  means the amount of the revenue adjustment made in Formula Year t in respect of the Broad Measure of Customer Satisfaction ~~as and is~~ derived in accordance with [Part B of \[GDC 24\] Special Condition \[x\]](#) (Incentive adjustment in respect of the ~~broad measure of customer satisfaction~~-Broad Measure of Customer Satisfaction);
- $SHR_t$  means the amount of the revenue adjustment made in Formula Year t in respect of the [maximum Distribution Network Shrinkage Incentive as Allowance and is](#) derived in accordance with Part A of [GDC 25] [Special Condition \[x\]](#) (Revenue adjustment for performance in respect of gas shrinkage and environmental emissions)-;
- $EEI_t$  means the amount of the revenue adjustment made in Formula Year t in respect of the Environment Emissions Incentive ~~as and is~~ derived in accordance with Part C of [GDC 25] [Special Condition \[x\]](#) (Revenue adjustment for performance in respect of gas shrinkage and environmental emissions)-;
- $DRS_t$  means the amount of the revenue adjustment made in Formula Year t in respect of the licensees' performance under the Discretionary Reward Scheme ~~as and is~~ derived in accordance with [GDC 48] [Special Condition \[x\]](#) (Discretionary reward scheme revenue amounts)-;
- $NIA_t$  means the amount of the revenue adjustment made in Formula Year t in respect of the Network Innovation Allowance ~~as and is~~ derived in accordance with [Part A of \[GDC 11\] Special Condition \[x\]](#) (The Network Innovation Allowance)-; and
- $K_t$  means the amount of the correction factor in Formula Year t ~~and is~~ derived in accordance with the formula set out in Part D of this condition.

### **Part C: Calculation of ~~base~~-Base Distribution Network Transportation Activity Revenue ( $BR_t$ )**

20.5 For the purposes of the Principal Formula, the amount of  $BR_t$  is derived in accordance with the following formula:

$$BR_t = (PU_t + MOD_t + TRU_t) \times RPIF_t$$

20.6 In the formula for the BR term above:

PU<sub>t</sub> means the amount set against the relevant Distribution Network in Appendix 1, and represents the opening base revenue allowance determined by the Authority in relation to the ~~distribution~~ conveyance of gas to premises;

**Comment [tora25]:** "distribution of gas to premises" is not appropriate language as in gas, there is not licenseable activity of "distribution". Suggest "conveyance" as this tracks Gas Act.

MOD<sub>t</sub> has the value zero in Formula Year 2013-14, and in each subsequent Formula Year, is the value of the incremental change to the relevant Distribution Network's opening base revenue allowance for Formula Year t (set against the relevant Distribution Network in the table at Appendix 1 to this condition) derived from the Annual Iteration of the GD1 Price Control Financial Model determined in accordance with the process set out in Parts A and B of [GDC26] Special Condition (Annual Iteration Process for the GD1 Price Control Financial Model);

RPIF<sub>t</sub> is the price index adjustment factor, whether of a positive or negative value, and is derived in accordance with paragraph 20.7 of this condition; and

TRU<sub>t</sub> has the value zero in Formula Year 2013-14 and 2014-15, and in each subsequent Formula Year, means the amount of the revenue adjustment, whether of a positive or negative value (in 2009-10 prices), made in Formula Year t in respect of the difference between the assumed value of the Retail Prices Index in Formula Year t-2 and the actual value of the Retail Prices Index in Formula Year t-2, and is derived in accordance with paragraph 20.8 of this condition.

20.7 For the purposes of paragraph 20.6 of this condition, RPIF<sub>t</sub> is derived in accordance with the following formula:

$$RPIF_t = RPIA_{t-2} \times (1 + GRPIF_{t-1}) \times (1 + GRPIF_t)$$

where:

$$RPIA_t = RPI_t / RPI_{2009-10};$$

$$GRPIF_t = (0.75 \times GRPIF_c) + (0.25 \times GRPIF_{c+1}); \text{ and}$$

$$GRPIF_{t-1} = (0.75 \times GRPIF_{c-1}) + (0.25 \times GRPIF_c);$$

and:

RPI<sub>t</sub> means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from April to March in Formula Year t-; [and](#)

[following definition will appear in the defined terms condition: Retail Prices Index means: a) the general index of retail prices published by the Office for National Statistics each month in respect of all items; or b) if that index in respect of any month relevant for the purposes of the Special Conditions has not been published, such price index as the Authority may, after consultation with all licensees, determine to be appropriate [in the circumstances](#); or c) if there is a material change in the basis of that index, such other index as the Authority may, after consultation with all licensees, determine to be appropriate [in the circumstances](#).]

GRPIFc means the Retail Prices Index Forecast Growth Rate for calendar year c, where c denotes the calendar year in which Formula Year t begins and the expressions c-1 and c+1 should be interpreted accordingly. In each such case the Retail Prices Index Forecast Growth Rates for calendar year c-1, c and c+1 are taken from the November edition of the HM Treasury publication "Forecasts for the UK Economy", in Formula Year t-1.

[following definition will appear in the defined terms condition: Retail Prices Index Forecast Growth Rate means: a) the growth rate (for the avoidance of doubt the growth rate is presented as a percentage) as defined as the "New forecasts (marked \*)" in the HM Treasury "Forecasts for the UK Economy" publication, published in the November of each year; or b) if that index in respect of any year has not been published, such index as the Authority may, after consultation with the licensees, determine to be appropriate [in the circumstances](#); or c) if there is a material change in the basis of that index, such other index as the Authority may, after consultation with the licensees, determine to be appropriate [in the circumstances](#).]

20.8 For the purposes of paragraph 20.6 of this condition, TRU<sub>t</sub> is derived in accordance with the following formula:

$$TRU_t = ((RPIA_{t-2} - RPIF_{t-2})/RPIA_{t-2}) \times REV_{t-2} \times PVF_{t-2} \times PVF_{t-1}$$

20.9 In the formula for the TRU<sub>t</sub> term above:

PVF<sub>t</sub> means the present value adjustment term for Formula Year t-; [and](#) shall be calculated as one plus the Vanilla Weighted Average Cost of [Capital](#) as [derived](#) by the Authority for Formula Year t-; [and](#)

REV<sub>t-2</sub> means the amount (in 2009-10 prices), for Formula Year t-2, of the combined value of all Special [Condition](#) revenue adjustments that are indexed by the Retail Prices Index-; [and](#) is derived in accordance with the following formula:

**Comment [tora26]:** "Vanilla Weighted Average Cost of Capital" is defined in the Handbook;

**Comment [tora27]:** How will the Authority "derive" this amount? Should the word be "determined" if the "Authority effectively imposes a number?"

**Comment [tora28]:** Suggest that rather than using "Special Condition", that "Price Control Condition" be used and that a definition of this term be provided in GDC19

$$REV_{t-2} = (BR_{t-2} + EEI_{t-2})/RPIF_{t-2} - RBE_{t-2} - LFE_{t-2} - PDE_{t-2}$$

where:

$BR_{t-2}$  means the amount of ~~base~~ Base Distribution Network Transportation Activity Revenue in Formula Year t-2 and is derived in accordance with the formula set out in Part C of this condition ~~;~~

$EEI_{t-2}$  means the amount of the revenue adjustment made in Formula Year t-2 in respect of the Environment Emissions Incentive ~~as~~ and is derived in accordance with Part C of [GDC 25] ~~;~~ Special Condition [x] (Revenue adjustments for performance in respect of gas shrinkage and environmental emissions);

$RBE_{t-2}$  means the amount of the allowance in respect of the prescribed rates (or any equivalent tax or duty replacing them) in Formula Year t-2 and is represented by the amount set out in Appendix 1 ~~;~~ in accordance with Part B of [GDC 21] ~~;~~ Special Condition [x] (Distribution Network allowed pass-through items);

$LFE_{t-2}$  means the amount of the licence fee allowance in Formula Year t-2 and is represented by the amount set out in Appendix 2 ~~;~~ in accordance with Part C of [GDC 21] ~~;~~ Special Condition [x] (Distribution Network allowed pass-through items); and

$PDE_{t-2}$  means the amount of the licensee's Distribution Network Pensions Deficit Charge allowance in Formula Year t-2 and is represented by the amount set out in Appendix 3 ~~;~~ in accordance with Part D of [GDC 21] ~~;~~ Special Condition [x] (Distribution Network allowed pass-through items).

#### **Part D: Calculation of the correction factor ( $K_t$ )**

[This section replaces current condition E2 para. 2 to 3 and condition E4. Final drafting of this section dependent on the outcome of the 'mitigating network charging volatility arising from the price control settlement (52/12)' consultation.]

20.10 For the purposes of the Principal Formula,  $K_t$  is derived ~~from~~ in accordance with the following formula:

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

where:

$R_{t-1}$  means the Distribution Network Transportation ~~Activity Revenue Charges~~ as defined in [GDC 19] [Special Condition \[x\] \(Restriction of revenue in respect of the Distribution Network Transportation Activity: Definitions for the Special Conditions\)](#) in respect of the Formula Year t-1. The only exception ~~is to this is for~~ the Formula Year commencing 1 April 2013 where it shall be the Distribution Network Transportation ~~Activity Revenue Charges~~ in respect of Formula Year commencing 1 April 2012 ~~as that was~~ defined in ~~special condition E1~~ [Special Condition E1 \(Revenue restriction definitions in respect of the Distribution Network\)](#) of this licence in the form in which it was in ~~force~~ [this licence as](#) at 31 March 2012~~;~~;

$AR_{t-1}$  means the Maximum Distribution Network Transportation Activity Revenue in Formula Year t-1. The only exception ~~is to this is for~~ the Formula Year commencing 1 April 2013 where  $AR_{t-1}$  shall be the Maximum Distribution Network Transportation Activity Revenue ( $MR_{t-1}$ ) ~~as that was~~ calculated in paragraph 5 of ~~special condition E2~~ [Special Condition E2 \(Restriction of revenue in respect of the Distribution Network Transportation Activity\)](#) of this licence in the form in which it was in force at 31 March 2012~~;~~;

$I_t$  means the Average Specified ~~Rate~~ in Formula Year t~~;~~ [and](#)

**Comment [tora29]:** "Average Specified Rates" needs to be defined in GDC19.

[following definition will appear in the defined terms condition: means the average value of the Bank of England's Official Bank Rate during the period in respect of which the calculation in question falls to be made. Currently licence definition is: "means the average of the daily base rates of Barclays Bank plc current from time to time during the period in respect of which the calculation falls to be made."]

$PR_t$  means the interest rate adjustment in Formula Year t ~~as as and~~ [is](#) derived in accordance with the formula set out in Part E of this condition.

### **Part E: Interest adjustment for over and under recoveries of revenue**

20.11 [to be completed following outcome of our consultation]

### **Part F: Treatment of charges in the event of over recovery**

20.12 [to be completed following outcome of our consultation]

### **Part G: Treatment of charges in the event of under recovery**

20.13 [to be completed following outcome of our consultation]



## Appendix 1

### Values for the PU term (2009/10 prices) by Distribution Network

(see paragraph 20.6 of this condition)

Licensee	PU Value (£m)							
Formula Year	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
[Insert name of specific GDN]	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x
[Insert name of specific GDN]	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x
[Insert name of specific GDN]	x.x	x.x	x.x	x.x	x.x	x.x	x.x	x.x

## **[GDC 21] Special Condition [x]. Distribution Network allowed pass-through items**

### **Introduction**

- 21.1 The purpose of this condition is to provide for the calculation of the amount of the term  $PT_t$  (the allowed pass-through term) ~~that applies in [GDC20] for the purposes of Part B of [GDC20] Special Condition [x]~~ (Restriction of revenue in respect of the Distribution Network Transportation Activity).
- 21.2 The effect of the application of the  $PT_t$  term in ~~[GDC20] Part B of [GDC20] Special Condition [x]~~ (Restriction of revenue in respect of the Distribution Network Transportation Activity) is to ensure that the level of the licensee's Maximum Distribution Network Transportation Activity Revenue ~~as~~ calculated in accordance with that condition reflects certain costs that can be passed through to customers.

### **Part A: Formula for Distribution Network allowed pass-through items ( $PT_t$ )**

- 21.3 For the purposes of Part B of [GDC20], ~~which establishes the calculation of Maximum-~~ Special Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity-Revenue), the total amount of the  $PT$  term is derived in accordance with the following formula (in this condition, the "Principal Formula"):

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

- 21.4 In the Principal Formula:

$RB_t$	means the amount (whether positive or negative) in Formula Year $t$ , <del>and is</del> derived in accordance with the formula set out in Part B below, representing the business rates adjustment <del>;</del>
$LF_t$	means the amount (whether positive or negative) in Formula Year $t$ , <del>and is</del> derived in accordance with the formula set out in Part C below, representing the licence fee adjustment <del>;</del>
$PD_t$	means the amount (whether positive or negative), <del>in Formula Year <math>t</math></del> <u>and is</u> derived in accordance with the formula set out in Part D below, representing the <del>NTS-Distribution Network</del> deficit charge adjustment <del>;</del>
$TG_t$	means the amount equal to any allowance made, in total, for reasonable costs incurred by a supplier pursuant to standard condition 7 (Provision of Information Relating to Gas Illegally Taken) <del>;</del>
$TPWI_t$	means the amount derived in accordance with the formula set out in Part E below in respect of the licensee's standard of performance for supply restoration following third party damage and water ingress (i) under regulation 7 of the Gas

(Standards of Performance) Regulations 2005 (as amended) in respect of domestic customers and (ii) under paragraph 3.5 of Section J (Exit Requirements) of the Network Code in respect of customers whose annual consumption exceeds 73,200kWh; ~~and~~ and

MP<sub>t</sub> means the amount equal to miscellaneous pass-through costs incurred by the licensee and not reflected in any other part of this condition, which have been directed by the Authority to be so treated following consultation with the licensee.

### **Part B: Calculation of the business rates adjustment term (RB)**

21.5 For the purposes of the Principal Formula, but subject to paragraph 21.7, RB<sub>t</sub> is derived in accordance with the following formula:

$$RB_t = RBA_t - (RBE_t \times RPIF_t)$$

21.6 In the formula for the RB term above:

RBA<sub>t</sub> means the amount, in Formula Year t prices, of the charge incurred in respect of the prescribed rates (or any equivalent tax or duty replacing them) levied on the licensee in respect of the licensee's Distribution Network Transportation Activity (and is the amount of the separate rating assessment for the licensee's Distribution Network Transportation Activity including (where relevant) metering); ~~and~~ and

RBE<sub>t</sub> means the amount of the allowance in respect of the prescribed rates (or any equivalent tax or duty replacing them) payable by the licensee at Formula Year 2009/10 price levels, and is represented by the amount set out in Appendix 1 that applies to the licensee; ~~and~~ and

RPIF<sub>t</sub> has the value given to it by Part C of [GDC20] Special Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity).

21.7 In any Formula Year ("the Relevant Formula Year") in which a revaluation ~~by~~ by The Valuation Office Agency (in England and Wales) or the Scottish Assessors Association (in Scotland), of the assets of the Distribution Network for the purposes of setting prescribed rates comes into effect, RB<sub>t</sub> will have the value of zero in that year and in each subsequent Formula Year.

21.8 The Authority, having satisfied itself that the licensee has used its best endeavours to minimise the amount of the prescribed rates (RBA<sub>t</sub>), may direct that the formula set out in this Part B is to apply for the purposes of calculating the RB term in the Relevant Formula Year and in each of the subsequent Formula Years.

### Part C: Calculation of the licence fee adjustment term (LF)

21.9 For the purposes of the Principal Formula,  $LF_t$  is derived in accordance with the following formula:

$$LF_t = LFA_t - (LFE_t \times RPIF_t)$$

21.10 In the formula for the LF term above:

$LFA_t$  means the amount of the payments, in Formula Year  $t$  prices, made by the licensee in respect of the Distribution Network Transportation Activity under standard condition 3 (Payments by the Licensee to the Authority) in Formula Year  $t$ ;

$LFE_t$  means the amount of the licence fee allowance at Formula Year 2009/10 price levels, and is represented by the amount set out in Appendix 2 that applies to the licensee; and

$RPIF_t$  has the value given to it by Part C of [GDC20]: [Special Condition \[x\] \(Restriction of revenue in respect of the Distribution Network Transportation Activity\)](#).

### Part D: Calculation of the [Distribution Network Pension Deficit Charge Term \(PD\)](#)

21.11 For the purposes of the Principal Formula,  $PD_t$  is derived in accordance with the following formula:

$$PD_t = PDA_t - (PDE_t \times RPIF_t)$$

21.12 In the formula for the PD term above:

$PDA_t$  means the amount of the payments, in Formula Year  $t$  prices, made by the licensee to meet the Distribution Network Pensions Deficit [Charge](#) levied by the NTS [Operator](#) on the Distribution Network Activity;

$PDE_t$  means the amount of the Distribution Network Pensions Deficit Charge allowance at Formula Year 2009/10 price levels, and is represented by the amount set out in Appendix 3 that applies to the licensee; and

$RPIF_t$  has the value given to it by Part C of [GDC20]: [Special Condition \[x\] \(Restriction of revenue in respect of the Distribution Network Transportation Activity\)](#).

**Comment [tora30]:** "Distribution Network Pensions Deficit Charge" should have the meaning as currently set out in Special Condition E1, which should be set out in GDC19.

**Comment [tora31]:** "NTS Operator" has the meaning provided in Standard Special Condition A3.

### Part E: Calculation of Third Party Damage and Water Ingress Adjustment term (TPWI)

21.13 For the purposes of the Principal Formula, but subject to paragraph 21.14,  $TPWI_t$  is derived in accordance with the following formula:

$$TPWI_t = \max[0.95 \times ((TPWR_{t-2} + TPWU_{t-2}) - (0.015 \times (PU_{t-2} \times RPIA_{t-2}))), 0] \times (1 + I_{t-2}/100) \times (1 + I_{t-1}/100)$$

21.14 In the formula for the TPWI term above:

TPWR<sub>t</sub> means the total amount of payments, in Formula Year t, that the licensee has made to customers in respect of failures under regulation 7 of the Gas (Standards of Performance) Regulations 2005 (as amended) to meet the prescribed standard of performance for restoration of supply following interruptions resulting from third party damage and water ingress;

TPWU<sub>t</sub> means the total amount of payments, in Formula Year t, that the licensee has made to customers in respect of failures under paragraph 3.5 of Section J (Exit Requirements) of the Network Code to make gas available for offtake following third party damage and water ingress;

PU<sub>t</sub> means the base revenue in Formula Year t and shall have the value set out in Appendix 1 of [GDC20], in accordance with Part C of [GDC20] Special Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity);

RPIA<sub>t</sub> has the value given to it by Part C of [GDC20] Special Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity); and

I<sub>t</sub> means the Average Specified Rate in Formula Year t.

**Comment [tora32]:** We have suggested that the definition of "Average Specified Rate" be set out in GDC19.

21.15 In the Formula Year 2013/14 the value for TPWI<sub>t</sub> shall equal zero.

**APPENDIX 1: Prescribed rates allowance (£m, 2009/10 prices)**

**(see paragraph 21.6 of this condition relating to the RBE term)**

Gas DN Licensee	RBE
Gas DN Licensee 1	XX.XX
Gas DN Licensee 2	XX.XX
Gas DN Licensee 3	XX.XX
Gas DN Licensee 4	XX.XX
Gas DN Licensee 5	XX.XX
Gas DN Licensee 6	XX.XX
Gas DN Licensee 7	XX.XX
Gas DN Licensee 8	XX.XX

**APPENDIX 2: Licence fee allowance (£m, 2009/10 prices)**

**(see paragraph 21.10 of this condition relating to the LFE term)**

<b>Gas DN Licensee</b>	<b>LFE</b>
Gas DN Licensee 1	XX.XX
Gas DN Licensee 2	XX.XX
Gas DN Licensee 3	XX.XX
Gas DN Licensee 4	XX.XX
Gas DN Licensee 5	XX.XX
Gas DN Licensee 6	XX.XX
Gas DN Licensee 7	XX.XX
Gas DN Licensee 8	XX.XX

**APPENDIX 3: Pensions deficit charge allowance  
(£m, 2009/10 prices)**

**(see paragraph 21.12 of this condition relating to the PDE term)**

<b>Gas DN Licensee</b>	<b>PDE</b>
Gas DN Licensee 1	XX.XX
Gas DN Licensee 2	XX.XX
Gas DN Licensee 3	XX.XX
Gas DN Licensee 4	XX.XX
Gas DN Licensee 5	XX.XX
Gas DN Licensee 6	XX.XX
Gas DN Licensee 7	XX.XX
Gas DN Licensee 8	XX.XX

## [GDC 8] Special condition [x]. NTS Exit Capacity Cost Adjustment

### Introduction

- 8.1 This condition establishes a mechanism for determining the value of the NTS Exit Capacity Cost Adjustment that will be applied to the licensee's Maximum Distribution Network Transportation Activity Revenue under [Part B of \[GDC20\] Special Condition \[xx\]](#) (Restriction of revenue in respect of the Distribution Network Transportation Activity) in order to enable the licensee to recover its costs incurred with respect to NTS Exit Capacity.
- 8.2 This condition also provides a cost-sharing mechanism with respect to NTS Exit Capacity costs which is linked to the Efficiency Incentive Rate.

### Part A: Overall adjustment formula ( $Ex_t$ )

- 8.3 The NTS Exit Capacity Cost Adjustment term ( $Ex_t$ ) will ~~be~~ for the purposes of ~~[GDC20] Part B of [GDC20] Special Condition [xx]~~ (Restriction of revenue in respect of the Distribution Network Transportation Activity), be derived in accordance with the following formula:

$$Ex_t = ExC_t + EI_t$$

where:

$ExC_t$  means, in respect of Formula Year t, an amount equal to the actual payments made by the licensee in respect of NTS Offtake (Flat) Capacity and NTS Offtake (Flexibility) Capacity in respect of the relevant Distribution Network, and is derived in accordance with the provisions of Part B below ~~;~~ [and](#)

$EI_t$  means the exit capacity incentive in respect of the relevant Distribution Network for Formula Year t and is derived in accordance with the provisions of Part C below.

### Part B: Recovery of NTS Exit Capacity Costs ( $ExC_t$ )

- 8.4  $ExC_t$  (the NTS Exit Capacity Costs term) is derived in accordance with the following formula:

$$ExC_t = ExCC_t + ExFFC_t, ExC_t = ExCC_t + ExFFC_t$$

where:

$ExCC_t$  means, in respect of Formula Year t, the total costs incurred by the licensee for NTS Offtake (Flat) Capacity in respect of all NTS offtakes within the relevant Distribution Network less any revenues received from the NTS ~~operator~~ [Operator](#) by the licensee in respect of NTS Offtake (Flat) Capacity ~~;~~ [and](#)

$ExFFC_t$  means, in respect of Formula Year t, the total costs incurred by the licensee for NTS Offtake (Flexibility) Capacity in respect of all NTS offtakes within the relevant Distribution Network less

any revenues received from the NTS ~~operator~~ Operator by the licensee in respect of NTS Offtake (Flexibility) Capacity.

**Part C: Distribution Network exit capacity incentive revenue (EIt)**

8.5 The Distribution Network exit capacity incentive revenue in Formula Year t (EI<sub>t</sub>) is derived in accordance with the following formula:

$$EI_t = IQI * [EIT_t - EDC_t]$$

where:

- IQI means the incentive rate for the licensee, set out in Chapter X of the Authority’s GD1 Decision Document published on Y December 2012 under reference [00/12]—~~;~~ ;
- EIT<sub>t</sub> means the Distribution Network exit incentive target and is defined as the target cost in £ million of the target volume of NTS Offtake (Flat) Capacity in respect of the relevant Distribution Network for Formula Year t, and is derived in accordance with paragraph 8.6—~~;~~ and
- EDC<sub>t</sub> means the Distribution Network exit performance measure and is defined as the Deemed Costs in £ million incurred by the licensee for NTS Offtake (Flat) Capacity in respect of all NTS offtakes within the relevant Distribution Network for Formula Year t, and is derived in accordance with paragraph 8.7 of this condition.

Formula for the Distribution Network exit incentive target (EIT<sub>t</sub>)

**Comment [tora33]:** Is it intended that this title be a “Part”?

8. 6 The value of EIT<sub>t</sub> under paragraph 8.5 is derived in accordance with the following formula:

$$EIT_t = \frac{\sum_{allv} \left[ \left( \sum_{1Oct-31Mar} NTSIChE_{v,t,d} \times NTSTVE_{v,t} \right) * (Y_t / P_t) \right]}{100}$$

where:

NTSIChE<sub>v,t,d</sub> means either:

- (i) the relevant indicative NTS (TO) Exit Capacity Charge in p/peak day kWh/d for Offtake v within the relevant Distribution Network for each Day d between 1 October and 31 March (inclusive) of Formula Year t—~~;~~ ; as specified in the latest NTS Gas Transportation Statement as at 1 May in Formula Year t-3; or
- (ii) if no such indicative charge is available in that statement, the NTS (TO) Exit Capacity Charge in the same statement for the closest preceding Formula Year to Formula Year t for which



indicative NTS (TO) Exit Capacity Charges are provided in the statement:

$NTSTVE_{v,t}$  means the target volume of NTS Offtake (Flat) Capacity in GWh/d for Offtake  $v$  within the relevant Distribution Network for Formula Year  $t$  as set out in Appendix 1 (of this condition);

$Y_t$  means the number of Days in Formula Year  $t$ ;

$P_t$  means the number of Days between 1 October and 31 March inclusive in Formula Year  $t$ ;

$\sum_{1Oct-31Mar}$  means the sum across all Days between 1 October to 31 March inclusive in Formula Year  $t$ ; and

$\sum_{allv}$  means the sum across all Offtakes  $v$  within the relevant Distribution Network.

**Comment [tora34]:** Is it intended that this title be a "Part"?

Formula for the Distribution Network exit performance measure ( $EDC_t$ )

8.7 The Distribution Network exit performance measure in Formula Year  $t$  ( $EDC_t$ ) is derived for the purposes of paragraph 8.5 in accordance with the following formula:

$$EDC_t = \frac{\sum_{allv} \left[ \left( \sum_{1Oct-31Mar} NTSIC_{hE_{v,t,d}} \times NTSMAE_{v,t} \right) * (Y_t / P_t) \right]}{100} + NTSOC_t - NTSBB_t$$

where:

$NTSMAE_{v,t}$  means the maximum actual allocation of NTS Offtake (Flat) Capacity in GWh/d for Offtake  $v$  within the relevant Distribution Network for each Day between 1 October and 31 March for Formula Year  $t$ ;

$NTSBB_t$  means [revenues received from the NTS Operator in respect of Buybacks for Formula Year  $t$ ]; and

$NTSOC_t$  means [payments made to the NTS Operator in respect of Overrun Costs for Formula Year  $t$ ].

and all other terms have the respective meanings given in paragraph 8.6.

**Part D: Interpretation**

8.8 The following terms will need to be developed as definitions, mostly within the separate condition specifically devoted to defined terms for the Special Conditions:

Deemed Costs// Distribution Network // Distribution Network  
 Transportation Activity// Offtake // Efficiency Incentive Rate // NTS (TO)  
 Exit Capacity Charge // NTS Exit Capacity // NTS Exit Capacity Cost  
 Adjustment // NTS Gas Transportation Statement // NTS Offtake (Flat)  
 Capacity // NTS Offtake (Flexibility) Capacity // Buybacks // Overrun  
 Costs

**Comment [tora35]:** These definitions should be set out in GDC19.

**Appendix 1**

(see paragraph 8.6 in relation to the NTSTVE<sub>v,t</sub> term)

**Distribution Network target volume of NTS Offtake (Flat)  
 Capacity (GWh/d)**

GDN	Offtake v	NTSTVE <sub>v,t</sub> (GWh/d)							
		t=1	t=2	t=3	t=4	t=5	t=6	t=7	t=8
East	EM1								
	EM2								
	EM3								
	EM4								
	EA1								
	EA2								
	EA3								
	EA4								
London	NT1								
	NT2								
	NT3								
NW	NW1								
	NW2								
WM	WM1								
	WM2								
	WM3								

## [GDC 24] Special condition [x]. Incentive adjustment in respect of the Broad Measure of Customer Satisfaction

### Introduction

1. The purpose of this condition is to provide for the calculation of the amount of the term  $BM_t$ , reflecting the licensee's performance in respect of the Broad Measure of Customer Satisfaction. The effect of the application of the  $BM_t$  term is to determine the value (whether positive or negative) under Part B of [GDC 20] [Special Condition \[x\]](#) (Restriction of revenue in respect of the Distribution Network Transportation Activity).
2. The aim of the Broad Measure of Customer Satisfaction is to incentivise the licensee to improve its customer service by monitoring its performance in relation to customer satisfaction, customer complaints<sub>T</sub> and the extent to which it effectively engages with its stakeholders.

**Comment [tora36]:** The structure of this condition is not consistent with the other price control conditions and therefore should be amended. We have commented on this throughout this condition. Other conditions are divided into "Parts" rather than Sections and formulae within them individually introduced.

Where formula use terms defined in relation to other formulae, these need clearly to refer to the formula in which the term in question is first defined.

### Part A: Structure of this condition

3. This condition is organised as follows:
  - i. Part B provides the formula for the calculation of the Broad Measure of Customer Satisfaction adjustment ( $BM_t$ ).
  - ii. Parts C, D and E provide the calculations for the particular contributions made to the formula set out in Part B in relation to the customer satisfaction survey term (CSt), complaints metric term (CMt) and stakeholder engagement term (SEt) respectively.
  - iii. Part F provides for the Authority, following a review by an Examiner, to give directions in relation to the accuracy of any of the Specified Information supplied by the licensee for use in any of the formulas contained in this condition.
  - iv. Part G deals with procedural requirements and matters of interpretation; and
  - v. Appendices 1- 4 set out the maximum adjustment to Maximum Distribution Transportation Activity Revenue for each part of the Broad Measure of Customer Satisfaction for the licensee in Formula Year  $t$ .

**Comment [tora37]:** The numbering system used is not consistent with the numbering system used in other price control conditions.

### Part B: Formula for the Broad Measure of Customer Satisfaction adjustment

4. For the purposes of Part B of [GDC20] [Special Condition \[x\]](#) (Restriction of revenue in respect of the Distribution Network Transportation Activity), the Broad Measure of Customer Satisfaction adjustment ( $BM_t$ ), and is derived in accordance with the following formula:

$$BM_t = (CS_{t-2} + CM_{t-2} + SE_{t-2}) \times (1 + I_{t-2}/100) \times (1 + I_{t-1}/100)$$

where:

$BM_t$  means the adjustment in respect of the licensee's performance on the broad measure of customer satisfaction incentive in Formula Year  $t$  (where "customer" means the general body of persons, including but not limited to actual users of the licensee's network, who are affected by the licensee's operations);;

**Comment [tora38]:** As to the definition provided of "customer", we think this will cause confusion as "Customer" is defined in Standard Special Condition A3. We think it better to list the classes of people intended to be covered, such as shippers.

$CS_t$  ~~(the customer satisfaction survey term)~~ means the adjustment in respect of the licensee's overall surveyed customer satisfaction performance in Formula Year  $t$ , in relation to the target for the customer satisfaction score in that year, and is derived in accordance with the provisions of Part C below;;

**Comment [tora39]:** As to the definitions of "CS", "CM" and "SE", we suggest delete the words in brackets as this style has not previously been included in other price control conditions and the meaning is clear from the rest of each definition..

$CM_t$  ~~(the complaints metric term)~~ means ~~such~~ the negative adjustment (if any) in respect of the licensee's performance in Formula Year  $t$ , in relation to the target for the complaints metric score in that year, and is derived in accordance with the provisions of Part D below;; and

$SE_t$  ~~(the stakeholder engagement term)~~ means ~~a~~ the positive adjustment (if any) that may be determined by the Authority pursuant to the provisions in Part E below, in recognition of the licensee's demonstration that its effective stakeholder engagement has led to exceptionally positive outcomes for its stakeholders in respect of performance in Formula Year  $t$ . The maximum value of  $SE_t$  specified for the licensee, will be no greater than the value specified for the licensee in respect of that year as set out in Appendix 1.

### Part C: Adjustments arising from the customer satisfaction survey

5.  $CS_t$  refers to the customer satisfaction score, and is derived from the following formula:

$$CS_t = CSA_t + CSB_t + CSC_t \text{ (see Sections 1 to 3 respectively below)}$$

#### SECTION 1

6.  ~~$CSA_t$  (the customer satisfaction with planned supply interruptions term)~~ For the purposes of the formula set out in paragraph 5 above,  $CSA_t$  means the adjustment in respect of the licensee's performance in Formula Year  $t$ , in relation to the target for the planned supply interruptions element of the customer satisfaction survey, and is derived in accordance with the following formula:

**Comment [tora40]:** Delete the headings "Section 1, Section 2 and Section 3", as these are also not consistent with the other price control conditions. We have inserted paragraph numbering consistent with the other price control conditions. Other conditions are divided into Parts. There also need to be cross-referencing where defined terms are used in more than one formula.

$$CSA_t = \text{IF}[CSAD_t \geq 0, CSAR_t, CSAP_t]$$

7.  ~~$CSAD_t$  (the planned supply interruptions relative score term)~~ For the purposes of the formula set out in paragraph 6 above,  $CSAD_t$  means the licensee's performance for the planned supply interruptions element of the

customer satisfaction survey for Formula Year t, relative to the target score for the planned supply interruptions element of the customer satisfaction survey for Formula Year t. ~~Where~~ and is derived in accordance with the following formula:

$$CSAD = CSAS_t - CSAUQ$$

where:

~~CSAS<sub>t</sub> (the planned supply interruptions score)~~ means the licensee's actual performance for the planned supply interruptions element of the customer satisfaction survey for Formula Year t; and

~~CSAUQ<sub>t</sub> (the target planned supply interruptions target score)~~ means the licensee's target planned supply interruption score, fixed at [x].

8. ~~CSAR<sub>t</sub> (the planned supply interruptions reward amount)~~ For the purposes of the formula set out in paragraph 6 above, CSAR<sub>t</sub> means the positive adjustment (if any) in respect of the licensee's planned supply performance for Formula Year t and is derived in accordance with the formula below:

$$CSAR_t = \min((CSAD_t / (CSAMX - CSAUQ_t)) \times CSOU_{t,i}, CSOU_{t,i})$$

~~Where~~ where:

~~CSAMX<sub>t</sub> (the planned supply interruptions maximum reward score)~~ means the planned supply performance maximum reward score which is fixed as [x]; and

~~CSOU<sub>t</sub> (the maximum upside allowed revenue term)~~ means the maximum positive adjustment to Maximum Distribution Network Transportation Activity Revenue for the licensee in Formula Year t specified in Appendix [X].

9. ~~CSAP<sub>t</sub> (the planned supply interruptions penalty amount)~~ For the purposes of the formula set out in paragraph 6 above, CSAP<sub>t</sub> means the negative adjustment in respect of the licensee's planned supply interruption performance for Formula Year t, and is derived in accordance with the formula below:

$$CSAP_t = \min((CSAD_t / (CSAMP - CSAUQ_t)) \times CSOD_{t,i}, CSOD_{t,i})$$

~~Where~~ where:

CSAMP<sub>t</sub> ~~(the planned supply interruptions maximum penalty score)~~ means the planned supply interruptions maximum penalty score which is fixed as [x]; and

CSOD<sub>t</sub> ~~(the maximum downside allowed revenue term)~~ means the maximum negative adjustment to Maximum Distribution Network Transportation Activity Revenue as specified for the licensee in respect of Formula Year t in Appendix [X].

## **SECTION 2**

10. ~~CSB<sub>t</sub>(the customer satisfaction with unplanned supply interruptions term)~~ For the purposes of the formula set out in paragraph 5 above, CSB<sub>t</sub> means the adjustment to the Maximum Distribution Network Transportation Activity Revenue in respect of the licensee's performance in Formula Year t, in relation to the target for the unplanned supply interruptions element of the customer satisfaction score, and is derived in accordance with the following formula:

$$CSB_t = \text{IF}[CSBD_t \geq 0, CSBR_t, CSBP_t]$$

11. ~~CSBD<sub>t</sub>(the unplanned supply interruptions relative score term)~~ For the purposes of the formula set out in paragraph 10 above, CSBD<sub>t</sub> means the licensee's performance for the unplanned supply interruptions element of the customer satisfaction survey for Formula Year t, relative to the target score for the unplanned supply interruptions element of the customer satisfaction survey for Formula Year t and is derived in accordance with the following formula.

$$CSBD_t = CSBS_t - CSBUQ$$

~~Where~~where:

CSBS<sub>t</sub> ~~(the unplanned supply interruptions score)~~ means the licensee's actual performance for the unplanned supply interruptions element of the customer satisfaction survey for Formula Year t; and

CSBUQ<sub>t</sub> ~~(the target unplanned supply interruptions target score)~~ means the licensee's target unplanned supply interruption score, which is fixed as [x].

12. ~~CSBR<sub>t</sub>(the unplanned supply interruptions reward amount)~~ For the purposes of the formula set out in paragraph 10 above, CSBR<sub>t</sub> means the positive adjustment (if any) in respect of the licensee's unplanned supply performance for Formula Year t and is derived in accordance with the formula below:

$$CSBR_t = \min((CSBD_t / (CSBMX_t - CSBUQ_t)) \times CSOU_{t,}, CSOU_t)$$

~~Where~~where:

CSBMX ~~(the unplanned supply interruptions maximum reward score)~~ means the unplanned supply performance maximum reward score which is fixed as [x]; ~~and~~

CSOU<sub>t</sub> ~~(the maximum upside allowed revenue term)~~ means the maximum positive adjustment to Distribution Network Transportation Activity Revenue for the licensee in Formula Year t specified in Appendix [X].

13. ~~CSBP<sub>t</sub> (the unplanned supply interruptions penalty amount)~~ For the purposes of the formula set out in paragraph 10 above, CSBP<sub>t</sub> means the negative adjustment (if any) in respect of the licensee's unplanned supply interruption performance for Formula Year t and is derived in accordance with the formula below:

$$CSBR_t = \min((CSBD_t / (CSBMR_t - CSBUQ_t)) \times CSOD_{t,}, CSOD_t)$$

~~Where~~where:

CSBMP<sub>t</sub> ~~(the unplanned supply interruptions maximum penalty score)~~ means the unplanned supply interruptions maximum penalty score which is fixed as [x]; ~~and~~

CSOD<sub>t</sub> ~~(the maximum downside allowed revenue term)~~ means the maximum negative adjustment to Maximum Distribution Network Transportation Activity Revenue as specified for the licensee in respect of Formula Year t in Appendix [X].

### **SECTION 3**

14. ~~CSC<sub>t</sub> (the customer satisfaction with connections term)~~ For the purposes of the formula set out in paragraph 5 above, CSC<sub>t</sub> means the adjustment in respect of the licensee's performance in Formula Year t-<sub>1</sub> in relation to the target for the planned supply interruptions element of the customer satisfaction score, and is derived in accordance with the following formula:

$$CSC_t = \text{IF}[CSCD_t \geq 0, CSCR_t, CSCP_t]$$

15. ~~CSCD<sub>t</sub> (the connections relative score term)~~ For the purposes of the formula set out in paragraph 14 above, CSCD<sub>t</sub> means the licensee's performance for the connections element of the customer satisfaction survey for Formula Year t-<sub>1</sub> relative to the target score for the planned

supply interruptions element of the customer satisfaction survey for Formula Year t, and is derived in accordance with the following formula:

~~Where:~~

$$CSCD_t = CSCS_t - CSCUQ_t$$

where:

$CSCS_t$  ~~(the connections score)~~ means the licensee's actual performance for the connections element of the customer satisfaction survey for Formula Year t as calculated for that year; and

$CSCUQ_t$  ~~(the connections target score)~~ means the licensee's target connections score, which will be fixed at [x] for the Formula Year t.

16.  $CSCR_t$  (the connections reward amount) For the purposes of the formula set out in paragraph 14 above,  $CSCR_t$  means the positive adjustment (if any) in respect of the licensee's connections performance for Formula Year t ~~derived using the formula below:~~, and is derived in accordance with the following formula:

$$CSCR_t = \min\left(\frac{CSCD_t}{(CSCMX_t - CSCUQ_t)} \times CSOU_t, CSOU_t\right)$$

where:

~~Where:~~

$CSCMX_t$  ~~(the connections maximum reward score)~~  $CSCMX_t$  means the connections performance maximum reward score which is fixed as [x]; and

$CSOU_t$  ~~(the maximum upside allowed revenue term)~~ means the maximum positive adjustment to Maximum Distribution Network Transportation Activity Revenue for the licensee in Formula Year t specified in Appendix [X].

17.  $CSCP_t$  (the connections penalty amount) For the purposes of the formula set out in paragraph 14 above,  $CSCP_t$  means the negative adjustment in respect of the licensee's planned supply interruption performance for Formula Year t, and is derived in accordance with the following formula below:



$$CSCP_t = \min((CSCD_t / (CSCMP_t - CSCUQ_t)) \times CSOD_t, CSOD_t)$$

~~Where~~where:

CSCMP<sub>t</sub> ~~(the connections maximum penalty score)~~ means the connections maximum penalty score which is fixed as [X]<sub>t</sub> and

CSOD<sub>t</sub> ~~(the maximum downside allowed revenue term)~~ means the maximum negative adjustment as specified for the licensee in respect of ~~Formula Year~~ Formula Year t in Appendix [X].

**Comment [tora41]:** Is this an adjustment to "Maximum Distribution Network Transportation Activity Revenue" in the same manner as "CSOU"? If so this should be stated.

#### Part D: Adjustments arising from complaints metric performance

18. ~~6.~~The term CM<sub>t</sub> ~~refers to the~~ complaints metric score, ~~and~~ (CM) is derived from in accordance with the following formula ~~below~~:

$$CM_t = IF(CMIS \geq 0, 0, \max(CMIS \times IRCM, (ARCM_t \times -1))$$

~~7.~~ ~~In the formulas for the CM<sub>t</sub> term above:~~

19. CMIS<sub>t</sub> ~~(the)~~ means the difference between the licensee's performance score and the fixed target for complaint handling for Formula Year t, and is derived in accordance with the following formula ~~below~~:

$$CMIS_t = UQCM_t - CMP_t$$

where:

~~Where~~

UQCM ~~(the complaints metric target score)~~ means the target score for the complaints metric, fixed at a value of [X] for Formula Year t<sub>i</sub>

CMP<sub>t</sub> ~~( means~~ the complaints metric performance term) and is derived in accordance with the following formula:

$$CMP_t = (PCUDPO_t \times 10) + (PCUDPT_t \times 30) + (PRC_t \times 50) + (POF_t \times 10)$$

~~Where~~where:

PCUDPO<sub>t</sub> ~~(the percentage of complaints unresolved after day plus one term)~~ means the percentage of complaints unresolved by the end of the first working day after the day on which the complaint was first received for Formula Year t as calculated for that year<sub>t</sub>

**Comment [tora42]:** How is this term "calculated", this is not clear.

PCUDPT<sub>t</sub> (~~the percentage of complaints unresolved after day plus 31 term~~) means the percentage of complaints unresolved after the end of 31 working days from the end of the first working day after the day on which the complaint was first received for Formula Year t as calculated for that year.

**Comment [tora43]:** How is this term “calculated”, this is not clear.

PRC<sub>t</sub> (~~means the percentage of repeat complaints term~~) means ~~the percentage of repeat complaints~~ for Formula Year t as calculated for that year.

**Comment [tora44]:** How is this term “calculated”, this is not clear.

POF<sub>t</sub> (~~the percentage of Ombudsman findings term~~) means the percentage of Ombudsman findings against the licensee for Formula Year t as calculated for that year.

**Comment [tora45]:** How is this term “calculated”, this is not clear.

20. ~~IRCM<sub>t</sub> (the complaints metric incentive rate term)~~ In the formula for the CMT term in paragraph 18 above, IRCM<sub>t</sub> means the incentive rate for the complaints metric for Formula Year t ~~as~~, and is derived in accordance with the following formula ~~number~~:

$$\text{IRCM}_t = \left( \frac{\text{ARCM}_t}{(\text{UQCM} - \text{MLCM}_t)} \right)$$

where:

MLCM<sub>t</sub> (~~the complaints metric maximum level of penalty score~~) means the score to which the maximum level of penalty will be applied, this is a fixed score [x] for Formula Year t.

ARCM<sub>t</sub> (~~the complaints metric allowed revenue term~~) means the maximum negative adjustment to the licensee’s Maximum Distribution Network Transportation Activity Revenue as specified for Formula Year t in Appendix [x].

**Comment [tora46]:** ARCM is also used in paragraph 18 (old 6) and thus needs to be confirmed.

## Part E: Adjustments arising from stakeholder engagement performance

21. ~~8.~~ The ~~purpose of this condition is to set out the mechanism for deriving the value of the licensee’s~~ Stakeholder Engagement term (SEt) ~~is derived in accordance with the provisions of this Part E.~~

### SECTION 1

22. ~~9.~~ The maximum value of the SE<sub>t</sub> term for each Formula Year that can be determined by the Authority for each licensee is set out in Appendix 1.

23. ~~10.~~ The maximum value is to be calculated in accordance with the provisions of Part [C] of ~~GTC~~ GDC [20].

**Comment [tora47]:** If the maximum value is set out in Appendix 1, why would this amount be calculated then under para 10? This seems inconsistent.

24. ~~11.~~ The licensee may apply to be awarded a stakeholder engagement reward in respect of Formula Year t in accordance with such procedures, timescales, and minimum eligibility criteria as may be set out in the Stakeholder Engagement Reward Guidance that is published on the

**Comment [tora48]:** Part C does not seem to provide for this. Please clarify and insert paragraph reference to GDC20 to ensure clear.

Authority's website (and that may be modified from time to time in accordance with ~~the provisions of Section 2 paragraphs 26 to 28~~ below).

25. ~~12.~~In addition to making provision for the matters mentioned in paragraph x, the Stakeholder Engagement Reward Guidance may also make provision for:

- (a) the appointment, by the Authority, of persons who will allocate the stakeholder engagement reward; and
- (b) the manner and process by which such assessments will be made and any rewards will be awarded.

## **SECTION 2**

[To make modification process consistent across all licence conditions]

26. ~~13.~~Before modifying the Stakeholder Engagement Reward Guidance, the Authority, by Notice given to all licensees in whose licence a condition of equivalent effect to this condition has effect, will:

- (a) state that it proposes to modify the guidance, ~~and specify~~ specifying the date on which it proposes that the provisions of the modified manual should take effect;
- (b) set out the text of the modified guidance and the reasons for the Authority's proposed modifications; and
- (c) specify the time (which may not be less than a period of 28 days from the date of the Notice) within which representations may be made.

27. ~~14.~~The Authority will consider any representations that are duly made and the Authority will give reasons for its decision.

28. ~~15.~~The Authority will modify the Stakeholder Engagement Reward Guidance by issuing a direction to that effect for the purposes of this condition following the procedure set out in ~~this Section 4~~ Part G below.

## **SECTION 3**

29. ~~16.~~The term "stakeholder", wherever it appears in this condition and in whatever context, refers to the general body of persons (including but not limited to customers or other actual users of the licensee's network) who are materially affected by the licensee's operations.

**Comment [tora49]:** The definition of "stakeholder" should be set out in GDC19.

30. ~~17.~~[This is an early draft which we would expect to be consistent with ED and T] For the purposes of determinations made by the Authority pursuant to the provisions of Part B above, "exceptionally positive outcomes" means outcomes that:

- (a) result directly or indirectly from the licensee's ongoing engagement with its stakeholders;
- (b) serve the interests of the licensee's stakeholders as a whole, or the interests of specific groups of them, by developing and

implementing best practice that is not otherwise recognised, required, or recompensed under any other provision of the Special Condition s; and

- (c) do so to an extent or in a manner that appears to the Authority to justify the award to the licensee of a stakeholder engagement reward.

#### **Part F: Power of the Authority to replace Specified Information**

31. ~~18.~~This paragraph applies where the report of an Examiner nominated by the Authority under [Add reference once confirmed where sit under RIIO. Currently Standard Special Condition D9 (Distribution Network transportation activity incentive scheme and performance reporting)] finds that the level of accuracy of any Specified Information used for the purposes of any formula in this condition is less than the level of accuracy specified for such information in the Regulatory Instructions and Guidance issued under [GDC74 (currently Special Condition D9)].

32. ~~19.~~If paragraph ~~12~~ 31 applies, the Authority may, after consultation with the licensee and having due regard to all relevant information and circumstances, and so as to mitigate any distortion arising from the inaccuracy referred to in that paragraph, direct which data should be used in substitution for the non-compliant information for the purposes of the formula in question.

**Comment [tora50]:** The meaning of “distortion” needs to be clarified.

#### **Part G: Procedural requirements and interpretation**

33. ~~20.~~Before issuing a direction under paragraph ~~13~~ 32, the Authority must give Notice to the licensee of:

- (a) the terms of the proposed direction;
- (b) the reasons why it proposes to issue the direction; and
- (c) the period (which must not be less than ~~14~~ 28 days from the date of the Notice) within which the licensee may make representations or objections.

34. ~~21.~~The Authority must consider any representations or objections duly received under paragraph ~~12~~ 33, and give reasons for its decision.

35. ~~22.~~A direction given by the Authority under [GDC 74] to modify the Regulatory Instructions and Guidance (which sets out further details of formulas relating to quality of service issues for the purposes of the licensee’s reporting obligations to the Authority) may not specify a date for the purposes of paragraph 13(a) of that condition which is other than a Price Control Review Date unless all DN Operators have agreed that date. [To be reviewed in light of new RIGs condition GDC74]

**Comment [tora51]:** This paragraph should be set out in the RIGS not this condition. All the rules relating to the RIGS should be in GDC 74.

36. ~~23.~~In this condition:

- (a) where the terms "max" and "min" are used in any formula, then, for any two given amounts X and Y:

**Comment [tora52]:** We suggest that these definitions are set out in GDC19.

"min (X,Y)" means X if X-Y is negative (and otherwise means Y),  
and

"max (X,Y)" means Y if X-Y is negative (and otherwise means X);

- (b) words and expressions defined for the purposes of Standard Special Condition D9 have the same meaning when used in that condition; and

**Comment [tora53]:** Will Standard Special Condition D9 survive this process?

- (c) words and expressions defined in the Quality of Service RIGs that are used in this condition have the same meaning as in those RIGs.

**Comment [tora54]:** We do not think appropriate, prefer definitions in the licence.

37. ~~24.~~ Appendices 1 to 4 follow immediately below.

Appendix 1: value of SEt (the maximum revenue exposure to the stakeholder engagement term)

Appendix 2: value of CSOU (the maximum upside allowed revenue term)

Appendix 3: value of CSOD (the maximum downside allowed revenue term)

Appendix 4: value of ARCM<sub>t</sub> (the complaints metric allowed revenue term)

**[GDC 25] Special Condition [x]. Revenue adjustments for performance in respect of gas shrinkage and environmental emissions**

[Note – We are consulting on two options for the licence in Part C - Formula for Environmental Emissions Incentive revenue (EEI). We welcome stakeholders’ views on their preference for either Option 1 or Option 2].

**Introduction**

25.1 The purpose of this condition is to establish the mechanisms for determining the value of the incentive payments that in Formula Year t will adjust the licensee’s Maximum Distribution Network Transportation Activity Revenue under [Part B of \[GDC 20\] Special Condition \[x\]](#) (Restriction of revenue in respect of the Distribution Network Transportation Activity) in order to reflect:

- (a) the licensee’s **efficient cost of procuring gas lost to shrinkage** (“the Maximum Distribution Network Shrinkage Allowance”); and
- (b) the licensee’s performance in reducing environmental emissions arising from gas leakage (“the Environmental Emissions Incentive”).

**Comment [j55]:** How is this to be determined?

**Comment [tora56]:** Note that para 20.4, in relation to SHR, refer to “Shrinkage Incentive”, yet this para GDC25 refers to “the Maximum Distribution Network Shrinkage Allowance”. Please ensure consistency.

25.2 This condition also provides for the licensee to:

- (a) have **expectations** for the revenue adjustment to be made under a rolling incentive mechanism in relation to performance under paragraph 25.1;
- (b) maintain The Shrinkage and Leakage Model in conjunction with other DN Operators;
- (c) report to the Authority on levels of gas shrinkage and gas leakage calculated in accordance with The Shrinkage and Leakage Model;
- (d) propose modifications to The Shrinkage and Leakage Model; and
- (e) report to the Authority on the collection and use of Smart Metering Data for the purposes of assessing whether such data could be used as an alternative to The Shrinkage and Leakage Model.

**Comment [tora57]:** We are unsure of what the licensee’s right is where it is stated, “have expectations”. This seems to suggest something short of a right. This needs to be clarified.

**Part A: Formula for calculating the ~~maximum shrinkage allowance~~ Maximum Distribution Network Shrinkage Allowance (SHR)**

25.3 For the purposes of Part B of [GDC 20] Special Condition [x], ~~the maximum~~ (Restriction of revenue in respect of the [Distribution Network Transportation Activity](#)), the [Maximum Distribution Network Shrinkage Allowance \(SHR\)](#) in respect of Formula Year t is derived in accordance with the following formula:

$$SHR_t = \sum_{all\ i} [ASC_{t,i} + (GPCR_t \times SB_{t,i} - ASC_{t,i}) \times IQI]$$

where:

SHR<sub>t</sub> means the Maximum Distribution Network Shrinkage Allowance in respect of the relevant Distribution Network for Formula Year t;

ASC<sub>t,i</sub> means the actual shrinkage cost in respect of Formula Year t for each i of the relevant Distribution Network

;

;

i means each LDZ of the licensee's Distribution Network;

$\sum_{all\ i}$  means the sum across all LDZs;

GPRC<sub>t</sub> means the gas price reference cost in respect of Formula Year t, and is derived in accordance with the provisions of Part B below;

SB<sub>t,i</sub> means the LDZ allowed shrinkage volume in respect of Formula Year t for each LDZ i of the relevant Distribution Network as set out in Appendix 1 (which is part of this condition).

25.4 The mechanisms mentioned in paragraph 25.1 include a rolling incentive mechanism, the outputs of which will be calculated in the Formula Year 2021/22, once the licensee's gas shrinkage and environmental emissions performance from April 2013 to March 2021 is known.

**Comment [j58]:** How with this work?

### Part B: Derivation of the gas price reference cost (GPRC)

25.5 For the purposes of the formula for SHR<sub>t</sub> under Part A above, the gas price reference cost (GPRC) in respect of Formula Year t is derived in accordance with the following formula:

$$GPRC_t = CF \times \left( \frac{\sum_{all\ d} (Wdy + Wed)}{WD} \right)$$

where:

CF means conversion factor and is used to convert the following term:

$$\sum_{all\ d} (Wdy + Wed)$$

from pence per therm to pounds sterling per gigawatt hour, and

is equal to 341.2;

D means each calendar Day, where d = 1 means 1 April and all other days are numbered consecutively thereafter;

$\sum_{all\ d}$  means the sum across all calendar Days d within Formula Year t;

Wdy means the Forward Offer Price of gas at the close of business on the Day before the relevant Day d as published in an Approved Market Price Report for delivery at the national balancing point for those Days that are neither a weekend (Saturday and Sunday) nor a prescribed Bank Holiday in England and Wales;

**Comment [tora59]:** "Forward Offer Price" needs to be defined.

Wed means the Forward Offer Price of gas at close of business on the Day before the relevant weekend or Bank Holiday as published in an Approved Market Price Report for delivery at the national balancing point for those days that are a Saturday or Sunday or a prescribed Bank Holiday in England and Wales; and

**Comment [tora60]:** "Approved Market Price Report" is defined at present in Special Condition E1. Is this to remain and be placed in GDC19?

WD means the number of Days within the Formula Year t.

[note: a prescribed Bank Holiday is a Bank Holiday within the meaning of the Banking and Financial Dealings Act 1971.]

**Comment [tora61]:** "prescribed bank holiday" should be a defined term, not just a "note".

**[OPTION 1] Part C: Formula for Maximum Distribution Network Environmental Emissions Incentive revenue (EEI)**

25.6 For the purposes of Part B of [GDC 20] Special Condition [x], ~~the maximum (Restriction of revenue in respect of the Distribution Network Transportation Activity), the Maximum~~ Distribution Network Environmental Emissions Incentive revenue (EEI) in respect of the Formula Year t is derived in accordance with the following formula:

$$EEI_t = \sum_i [LB_{t,i} - LV_{t,i}] \times CC_t \times IQI \times RPIF_t \quad EEI_t = \sum_i [LB_{t,i} - LV_{t,i}] \times CC_t \times IQI \times RPIF_t$$

where:

$\sum_i$  means the sum for each LDZ i of the relevant Distribution Network;

LB<sub>t,i</sub> means the LDZ allowed leakage volume in respect of Formula Year t for each LDZ i of the relevant Distribution Network as set out in Appendix 1 ~~(which is part of this Condition)~~;

LV<sub>t,i</sub> means the LDZ actual leakage volume, as derived from the application of the Shrinkage and Leakage Model maintained by the licensee under Part D below;

RPIF<sub>t</sub> has the value given to it by Part C [GDC 20] Special Condition [x] ~~(Restriction of revenue in respect of the Distribution Network~~



Transportation Activity);

- CC<sub>t</sub> means the environmental emissions factor for the licensee in respect of Formula Year t and has the value set out in Appendix 3 ~~(which is part of this condition);~~ and
- IQI means the Efficiency Incentive Rate as specified for the Licensee in [document/definitions in licence]

.

**[OPTION 2] Part C: Formula for Maximum Distribution Network Environmental Emissions Incentive revenue (EEI)**

- 25.6 For the purposes of Part B of [GDC 20] Special Condition [x], the ~~maximum~~ Maximum Distribution Network Environmental Emissions Incentive ~~revenue~~ (EEI) in respect of the Formula Year t, and is derived ~~from~~ in accordance with the following formula:

$$EEI_t = \sum_i \sum_{n=1}^t \left[ IP_{t=n,i} \times \frac{8}{(8-(n-1))} \right] \times CC_t \times IQI \times RPIF_t$$

~~Where~~ where:

- IP<sub>t,i</sub> means the incremental performance in ~~year~~ Formula Year t and is derived ~~by~~ in accordance with the following formula:

$$IP_{t,i} = OP_{t,i} - OP_{t-1,i}$$

~~Where~~ where:

- OP<sub>t,i</sub> means annual outperformance in respect of Formula Year t and is derived ~~from~~ in accordance with the following formula:

$$OP_{t,i} = LB_{t,i} - LV_{t,i}$$

~~Where~~ where:

- LB<sub>t,i</sub> means the LDZ allowed leakage volume in respect of Formula Year t for each LDZ i of the relevant Distribution Network as set out in Appendix 2 ~~(which is part of this condition);~~
- LV<sub>t,i</sub> means the LDZ actual leakage volume, ~~as~~ and is derived from the application of the Shrinkage and Leakage Model maintained by the licensee under Part

D below ~~;~~ and

$OP_{t-1,i}$

means annual leakage outperformance in respect of Formula Year t-1 and in respect of the Formula Year commencing 1 April 2013 has the value zero

.

- 25.7 The Authority will determine the incentive amounts under the rolling incentives for environmental emissions by reference to the methodologies set out in Chapter 00 of the Authority's decision document entitled *Final Proposals: financial methodology*, published on 00 December 2012 under reference XX/YY, that will have effect in relation to the licensee for the period of eight Formula Years commencing on 1 April 2013.

**Part D: Maintenance of The Shrinkage and Leakage Model**

- 25.8 The licensee (together with all other DN Operators) must maintain a shrinkage and leakage model ("The Shrinkage and Leakage Model") ~~as~~ approved by the Authority ~~and~~ and as modified from time to time in accordance with the provisions set out in Part E of this condition.
- 25.9 The Shrinkage and Leakage model must be designed to achieve the following two objectives:
- (a) to facilitate the accurate calculation and reporting of gas shrinkage and gas leakage in or from each of the LDZs operated by the licensee; and
  - (b) to be consistent with and, where reasonably practicable, identical to the Shrinkage and Leakage Model used by every other DN Operator.
- 25.10 The licensee must ~~by~~ by 31 July in each Formula Year ~~make~~ publicly available and provide to the Authority ~~a~~ a report that sets out the actual leakage volume (LV<sub>t,i</sub>) reported by The Shrinkage and Leakage Model for each LDZ which it operates for the preceding Formula Year, together with any new information obtained by the licensee with respect to leakage rates, including data derived from leakage tests.
- 25.11 Subject to the provision of reasonable prior notice by the Authority, the licensee must allow the Authority, or a duly authorised representative of it, such access to the licensee's staff, records ~~and~~ and facilities as the Authority may reasonably require ~~for~~ for the purpose of enabling it establish to the Authority's reasonable satisfaction that:
- (a) The Shrinkage and Leakage Model complies with the requirements of this condition (including the provisions of Parts E and F below); and

- (b) the licensee is complying with the relevant processes and procedures that are contained within The Shrinkage and Leakage Model.

25.12 The licensee must not make any modification to The Shrinkage and Leakage Model except where ~~it~~ and to the extent that ~~it~~ it is directed to do so by the Authority pursuant to paragraph 25.22.

### Part E: Modification of ~~the~~ The Shrinkage and Leakage Model

25.13 The licensee must ~~it~~ annually review The Shrinkage and Leakage Model in order to assess how it can better achieve the objectives set out in paragraph 25.9 (“the SLM Review”).

25.14 The ~~SLM Review~~ licensee must consult with gas shippers and other interested parties on the outcome of the SLM Review and send a copy of this consultation to the Authority by 31 December in each Formula Year.

**Comment [tora62]:** Should we include consultation with DN operators also?

25.15 Any modification ~~that is proposed~~ the licensee proposes to The Shrinkage and Leakage Model pursuant to the SLM Review must, where appropriate, specify such revised allowed shrinkage and allowed leakage volumes for each LDZ operated by the licensee ~~it~~ as would maintain the incentive properties of the Maximum Distribution Network Shrinkage Allowance and of the Environmental Emissions Incentive ~~it~~ at the same levels as those applicable before the proposed modification.

**Comment [tora63]:** What is meant by “incentive properties”? Can this be better described?

25.16 Where, following the SLM Review, the licensee proposes any modifications to The Shrinkage and Leakage Model, the licensee must ~~it~~:

- (a) consult other DN Operators, gas shippers and other interested parties for their views on whether the allowed shrinkage and allowed leakage volumes should be revised as proposed, allowing them a period of not less than 28 days in which to make representations; and
- (b) within 28 days after the close of that consultation make publicly available and submit to the Authority a report in accordance with paragraph ~~25.7~~ 25.17.

25.17 ~~That~~ The report submitted by the licensee under paragraph 25.16 must set out:

- (a) the modifications originally proposed;
- (b) the revised allowed shrinkage and allowed leakage volumes proposed pursuant to paragraph ~~25.5~~ 25.15;
- (c) the representations (if any) that were made to the licensee by gas shippers or other interested parties and not withdrawn;
- (d) any changes to the modifications and to the allowed shrinkage and allowed leakage volumes that are proposed as a result of such representations;

**Comment [tora64]:** Should also refer to DN Operators in order to be consistent with para 25.16(a).

- (e) a copy of the independent expert's report referred to in paragraph 25.20;
- (f) an explanation of how the proposed modifications would better achieve the objectives set out in paragraph 25.9; and
- (g) a timetable, developed in accordance with paragraph 25.21, for implementing the modifications originally proposed or any alternative modifications developed in the light of any representations made by gas shippers or other interested parties, including the date with effect from which such modifications (if made) would take effect.

**Comment [tora65]:** Should also refer to DN Operators in order to be consistent with para 25.16(a).

25.18 When proposing any modification to The Shrinkage and Leakage Model, the licensee must, in conjunction with other DN Operators, appoint an independent expert who will review the Shrinkage and Leakage Model and the proposed allowed shrinkage and allowed leakage volumes for the licensee and all other DN Operators and provide a report of that review.

25.19 If requested by other DN Operators, the licensee must provide all the information required to enable DN Operators to comply with paragraph 25.18.

**Comment [tora66]:** This paragraph is generally not clear. Who will this information be provided to? What types of information would need to be provided? In what regard do DN Operators need to comply with para 25.18?

25.20 The report ~~must~~ submitted by the licensee under paragraph 25.16 must include the independent expert's opinion on the extent to which the proposed modifications to The Shrinkage and Leakage Model would better achieve the objectives set out in paragraph ~~25.11~~ 25.9 and, where applicable, ~~their~~ his opinion on the extent to which any proposed changes to the allowed shrinkage and allowed leakage volumes would maintain the incentive properties of the Maximum Distribution Network Shrinkage Allowance and the Environmental Emissions Incentive at the same levels as those applicable before such changes.

**Comment [tora67]:** What is meant by "incentive properties"? Can this be better described?

25.21 The licensee, must determine an appropriate timetable for any modification to The Shrinkage and Leakage Model which ensures that such modification is able to take effect as soon as practicable after the Authority has directed it to be made and which allows for that timetable to be extended with the consent of, or as required by, the Authority.

25.22 Where the Authority considers that a modification set out in such a report would, as compared with the existing provisions of The Shrinkage and Leakage Model and any alternative modifications set out in the report, better achieve the objectives set out in paragraph ~~25.11~~ 25.9, the Authority may issue directions requiring the licensee, in conjunction with all other DN Operators:

- (a) to revise The Shrinkage and Leakage Model in such manner as is specified in the directions; and
- (b) to revise the allowed shrinkage and allowed leakage volumes set out in Appendices 1 and 2 to this condition to those set out in the report, if these have been agreed by the independent expert appointed under paragraph 25.18.

**Comment [j68]:** Will these values be deemed to be set out in the Appendix? If so, deeming provision required.

25.23 The Authority may ~~at any time~~ direct that either or both of paragraphs 25.16 and 25.17 do not apply, whether in whole or in part, and in that event ~~the licensee must comply with such other reasonable requirements as may be specified in that direction.~~

#### **Part F: Review requirements in respect of modifications**

25.24 Except where the Authority otherwise consents, the licensee must, in conjunction with other DN Operators and by not later than six months after the implementation of a modification to The Shrinkage and Leakage Model pursuant to Part E above, appoint an independent expert to review and report on that implementation.

25.25 The terms of reference of the review must be submitted to the Authority at least 28 days before its commencement, and the Authority may direct that those terms are to be amended and re-submitted to the Authority for its consideration.

25.26 The licensee must, in conjunction with other DN Operators, make the independent expert's report prepared under this Part F publicly available and send a copy to the Authority.

#### **Part G: Report to the Authority on the use of Smart Metering Data**

25.27 The licensee must, in conjunction with other DN Operators, submit a single report to the Authority once in every two Formula Years called the Shrinkage and Leakage Smart Metering Report ("the SLSM Report").

25.28 The first SLSM Report must be submitted [to the Authority](#) by not later than 31 July 2014, and ~~the 31 July deadline will apply to each SLSM Report to~~ [subsequent SLSM Reports must be submitted to the Authority not later than 31 July once in every two Formula Years](#) thereafter.

25.29 The purposes of the SLSM ~~report~~ [Report](#) are:

- (a) to review the collection and use of Smart Metering Data that may be relevant to The Shrinkage and Leakage Model; and
- (b) to explain the relevance and implications of such data for the construction and operation of The Shrinkage and Leakage Model and for the reporting of information derived from it.

25.30 The SLSM Report must be made publicly available and must include:

- (a) an update on the current status of the national smart metering implementation programme;
- (b) the licensee's assessment of the suitability of the use of Smart Metering Data as an alternative to the use of The Shrinkage and Leakage Model to calculate the levels of gas shrinkage and ~~gasleakage~~ [gas leakage](#) with respect to each LDZ that it operates;
- (c) the steps that the licensee is taking to ensure that it has appropriate access to Smart Metering Data; and

- (d) how the licensee intends to use Smart Metering Data to validate The Shrinkage and Leakage Model and the reporting of information under it.

25.31 Before submitting the SLSM Report to the Authority, the licensee must, in conjunction with other DN Operators:

- (a) consult on a draft of the report with gas shippers and other interested parties;
- (b) allow all such persons a period of at least 28 days within which to respond to the consultation;
- (c) make all non-confidential responses to the consultation publicly available; and
- (d) use reasonable endeavours to summarise and take account of those responses in the final SLSM Report prepared for submission to the Authority.

Deleted: best

25.32 The licensee must submit the SLSM Report to the Authority in such form and manner as the Authority may direct.

### Part H: Interpretation

25.33 For the purposes of this condition:

**The Shrinkage and Leakage Model** means the processes and procedures that are used by the licensee (together with all other DN Operators) to calculate gas shrinkage, comprising in aggregate the respective levels of:

- (a) gas leakage;
- (b) gas lost to theft in the course of conveyance; and
- (c) gas used by the licensee for its own purposes,

calculated during a specified period by reference to the physical state of each LDZ operated by the licensee and the manner in which it has been so operated in that period. ~~The These~~ processes and procedures ~~referred to in the above definition~~ include:

- (a) the identification of gas shrinkage, including leakage rates derived from tests;
- (b) methods of modelling gas shrinkage, including leakage from each of the LDZs operated by the licensee;
- (c) procedures to ensure the accuracy and completeness of the data used by the licensee to calculate the actual leakage volume term for the formula set out in Part C above;
- (d) procedures for reviewing and developing the actual gas shrinkage volume term and the actual leakage volume term used for the purposes of each respective formula; and

Comment [tora69]: Is the reference to "Part C" correct?

- (e) such other processes and procedures as may be needed to ensure that The Shrinkage and Leakage Model complies with the requirements of this condition-; [and](#)

**Smart Metering Data** means data to which the licensee is able to have direct or indirect access by virtue of the provision, installation, and operation at premises in Great Britain of any gas meters of a particular kind specified in an order made by the Secretary of State under section 41HA of the Act.

**Appendix 1: LDZ allowed shrinkage volume (the SB term) for the period beginning on 1 April 2013 and ending on 31 March 2021**

Distributi on Network	LDZ	SB (GWh)							
		t=1	t=2	t=3	t=4	t=5	t=6	t=7	t=8
North of England	Northern								
	North East								
Scotland	Scotland								
South of England	South East								
	Southern								
Wales and West	Wales North								
	Wales South								
	South West								

**Appendix 2: LDZ allowed leakage volume (the LB term) for the period beginning on 1 April 2013**

Distributi on Network	LDZ	Leakage Volume (GWh)							
		t=1	t=2	t=3	t=4	t=5	t=6	t=7	t=8
North of England	Northern								
	North East								
Scotland	Scotland								
South of England	South East								
	Southern								
Wales and West	Wales North								
	Wales South								
	South West								

**Appendix 3: Environmental emissions factor (the CC term) for the period beginning on 1 April 2013**

<b>Environmental emissions factor <math>CC_t</math> (£ / MWh pre-tax 2009 prices)</b>								
	t=1	t=2	t=3	t=4	t=5	T=6	T=7	T=8
$CC_t$	62.73	63.66	64.59	65.54	66.55	67.50	68.53	69.61



## [GDC 48]. Special Condition [x]. Discretionary reward scheme revenue amounts

### Introduction

48.1 This condition sets out how the incentive amounts that adjust the Maximum Distribution Network Transportation Activity Revenue under [GDC20] Special Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity) for the purpose of reflecting the licensee's performance with respect to the Discretionary Reward Scheme will be calculated.

48.2 ~~For that purpose, this-~~ This condition determines:

- (a) the discretionary reward amount (as represented by the DRSW<sub>t</sub> term) for each of Formula Years 4 and 5 of the price control arrangements in force under this licence at 31 March 2013 (~~as to which,~~ see Part A below); and
- (b) the discretionary reward amount (as represented by the DRSX<sub>t</sub> term) for each of Formula Years 1 to 5 of the Price Control Period, commencing on 1 April 2013 (~~as to which,~~ see Part B below).

### Part A: Formula for the calculation of the DRSW term

48.3 For the purposes of paragraph 48.2(a), DRSW<sub>t</sub> is derived in accordance with the following formula:

$$DRSW_t = DRA_{t-2} \times \left(1 + \frac{I_{t-2}}{100}\right) \times \left(1 + \frac{I_{t-1}}{100}\right)$$

48.4 In the formula for the DRSW term above:

DRA<sub>t-2</sub> means such positive adjustment (if any) to the Maximum Distribution Network Transportation Activity Revenue in respect of the licensee's performance under the Discretionary Reward Scheme in: (i) Formula Years 2011/12, as may be determined by the Authority by 30 November 2012 (for Formula Year 2013/14); and (ii) Formula Years 2012/13, as may be determined by the Authority by 30 November 2013 (for Formula Year 2014/15) in respect of those years.

I<sub>t</sub> means the percentage interest rate in respect of Formula Year t that is equal to the Average Specified Rate; and

I<sub>t-1</sub> means the percentage interest rate in respect of Formula Year t-1 that is equal to the Average Specified Rate.

**Comment [tora70]:** "Average Specified Rate" should be defined in GDC19.

### Part B: Formula for the calculation of the DRS term

48.5 For the purposes of paragraph 48.2(b), DRS<sub>t</sub> is derived in accordance with the following formula:

$$DRS_t = DRSW_t + DRSX_t$$

48.6 In the formula for the DRS term above:

DRS<sub>t</sub> means such positive adjustment (if any) to the Maximum Distribution Network Transportation Activity Revenue of the licensee under [GDC20] Special Condition ~~×-[x]~~ ([Restriction of revenue in respect of the Distribution Network Transportation Activity](#)), as may be determined by the Authority in respect of the licensee's performance under the Discretionary Reward Scheme~~-~~ in relation to Formula Year t~~;~~

DRSW<sub>t</sub> means such positive adjustment (if any) to the Maximum Distribution Network Transportation Activity Revenue of the licensee under [GDC20] Special Condition ~~×-[x]~~ ([Restriction of revenue in respect of the Distribution Network Transportation Activity](#)), in respect of the licensee's performance under the ~~discretionary reward scheme~~ [Discretionary Reward Scheme](#) in Formula Years 2011/12 and 2012/13~~-~~, as may have been determined by the Authority in accordance with the provisions of Part A above~~;~~ [and](#)

DRSX<sub>t</sub> means such positive adjustment (if any) to the Maximum Distribution Network Transportation Activity Revenue of the licensee under [GDC20] Special Condition ~~×-[x]~~ ([Restriction of revenue in respect of the Distribution Network Transportation Activity](#)), in respect of the licensee's performance under the Discretionary Reward Scheme during the Price Control Period~~-~~, as may be determined by the Authority:

(a) by 30 November 2015 (for Formula Year 2016/17) in relation to such performance in each of the Formula Years 2013/14 and 2014/15; and

(b) by 30 November 2018 (for Formula Year 2019/2020) in relation to such performance in each of Formula Years 2015/16, 2016/17, and 2017/18.

**Comment [j71]:** What happens if no determination made?

### Part C: Definitions

48.9 For the purposes of this condition:

**Discretionary Reward Scheme**

means (as the context requires) either:

(a) in relation to the calculation of the DRSW term in respect of Formula Years 2011/12 and 2012/13, the scheme of that name under which the licensee may, at the Authority's discretion, be rewarded by way of a positive revenue adjustment in recognition of the licensee's adoption of best practice in reducing the environmental impact of gas distribution,

facilitating network extensions, and promoting gas safety; or

- (b) in relation to the calculation of the DRSX term in respect of any Formula Year during the Price Control Period, the scheme of that name under which the licensee may, at the Authority's discretion, be rewarded by way of a positive revenue adjustment in recognition of the licensee's performance in delivering additional environmental and social outputs not funded under the Price Control Arrangements in force during the Price Control Period.

**Comment [tora72]:** As to the reference in sub-para (b) to "Price Control Arrangements", please clarify meaning: should this be "under the Price Control Conditions" for consistency of language? This is also referred to in para 48.2, although not capitalised.

## [GDC11] Special Condition [x]. The Network Innovation Allowance

### Introduction

- 11.1 This condition establishes arrangements to be known as the Network Innovation Allowance (NIA) for the purpose of calculating the amount of the NIA term that applies in [GDC20] (Restriction of Revenue in respect of the Distribution Network Transportation Activity) with respect to the funding of innovative projects carried out by the licensee.
- 11.2 The effect of the application of the NIA term in [~~GDC20~~GDC 20] [Special Condition \[x\] \(Restriction of revenue in respect of the Distribution Network Transportation Activity\)](#) is to adjust the calculation of the licensee's Maximum Distribution Network Transportation Activity Revenue in order to reflect the performance of the licensee in relation to investment in innovation under the NIA Scheme established pursuant to this condition ~~in accordance with the Final Proposals for the RIIO-GD Price Control.~~
- 11.3 This condition also makes appropriate provision for arrangements relating to the regulation, administration, and governance of the NIA Scheme.

**Comment [RUG073]:** Suggest refer to "Part B" of GDC20 in this paragraph.

**Comment [j74]:** Up only?

**Comment [RUG075]:** Suggest expressly refer to "Part B" of GDC20 in this paragraph.

### Part A: Calculation of the NIA term

- 11.4 For the purposes of [~~GDC20~~][\[GDC 20\] Special Condition \[x\] \(Restriction of revenue in respect of the Distribution Network Transportation Activity\)](#), the NIA adjustment for the Formula Year t is derived in accordance with the following formula (in this condition, the "Principal Formula"):

$$NIA_t = ANIA_t - NIAR_t$$

**Comment [RUG076]:** Suggest refer to "Part B"

- 11.5 For the purposes of the Principal Formula:

$NIA_t$  means the total allowed adjustment in Formula Year t;

$ANIA_t$  means the total Allowable NIA Expenditure in Formula Year t [and is](#) derived in accordance with the appropriate formula set out in Part B below depending on whether Appendix 1 or Appendix 3 applies; [and](#)

$NIAR_t$  means an amount recovered by the licensee in relation to the Formula Year t or a previous Formula Year under the NIA Scheme which the Authority has determined, in accordance with provisions set out in the NIA Governance Document, to be unrecoverable (see Part ~~D-C~~ below).

**Comment [RUG077]:** Suggest that this definition cross refers to paragraph 11.10

11.6

**Deleted:** Expenditure incurred by the licensee may only be recovered under the NIA Scheme if it is Allowable NIA Expenditure.

### Part B: Calculation of Allowable NIA Expenditure (ANIA)

11.7 For the purposes of the Principal Formula, the amount of ANIA is derived in accordance with the following formula:

$$ANIA_t = PTRA \times \min((ENIA_t + BPC_t), (NIAV \times BR_t))$$

11.8 In the formula for the ANIA term above:

PTRA is the pass-through factor and has the value of [0.9].

ENIA<sub>t</sub> means the Eligible NIA Expenditure for Formula Year t as reported in the licensee’s Network Innovation Annual Report for that year.

[BPC<sub>t</sub> means the Eligible NIC Bid Preparation Costs for the Formula Year t as reported in the licensee’s Network Innovation Allowance Annual Report for that year (provided that, where the licensee is part of a Gas Distribution Group, the amount of such costs recoverable by all of the licensees in that group cannot be more than [£175,000 in total or 5%] of the amount applied for under the Network Innovation Competition, whichever is less in the Formula Year t)].

NIAV means the licensee’s NIA Percentage, and has the value that is attributed to the licensee in Appendix 2 ~~(which has effect as part of this condition)~~; and

BR<sub>t</sub> means ~~base~~ Base Distribution Network Activity Revenue in Formula Year t, ~~as and is~~ derived in accordance with Part C of ~~GDC20~~ [GDC 20] Special Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity).

**Comment [RUG078]:** The meaning of “Network Innovation Competition” should be clarified by reference to a relevant condition

[11.9 For the purposes of the NIA, the Eligible NIA Internal Expenditure (NIAIE<sub>t</sub>) that qualifies as Eligible NIA Expenditure in the Formula Year t must not exceed the amount ~~determined by~~ derived in accordance with the following formula:

$$NIAIE_t \leq Z * ENIA_t$$

~~Where~~

where:

NIAIE<sub>t</sub> is the Eligible NIA Expenditure that qualifies as Eligible NIA Expenditure for the Formula Year t; and

Z has the value of [0.15], except insofar as the Authority consents otherwise.

**Comment [RUG079]:** As to the reference to “Eligible NIA Internal Expenditure”, how is this different to the definition of “Eligible NIA Expenditure”? Please clarify – it looks circular.

**Comment [RUG080]:** This definition seems circular

**Part C: Treatment of unrecoverable expenditure**

11.10 In any Formula Year t, the Authority may set, by direction given to the licensee, an amount for NIAR<sub>t</sub> that will reduce the licensee’s innovation incentive revenue by the amount that the Authority has determined to be

unrecoverable in accordance with the relevant provisions of the NIA Governance Document.

#### Part D: The NIA Governance Document

- 11.11 The Authority will issue, and may from time to time revise, a document to be known as the NIA Governance Document, for purposes connected with the regulation, governance and administration of the NIA Scheme under this condition.
- 11.12 The NIA Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:
- (a) the eligibility criteria that are to be applied by the Authority, and the information that is to be provided by the licensee to the Authority in relation to the assessment and approval of Eligible NIA Projects;
  - (b) the criteria against which the funding of such projects will be assessed and approved (where necessary);
  - (c) the process and procedures that will be in place for the assessment, approval (where necessary) and financing of the funding of such projects;
  - (d) arrangements for ensuring that relevant matters learnt from the implementation of Eligible NIA Projects can be captured and disseminated;
  - (e) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the NIA Governance Document);
  - (f) arrangements relating to the treatment of intellectual property rights in respect of Eligible NIA Projects;
  - (g) arrangements relating to how the licensee reports and treats any revenue generated from royalties as a result of Eligible NIA Projects;
  - (h) arrangements relating to the preparation and publication by the licensee of a Network Innovation Annual Report; and
  - (i) any other matters relating to the regulation, governance or administration of the NIA Scheme.
- 11.13 The licensee must comply with such provisions of the NIA Governance Document as if the document were part of this condition.

**Comment [RUG081]:** Would "assessment and approval" be covered by sub-para (b) and (c)? If so, delete from (a)

**Comment [RUG082]:** As to sub-para (b), wouldn't this criteria be included under paragraph 11.12(a)?

**Comment [RUG083]:** Can the meaning of "relevant matters" be clarified? We are also unsure of the intended meaning of "learnt". As to the reference to "captured and disseminated", who will capture the information and who will the information be disseminated to? Please clarify.

**Comment [RUG084]:** As to sub-para (f), care needs to be taken here as licensees have property rights in IP and the Authority is not entitled to interfere with those rights.

#### Part E: Procedure for issuing the NIA Governance Document

11.14 Before issuing the NIA Governance Document under this condition, the Authority, by Notice given to all Gas Transporter Licensees, must:

- (a) state that it proposes to issue the ~~document~~ NIA Governance Document, and specify the date on which it proposes that this should take effect;
- (b) set out the text of the ~~document~~ NIA Governance Document and the Authority's reasons for proposing to issue it; and
- (c) specify the date (which must not be less than a period of 28 days from the date of the Notice) within which representations or objections with respect to the ~~proposal~~ proposed NIA Governance Document may be made.

**Comment [RUG085]:** As to notice being provided to all "Gas Transporter Licensees", this term needs to be defined however, does notice need to be given to all IGTs as well? If not, should notice be given to "all licensees whose licenses a condition of similar effect to this condition has effect?"

11.15 The Authority must consider any representations or objections that are duly made and not withdrawn.

11.16 The requirements of paragraphs 11.14 and 11.15 ~~and 11.16~~ may be satisfied by action taken by the Authority before, as well as by action taken by the Authority after, the commencement of this condition.

11.17 In paragraph ~~11.15~~ 11.14, "issuing the NIA Governance Document" includes issuing any revision of it, and the procedure provided for under that paragraph will apply to any such revision.

### Part G: Interpretation

11.18 For the purposes of this condition:

**Allowable NIA Expenditure** has the meaning given to that term in either Part B or Part C (as appropriate) of this condition.

**Gas Distribution Group** means a group of Distribution Licensees in which the licensee and every other Distribution Licensee within the group are affiliates of each other.

**Eligible NIA Expenditure** means the amount of expenditure spent or accrued by the licensee in respect of Eligible NIA Projects that appear to the Authority to satisfy such requirements of the NIA Governance Document as are necessary to enable the projects to be funded under the provisions of this condition.

**Eligible NIA Projects** means those projects undertaken by the licensee that appear to the Authority to satisfy such requirements of the NIA Governance Document as are necessary

**Comment [RUG086]:** there is no defined term in the licence of "Distribution Licensees": the term should be "DN Operators" (see definition in StSpC A3. In any event, does this definition only applies to SSE?

**Comment [RUG087]:** As to the definition of "Eligible NIA Expenditure", suggest refer expressly to Part B

to enable the projects to be funded under the provisions of this condition-;

**Eligible NIC Bid Preparation Cost** means the amount of expenditure spent or accrued by the licensee when preparing submissions for the Network Innovation Competition that appear to the Authority to have been spent in such a way that satisfies the requirements of the NIA Governance Document as are necessary to enable the projects to be funded under the provisions of this condition-;

**Comment [RUG088]:** As to the definition of "Eligible NIC Bid Preparation Costs", "Network Innovation Competition" has not been defined.

**Network Innovation Allowance** has the meaning given to that term in Part A of this condition-;

**Comment [RUG089]:** As to the definition of "Network Innovation Allowance", Part A needs to be read with the definition in the Introduction. This should be clarified.

**Network Innovation Annual Report** means the report that is to be produced each year by the licensee, in a format and within a timeframe agreed with the Authority, in respect of the licensee's expenditure on network innovation-;

**NIA Governance Document** means the document issued by the Authority under Part D of this condition, subject to the requirements of Part E, relating generally to the establishment and operation of the NIA Scheme and including matters relating to the calculation of the Network Innovation Allowance-;

**Comment [RUG090]:** rather than referring to "NIA projects", should this refer to "Eligible NIA Projects"?

**Comment [RUG091]:** This definition is not user friendly. Why cannot this percentage be set out here to avoid referring to another document?

**NIA Percentage** means the percentage of allowed revenue licensees may use for NIA projects set out in the Authority's GD Decision Document published on [Y] December 2012 under reference [00]/12-; and

**Deleted:** Expressions defined in paragraph 11.19 11.18 above are to be read and given effect subject to any further explanation or elaboration that may be set out in the NIA Governance Document or the Regulatory Instructions and Guidance issued by the Authority under [GDC 74] Standard Special Condition A40 of this licence.

**NIA Scheme** means the scheme of that name established pursuant to this condition and in accordance with the provisions of the NIA Governance Document for purposes relating to the licensee's performance with respect to investment in network innovation.

**Comment [j92]:** Delete as inappropriate means of avoiding statutory licence modification procedure

**Comment [RUG093]:** Appendix 1 is referred to in Part A (para 11.5) and not in the definition of BPC as indicated. Please also correct title of appendix.

11.19 ↓

**APPENDIX 1: Maximum BPC Value**



(see the BPC<sub>t</sub> term under Part B or C of this condition)

Licensee	£k
[Licensee 1]	£XX
[ Licensee [x]]	£XX

**APPENDIX 2: NIA Percentage**

(see the NIAV term under Part B or C of this condition)

Licensee	Percentage
[Licensee 1]	XX per cent
[ Licensee [x]]	XX per cent

**APPENDIX 3: Annual Average Forecast Revenue**

(see the AFR term under Part C of this condition)

Licensee	£m
[Licensee 1]	XX
[ Licensee [x]]	XX

**Comment [RUG094]:** Appendix 3 is also referred to in Part A (para 11.5) and not Part C as indicated. Please clarify. Please also correct title of appendix.

**[GDC 32] Special Condition [x]. Restriction of charges for Tariff-Capped Metering Activities**

**Introduction**

32.1 The purpose of this condition is to set out the tariff caps that apply to certain Metering Activities undertaken by the licensee.

**Part A: Licensee’s obligation**

32.2 The licensee, in setting charges for each of its Tariff-Capped Metering Activities in any Formula Year, must ensure that the charge for that Metering Activity in the course of that year does not exceed the relevant maximum tariff cap calculated in accordance with Part B below.

**Comment [RUG095]:** “Tariff-Capped Metering Activities” should be defined in GDC19.

**Part B: Calculation of maximum tariff caps**

32.3 The maximum tariff cap for each Tariff-Capped Metering Activity:

- (a) is to have the value given in paragraph 32.4 in respect of the Formula Year beginning on 1 April 2008; and
- (b) is to be calculated in accordance with the provisions of paragraph 32.5 in respect of each subsequent Formula Year.

32.4 For the Formula Year beginning on 1 April 2008 (t=1), the maximum tariff caps are to have the following values:

Activity	Description of the charge	Cap (MTC <sub>t</sub> )
1	Annual charge for providing and maintaining the assets that form a Domestic Credit Meter Installation, per meter per annum;	£14.10
2	Annual charge for providing and maintaining the assets that form a Prepayment Meter Installation, per meter per annum;	£32.92
3	Annual charge for providing a daily meter Reading for Daily Metered Supply Meter Points, per supply meter point per annum; and	£426.58
4	Carrying out work to replace a Domestic Credit Meter with a Prepayment Meter, per job undertaken;	£57.72

**Comment [RUG096]:** Suggest move the definitions of “Domestic Credit Meter Installation”, “Prepayment Meter Installation” and “Daily Metered Supply Meter Points” need to be provided as in present condition – are they to be defined GDC19?

32.5 For each subsequent Formula Year, the values of the maximum tariff caps are to be calculated using the following formula:

$$MTC_t = MTC_{t-1} \times RPI_t \text{ (rounded up or down to the nearest penny)}$$

where  $RPI_t$  means (for the purposes of this condition only) the RPI adjustment and is to be calculated as the percentage change (whether positive or negative) between the arithmetic average of the Retail Prices Index numbers published or determined with respect to each of the six months from June to November (inclusive) in Formula Year t-2 and the arithmetic average of the Retail Prices Index numbers published or determined with respect to the same months in Formula Year t-1, and shall be calculated in accordance with paragraph 3 of Standard Condition 27 (Adjustment of Amounts by Reference to the Retail Price Index) of this licence.

### **Part C: Departure from published charging statements**

32.6 This Part C applies where, for either of the two reasons specified in subparagraphs (a) and (b), the licensee wishes to depart from its published statement of charges prepared under Standard Special Condition [A43] (Provision of Metering and Meter Reading Services) [Note as part of RIIO we are moving this condition to become a Standard Special D condition as not relevant for NGGT. There will be no changes to this condition other than to check referencing in, and to, this condition work] in respect of the provision of Tariff-Capped Metering Activities by increasing its charges to a level which would in any given Formula Year result in a breach of its obligations under Part A above:

- (a) reason 1 is that the relevant supplier has wholly or partly disposed of the licensee's meters; and
- (b) reason 2 is that the licensee reasonably considers that the departure will be necessary to enable it to comply with its duty under paragraph 1A of Standard Special Condition NOP.

32.7 If this Part C applies, the licensee must by Notice to the Authority:

- (a) state why the change to its charges is requested;
- (b) specify the Metering Activities to be provided to the relevant supplier;
- (c) show the proposed higher level of charges broken down between the different types of Metering Activity to be provided to the relevant supplier; and
- (d) include such other information to support its Notice as the Authority may reasonably request.

32.8 The licensee may, with effect from the date of its Notice under paragraph 32.7, levy the charges specified in that Notice in respect of the relevant supplier:

- (a) if the Authority consents to such charges, with or without amendment, and on the basis of such terms or conditions as the Authority may specify; or

- (b) if the Authority has not within 90 days after receiving the licensee's Notice issued a direction to the licensee requiring it not to exceed the maximum tariff cap.

**[GDC29] Special Condition [x] Disapplication**

Reviewing Disapplication provisions across all licensees. We are considering merging current provisions below into one single condition:

- SC E16; and
- SC E19 [GDC32]

Conditions for inclusion with Second Informal Licence Consultation.

## [GDC 31] Special Condition [x]. Services treated as Excluded Services

### Introduction

- 31.1 The purpose of this condition is to set out the basis on which certain services provided by the licensee may be treated as Excluded Services under the Special Conditions.
- 31.2 Excluded Services are services that comply with the General Principle set out at Part B below and that include, without limitation, those services listed at paragraph ~~31.12~~31.10.
- 31.3 Excluded Services are services provided by the licensee for which revenue is derived but ~~are such revenue is~~ excluded from the Maximum Distribution Network Transportation Activity Revenue as defined in [GDC20GDC 20] formulaSpecial Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity).

**Comment [RUG097]:** Rather than using "Special Conditions", we are suggesting that a defined term be set out in GDC19 in relation to "Price Control Conditions", and then detail each of the relevant price control conditions.

**Deleted:** conform

**Comment [j98]:** Suggest deletion of list - see comment below

### Part A Structure of this condition

- 31.4 Part B of this condition sets out the General Principle that applies for the purpose of determining which of the services provided by the licensee are to be treated as Excluded Services.
- 31.5 ~~Part D-C of this condition sets out, without limitation, certain categories of services provided by the licensee that are to be treated as Excluded Services.~~
- 31.6 ~~Part C-D of this condition provides for the Authority to give directions in respect of services provided by the licensee that are to be treated as Excluded Services. It also provides for the Authority to direct that any service provided by the licensee should not be treated as Excluded Services.~~

**Deleted:** Part ~~C-D~~ of this condition provides for the Authority to give directions in respect of services provided by the licensee that are to be treated as Excluded Services. It also provides for the Authority to direct that any service provided by the licensee should not be treated as Excluded Services

### Part B: Statement of General Principle

- 31.7 The General Principle is that a service provided by the licensee as part of its Transportation Business is to be treated as an Excluded Service if and to the extent that the service is not already remunerated under any of the charges listed in paragraph 31.8.
- 31.8 The charges referred to in paragraph 31.7 are those charges that are levied by the licensee the revenue from which is governed by:-
- (a) [GDC 20] Special Condition [~~x~~] (Restriction of revenue in respect of the Distribution Network Transportation Activity); and
- (b)].

**Deleted:** Part ~~D-C~~ of this condition sets out, without limitation, certain categories of services provided by the licensee that are to be treated as Excluded Services

**Deleted:** Distribution Network

**Deleted:** Activity

**Deleted:** in respect of

**Deleted:** an activity carried out under any provision of [GDC 10] Special Condition [x] (Network Innovation Competition) ~~+~~ which results in Royalty Income as defined in [GDC10

## Part C: Categories of Excluded Services

31.9 The descriptions of categories of Excluded Services set out at paragraph 31.10 are to be read and given effect subject to any further explanation or elaboration of any of those descriptions that might be set out in the RIGS issued by the Authority under (respectively) [GDC 74] standard special condition A40 of this licence.

31.10 Subject to Part D of this condition, Excluded Services shall include, but not limited to, the following services:

ES1. **Connection services:** This category consists of the carrying out of entry and exit connection works (including any necessary reinforcement works or diversionary works) to install, operate, repair, or maintain gas pipes, plant, meters or other equipment necessary to provide any new connection or modify any existing connection to the pipeline system to which this licence relates ~~(but only to the extent that the service is not already remunerated under the charges mentioned at paragraph 31.8).~~

**Comment [RUG099]:** We would prefer the deletion of this paragraph. We do not think it is appropriate to provide further elaboration or explanation in the RIGS, should either be on face of licence - to do otherwise would seek to avoid statutory licence mod procedure

**Comment [j100]:** Suggest deletion of list as all services covered by general principle

**Deleted:** licensee's Distribution Network

ES2. **Diversionary works under an obligation:** This category consists of the relocating of any gas pipes or plant (including the carrying out of any associated works) pursuant to any statutory obligation other than one imposed on the licensee under section 9 (Powers and duties of gas transporters) of the Act.

ES3. **Works required by any alteration of premises:** This category consists of the moving of any gas pipes or plant that form part of the pipeline system to which this licence relates to accommodate the extension, redesign, or redevelopment of any premises on which the asset in question is located or to which it is connected.

**Deleted:** licensee's Distribution Network

ES4. **Emergency services:** This category consists of the provision of emergency services under contracts entered into pursuant to the provisions of Standard Special Condition A41 (Emergency Services to or on Behalf of Another Gas Transporter).

**Deleted:** of the ~~Gas Transporter Licence~~ licence

ES5. **User pays agency services:** This category consists of the provision of 'user pays' services or systems as set out in the ~~uniform network code~~ Network Code, by the agency referred to in Standard Special Condition A15 (Agency).

**Deleted:** of the ~~Gas Transporter Licence~~ licence

ES6. **Independent system operation:** This category consists of the operation of Independent Systems, within the meaning of [Special Condition C26 of the Gas Transporter Licence (Gas Conveyed to Independent Systems)] ~~;~~ and

**Deleted:** , on behalf of the NTS Operator

ES7. **Miscellaneous:** This category consists of the provision of any other service (including the provision of gas pipes or plant) that:

(a) is for the specific benefit of any third party who requests it;

- (b) is not made available by the licensee as a normal part of the activities of its [Distribution Network](#) Transportation [Activity or its](#) and Metering Business.

**Part D: Authority’s power to give directions**

31.11 Where the Authority (having regard to the General Principle) is satisfied:

- (a) that any service treated by the licensee as an Excluded Service should not be so treated; or
- (b) that any service not treated by the licensee as an Excluded Service should be so treated,

it may issue to the licensee a direction to that effect.

31.12 Where a direction is given under paragraph ~~31.9~~[31.11](#), the licensee must, in accordance with the ~~Direction~~[direction](#), either:

- (a) stop treating the service or services specified in the direction as Excluded Services; or
- (b) begin treating the service or services specified in the direction as Excluded Services,

from the date of the direction or such later date as may be specified in it.

**Deleted: Part E: Interpretation¶**  
31.13 . For the purposes of this condition:¶  
**Excluded Services** ... [1]



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

### **Introduction**

- 30.1 This condition sets out how the licensee must allocate revenues and costs for the purposes of calculating its [[GDC20] Maximum Distribution Network Transportation Activity Revenue [in accordance with the provisions set out in GDC 20 Special Condition \[x\] \(Restriction of revenue in respect of the Distribution Network Transportation Activity\)](#)).
- 30.2 The condition also requires the licensee to have in place a statement-z in a form approved by the Authority-z that sets out the methods that the licensee will use in the allocation and attribution of revenues and **costs**.

**Comment [RUG0101]:** This introduction does not refer to the provision of the methods report under Part E. Please include.

### **Part A: General principles of allocation and attribution**

- 30.3 Unless the Authority otherwise directs in writing, any allocation or attribution of revenues, costs, assets, and liabilities performed by the licensee in order to calculate any of the values referred to in the [[GDC20] Maximum Distribution Network Transportation Activity-z, [as calculated in accordance with the provisions set out in GDC 20 Special Condition \[x\] \(Restriction of revenue in respect of the Distribution Network Transportation Activity\)](#)], must conform to the principles set out in paragraphs 30.4, 30.5 and 30.6.
- 30.4 Principle 1 is that the licensee must, so far as is reasonably practicable, allocate or attribute revenues, costs, assets, and liabilities in accordance with the activities which cause the revenues to be earned, the costs to be incurred, the assets to be acquired, or the liabilities to be incurred.
- 30.5 Principle 2 is that the licensee must perform its allocations and attributions on an objective basis and in a manner calculated not to unduly benefit either itself or:
- (a) any other business carried on by the licensee or by any Affiliate or Related Undertaking of the licensee under a separate licence (whether or not that licence is held within the same legal entity that holds this licence); or
  - (b) the business of any individual Distribution Network; and/or
  - (c) any other company or organisation.
- 30.6 Principle 3 is that, wherever practicable, the licensee must perform all allocations and attributions on a consistent basis from one Formula Year to the next.

## Part B: Allocation and attribution as between principal activities

[Currently some different activities listed in GD special condition E17 and GT special condition C9. Draft below now lists all the possible activities that could be carried out by any licensee (without distinguishing between GD and GT) and requires the licensee to allocate/ attribute **where applicable**.]

30.7 Where, and to the extent relevant to its activities, the licensee must allocate or attribute all revenues earned and costs incurred by the Transportation [Business](#) and [the](#) Metering Business to the following activities:

[We will consider adding cross-references for a) to f) when we have a later drafts of the consolidated licence pack with final numbering.]

- (a) the NTS Transportation Owner Activity;
- (b) the Distribution Network Transportation Activity;
- (c) the NTS System Operation [Activity](#);
- (d) Liquefied Natural Gas import or export facility ~~activity~~;
- (e) LNG Storage Business;

**Comment [RUG0102]:** As to sub-para (c), will this term be defined in GDC19?

- ~~(f) the metering business and meter reading business; and~~
- (f) [the Metering Business and Meter Reading Business; and](#)

**Comment [j103]:** Why is this being changed from the present licenc condition which refers to "Metering activities"?

~~any Excluded Services provided in accordance with the principles set out in [GDC31] Special Condition [x] (Services treated as Excluded Services).~~

**Deleted: ¶**

## Part C: Statement of the methods to be used by the licensee

30.8 Unless the Authority otherwise directs, the licensee must, by not later than 31 July in each Formula Year, prepare and submit to the Authority a statement ("the methods statement") ~~in~~ in a form approved by the Authority ~~that~~ that sets out the methods that the licensee intends to use in the allocation and attribution of revenues and costs.

30.9 The methods statement must, as a minimum, clearly distinguish between the allocation or attribution of revenues, costs, assets, and liabilities to each of the activities specified in Part B above.

30.10 Where the basis of such allocations or attributions has changed from one year to the next, the methods statement must also indicate and explain how and why that basis has been changed.

30.11 The licensee must use reasonable endeavours to comply with the methods statement for the time being in force under this condition.

**Part D: Power of the Authority to direct re-allocation and re-attribution**

30.12 The licensee must re-allocate revenues earned by the licensee or re-attribute costs incurred by the licensee to the activities specified in Part B above in accordance with any direction made by the Authority in writing within three months after its receipt of the methods statement so that the licensee’s allocations or attributions (as the case may be) comply with the principles set out in Part A above.

**Part E: Preparation and submission of the methods report**

30.13 Unless the Authority otherwise consents, the licensee must, by not later than four months after the end of a Formula Year, prepare and submit to the Authority a report (“the methods report”) that:

- (a) describes the manner in which and the extent to which the licensee complied with the provisions of the methods statement or any direction made by the Authority under paragraph 30.12 in respect of that year; and
- (b) states whether any modification should be made to the methods statement to reflect more closely the practice of the licensee.

30.14 The methods report must be accompanied by a report from an Appropriate Auditor that:

- (a) sets out the procedures (which must have been approved by the Authority) that they have carried out for the purposes of demonstrating the extent to which the licensee has properly prepared the methods report in accordance with the methods statement and direction made under Part D above; and
- (b) states the results of those procedures.

**Comment [RUG0104]:** “states the results of those procedures” does not seem clear. Please clarify

30.15 To the extent that the licensee earns revenues or incurs costs in the provision of de minimis activities under Standard Special Condition A36 (Restriction ~~of activity and financial ring-fencing~~), on Activity and Financial Ring Fencing, the licensee must report on those revenues and costs in accordance with this condition.

[The definitions below will be removed from this condition when it is implemented and included in the ‘Definitions and Interpretation’ condition currently SSC A3]

**Appropriate Auditor** has the meaning given in Standard Special Condition A3

**Liquified Natural Gas import or export facility** has the meaning given in section 48 of the Act

**LNG Storage Business** means the activities of the licensee connected with the

**Comment [RUG0105]:** As to “LNG Storage Business”, the definition of this term is inserted in StSpC A3 of NGG’s licence in respect of the NTS by Special Condition C1A: It does not therefore appear in StSpC A3 of DN Operators’ licences.

development, administration, maintenance and operation of the LNG storage facilities by the licensee for the storage of gas in Great Britain and with the supply of LNG storage services relating to those facilities-; [and](#)

**Supply of Storage Services**

means the undertaking and performance for gain or reward of engagements in connection with the storage of gas in the LNG storage facilities.

**Comment [RUGO106]:** The same point applies in relation to the definition of "supply of storage services". While this does not appear to be used in this condition, (it should be "Supply of LNG Storage Services") that definition is to be found in StSpC A3 for the licence in respect of the NTS only, by virtue of Special Condition C1 (which inserts it into Standard Special Condition A3 in the NTS licence only. It does not therefore appear in StSpC A3 of DN Operators' licences.

**SPECIAL CONDITIONS: PRICE CONTROL  
FINANCIAL MODEL (PCFM) VARIABLES**

## [GDC 9] Special Condition [x]. The Innovation Roll-out Mechanism

### Introduction

9.1 The purpose of this condition is to determine any appropriate revisions to PCFM Variable Values relating to Innovation Roll-out allowed expenditure ('IRM' values) and the Formula Years to which those revisions relate, for use in the Annual Iteration Process for the GD1 Price Control Financial Model, as described in [GDC 26] Special Condition [x] (Annual Iteration Process for the GD1 Price Control Financial Model).

**Comment [RUGO107]:** Suggest a definition of "Innovation Roll-out" be provided.

9.2 For the purposes of this condition:

**Comment [RUGO108]:** We suggest that these definitions be moved to the definitions section in GDC19.

**'Formula Year t'** means the Formula Year in which the value for the term MOD, calculated through a particular Annual Iteration Process, is used in the formula set out in Part C of [xxGDC 20] of Special Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity) and references to Formula Year t-1 are to be construed accordingly.

**'PCFM Variable Value'** means a value held in the PCFM Variable Values Table for the licensee contained in the GD1 Price Control Financial Model:

- a. which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and
- b. whose revision does not constitute a modification of the GD1 Price Control Financial Model for the purposes of [GDC 57] Special Condition [x] (Governance of GD1 Price Control Financial Instruments).

**Comment [RUGO109]:** As to the reference to "Special Condition", again we suggest that this term be replaced with "Price Control Condition"

9.3 The IRM value relating to a particular Formula Year represents the total amount of the licensee's Innovation Roll-out allowed expenditure (in 2009/10 prices) for ~~Innovation Roll-out for~~ that Formula Year.

9.4 The application of the mechanisms in this condition provides for:

- a) the licensee to propose adjustments to its Innovation Roll-out allowed expenditure during any of the three windows specified in Part DC;
- b) determinations by the Authority in relation to proposals by the licensee under sub-paragraph a) and the direction, where applicable of revised Innovation Roll-out allowed expenditure amounts; and
- c) the determination and direction of revised IRM values to reflect any revisions to Innovation Roll-out allowed expenditure.

**Comment [RUGO110]:** Should "IRM values" be used instead of "Innovation Roll-out allowed expenditure"?

**Comment [RUGO111]:** As to sub-para (b), should "IRM values" be used instead of "Innovation Roll-out allowed expenditure"?

**Comment [RUGO112]:** As to sub-para (c), depending on response to comments above, if "Innovation Roll-out allowed expenditure" should be defined as IRM values, this sub-para may be circular.

9.5 The determination and direction of revised IRM value-values, where applicable will, as a consequence of the Annual Iteration Process for the GD1 Price Control Financial Model, mean that the value of the term MOD as calculated derived for Formula Year t for the purposes of Part C of [GDC 20] Special

Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity) will result in an adjustment of the licensee's ~~base~~ Base Distribution Network Transportation Activity Revenue in a manner that:

- a) the approval of changes to allowed expenditure in respect of relevant Innovation Rollout for particular Formula ~~Years~~; and
- b) takes account of approved changes for the purposes of the Totex Incentive Mechanism adjustment as set out in [GDC 47] Special Condition [x] (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments).

**Comment [RUG0113]:** Capitalise "Base" in order to be consistent with our comments under para 20.5 above.

**Comment [RUG0114]:** As to sub-para (a), we are unsure what this paragraph is intending to do. Is this sub-para in fact the start of sub-para (b)? Please clarify.

**Part A: Features that qualify ~~a roll-out~~ an Innovation Roll-out for additional funding**

9.6 The roll-out by the licensee of a Proven Innovation may allow the licensee to receive additional funding within the Price Control Period only if the Authority is satisfied that this additional funding:

- (a) will contribute to the development in Great Britain of a low-carbon energy ~~sector~~ or any wider environmental ~~benefits~~;
- (b) will provide long-term value for money for ~~electricity~~ gas consumers;
- (c) will not enable the licensee to otherwise receive commercial benefits from the roll-out ~~(for instance; where a project pays for itself for example, through costs savings then this would not be eligible)~~ within the remainder of the Price Control Period (so that where, for example, the roll out of a Proven Innovation will lead to cost savings equal to or greater than its implementation costs within the Price Control Period, the licensee will not be eligible for funding under this condition); and
- (d) will not be used to fund any of the Ordinary Business Arrangements of the ~~licensee~~.

**Comment [RUG0115]:** Suggest the insertion of a definition of "low-carbon energy sector"

**Comment [RUG0116]:** We also think that "wider environmental benefits" is generally not clear

**Comment [RUG0117]:** As to sub-para (d), how will this work in practice? Will the additional funds be held in a separate account? How will this be demonstrated?

**Part B: Licensee's ability to propose a relevant adjustment**

9.7 The licensee may by notice to the Authority, and in accordance with Parts C and D below, propose a relevant adjustment within the meaning of paragraph 9.9 to recover Innovation Roll-out Costs where these costs would constitute a material amount within the meaning of paragraph 9.8.

**Comment [RUG0118]:** As to the use of "relevant adjustment", see our comment under para 9.26.

9.8 A material amount is the amount of the Innovation Roll-out Costs, when multiplied by the licensee's Efficiency Incentive Rate as set out in Appendix 1, that exceeds or is likely to exceed 1 per cent of the licensee's Average Annual Forecast Revenue over the Price Control Period, as set out in Appendix 2.

**Comment [RUG0119]:** Query whether "Efficiency Incentive Rate" and "Average Annual Forecast Revenue" should be capitalised.

9.9 A relevant adjustment is an adjustment:

- (a) which the licensee believes will enable it to recover Innovation Roll-out Costs associated with a single Proven Innovation that would not otherwise be recoverable under the **Special Conditions**; and
- (b) which applies only in respect of Innovation Roll-out Costs that have not yet been incurred.

**Comment [RUGO120]:** As to “Special Conditions”, as previously commented on, this should refer to “Price Control Conditions” as will be defined in GDC19



### **Part C: Application windows for relevant adjustment proposals**

- 9.10 There are two application windows during which a relevant adjustment may be proposed by Notice served under Part B above:
- (a) the first application window opens on 1 May 2015 and closes on 31 May 2015; and
  - (b) the second application window opens on 1 May 2018 and closes on 31 May 2018.
- 9.11 A relevant adjustment may be proposed during ~~any of those~~ both the first application window and the second application window referred to in paragraph 9.10 provided that in each case, the proposal complies with the provisions of paragraphs 9.8 and 9.9.

### **Part D: Other provisions relating to the licensee's proposal**

- 9.12 A Notice served by the licensee under Part B above must in all cases:
- (a) state any statutory obligations or any requirements of this licence to which the Notice relates;
  - (b) describe the Proven Innovation that the licensee proposes to roll out;
  - (c) propose the amount of the relevant adjustment and set out, by reference to the Innovation Roll-out Costs, the basis on which the licensee has calculated the relevant adjustment;
  - (d) demonstrate that the costs to be recovered by the relevant adjustment will be a material amount for the purposes of paragraph 9.8;
  - (e) demonstrate how each of the criteria set out in Part ~~B-A~~ above will be fulfilled by the additional funding sought;
  - (f) propose relevant outputs or other ~~end-products~~ outcomes against which the roll-out will be assessed; and
  - (g) state the date from which it is proposed that the relevant adjustment will have effect ("the adjustment date").
- 9.13 The adjustment date must not be a date that is earlier than:
- (a) 1 April 2016 in the case of a relevant adjustment proposed during the first application window; and
  - (b) 1 April 2019 in the case of a relevant adjustment proposed during the second ~~and final~~ application window.

**Part E: Authority’s determination of revised Innovation Roll-out allowed expenditure amounts**

9.14 Where the licensee serves a Notice under Part B, the Authority may, within four months of the close of the application window during which the Notice was submitted to the Authority, determine the relevant adjustment in such manner as it considers appropriate, subject to paragraphs 9.15 and 9.16.

9.15 In determining any relevant adjustment under this Part E, the Authority must:

- (a) consult the licensee;
- (b) have particular regard to the purposes Part A of of this condition;
- (c) take no account of the financial performance of the licensee relative to any of the assumptions, whether expressed or implied, by reference to which the Special Conditions may have been framed.

9.16 The IRM value for each Formula Year t will be £0m unless directed otherwise by the Authority.

**Part F: Determination by the Authority of a Relevant Adjustment**

9.17 This part sets out the basis for determining revisions to IRM values for use in the Annual Iteration Process for the GD1 Price Control Financial Model.

9.18 Table 1 below sets out the amounts of Innovation Roll-out allowed expenditure for each approved notice after any modifications directed under Part E of this condition and the total of those amounts for each Formula Year of the ~~price control period~~ Price Control Period. Any direction made under Part G of this condition shall be deemed to be set out in Table 1.

**Table 1: Innovation Roll-out Allowed expenditure after modifications under Part F for Innovation Rollout Mechanism Expenditure**

Allowed expenditure (£m 2009/10 prices)	Formula Year								
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
IRM Notice									
Notice submitted in year x for rollout of innovation y.									
Etc									
<b>Total</b>									

9.19 The Authority shall, by 30 November in each Formula Year t-1 check whether the IRM value for any Formula Year is different from the

**Comment [RUGO121]:** As to sub-para (b), suggest that this expressly refer to Part A

**Comment [RUGO122]:** Rather than “Special Conditions”, this should be “Price Control Conditions”

**Comment [RUGO123]:** As to the reference on the first line to “allowed expenditure” should this refer to “Innovation Roll-out allowed expenditure”?

**Comment [RUGO124]:** As to the reference to “approved notice”, is this a reference to an adjustment determined under paragraph 9.14? This needs to be clarified

**Comment [RUGO125]:** As to the reference to “after any modifications directed under Part E”, Part E provides for the Authority to “determine the relevant adjustment” and no provision is made for a direction. Should this instead refer to Part G which provides for directions? Please clarify. Also query the use of the word “modification” as it is not used in Part G

**Comment [RUGO126]:** Should the title of Table 1 refer to Part G rather than Part F. Again, query the use of the word “modification” in the title of Table 1

**Comment [RUGO127]:** We think Table 1 generally unclear. As to the reference to “Innovation Rollout Mechanism Expenditure” this is a phrase not previously used in this condition and we think should be deleted as it is not necessary

**Comment [RUGO128]:** As to the reference in Table 1 to “IRM Notice”, why do we need to detail this? Further, how does this make provision for the 2 application windows? Shouldn’t we keep this simple and just refer to the directed amounts under each application window in each year?

[Innovation Roll-out](#) allowed expenditure total for the corresponding Formula Year set out in Table 1 and, in any case where it is different, the Authority shall:

**Comment [RUGO129]:** As to the reference on the third line to "allowed expenditure" should this refer to "Innovation Roll-out allowed expenditure"?

(a) determine that the IRM value for the Formula Year ~~concerned~~ [applicable](#) is to be revised so as to match the allowed expenditure total in Table 1; and

(b) issue a direction, in accordance with the provisions of Part ~~F~~ of this condition specifying any revised IRM values determined under sub-paragraph (a) and the Formula Years to which they relate.

**Comment [RUGO130]:** As to sub-para (b), the reference to "Part F" is unclear. Should this be a reference to a direction under "Part G"?

### **Part G: Procedure for direction of revised IRM values by the Authority**

9.20 Any revised IRM values determined by the Authority in accordance with Part F of this condition will be directed by the Authority by 30 November in each Formula Year t-1.

9.21 Before issuing any directions under paragraph 9.20, the Authority will give Notice to the licensee of all of the values that it proposes to direct.

9.22 The Notice referred to in paragraph 9.21 must:

(c) ~~(a)~~ state that any revised IRM values have been determined in accordance with Part ~~H~~ of this condition; and

**Comment [RUGO131]:** As to sub-para (a), Part H should refer to Part F?

(d) ~~(b)~~ specify the period (which must not be less than ~~14 days~~ from the date of the Notice) within which the licensee may make any representations or objections concerning the ~~determination~~ [direction](#) of any revised IRM values.

**Comment [RUGO132]:** The standard period is 28 days rather than 14

9.23 The Authority shall have due regard to any representations or objections duly received under paragraph ~~9.23~~ [9.22](#), and give reasons for its decisions in relation to them.

9.24 Where the Authority directs any revised IRM values relating to Formula Years which are earlier than Formula Year t, the effect of using those revised IRM values in the Annual Iteration Process for the GD1 Price Control Financial Model will, subject to a time value of money ~~adjustment~~, be reflected in the calculation of the term MOD for Formula Year t and, for the avoidance of doubt, it shall not have any retrospective effect on a previously directed value of the term MOD.

**Comment [RUGO133]:** Insert reference to where "time value of money adjustment" defined.

9.25 If, for any reason in any Formula Year t-1, the Authority does not make a direction in relation to revised IRM values by 30 November, then no revised IRM values will be used in the Annual Iteration Process that is required by [GDC 26] Special Condition [x] [\(Annual Iteration Process for the GD1 Price Control Financial Model\)](#) to be undertaken by the Authority

by 30 November in that same Formula Year t-1. In those circumstances, the Authority shall take full account of the **position** when determining and directing any revised IRM values in respect of the next Annual Iteration Process.

**Comment [RUGO134]:** As to the reference to “full account of the position”, what does this actually mean? How will the Authority do this and against what criteria? What procedure will it use?

## Part H: Interpretation

9.26 For the purposes of this condition, the following definitions apply:

### **Innovation**

~~in relation to its use in a defined term of this condition,~~ means any or all of the following:

- (a) a specific piece of new Network Equipment;
- (b) a novel arrangement or application of new or existing Network Equipment; and
- (c) a novel operational practice or a novel commercial arrangement,

that is not, or is not within the scope of, an Ordinary Business Arrangement~~;~~<sup>i</sup>

### **Innovation Roll-out Costs**

means the cost of rolling out a Proven Innovation~~;~~<sup>i</sup>

### **Network Equipment**

means any asset that for the time being forms part of the licensee’s pipeline system and any control centre for use in conjunction therewith~~;~~<sup>i</sup>

### **Ordinary Business Arrangement**

means any or all of the following:

- (a) a specific piece of existing Network Equipment;
- (b) an arrangement or application of existing Network Equipment; and
- (c) an operational practice or a commercial **arrangement**,

that is being used or is capable of being used, without modification, by the licensee or another electricity Transmission Licensee or Distribution Licensee at the start of the Price Control Period~~;~~<sup>i</sup>

**Comment [RUGO135]:** Sub-para (c) should be limited to existing operation practice or commercial arrangements?

### **Price Control Period**

means the period of eight Formula Years beginning on 1 April 2013 and ending on 31

**Comment [RUGO136]:** The definition of “Price Control Period” should be set out in GDC19

March 2021 during which, subject to [GDC29] Special Condition ~~XX~~ [x] (Disapplication), the Special Conditions will have effect in this licence.

**Proven Innovation** means an Innovation which the ~~Transmission~~ DN Operator can demonstrate has been successfully trialled or demonstrated either on ~~their network~~ the pipe-line system to which this licence relates or elsewhere. ~~;~~ and

**Relevant adjustment** means an adjustment to the licensee’s allowed revenue to allow them to roll out a Proven Innovation as defined in paragraph 9.9.

**Comment [RUG0137]:** As to the definition of “relevant adjustment”, it would seem more appropriate to expressly refer to para 9.9 here as this is where term in effect is defined.

**Comment [j138]:** Delete as inappropriate means of circumventing statutory licence mod procedure

**Deleted:** Expressions defined in paragraph 9.18 above are to be read and given effect subject to any further explanation or elaboration set out in the Regulatory Instructions and Guidance issued by the Authority under ~~[GDC74]~~ GTC/GDC 74 ~~Standard~~ Special Condition ~~XX~~ A40 (Regulatory Instructions and Guidance).

9.27 ↓

**APPENDIX 1: Efficiency Incentive Rate**

Licensee	%
[Licensee 1]	XX
[ Licensee [x]]	XX

**APPENDIX 2: Annual Average Forecast Revenue**

(see the AFR term under Part C of this condition)

Licensee	£m
[Licensee 1]	XX
[ Licensee [x]]	XX

## [GDC 22] Special Condition [x]. Mains and Services Replacement Expenditure

### Introduction

1. The purposes of this condition are:
  - (a) to specify the basis on which the licensee's levels of allowed expenditure on Above Risk Threshold Tier 2 Mains and Above Risk Threshold Tier 2 Services (together 'Repex') are to be determined; and
  - (b) to determine any appropriate revisions to PCFM Variable Values relating to Repex allowed expenditure ('RE' values) and the Formula Years to which those revised RE values relate for use in the Annual Iteration Process for the GD1 Price Control Financial Model as described in [GDC 26] Special Condition [x] (Annual Iteration Process for the GD1 Price Control Financial Model).

2. For the purposes of this condition:

**Comment [RUG0139]:** Suggest move definitions to GDC19.

**Formula Year t** means the Formula Year in which the value for the term MOD, calculated through a particular Annual Iteration Process, is used in the formula set out in Part C of [GDC 20] Special Condition [x] ([Restriction of revenue in respect of the Distribution Network Transportation Activity](#)) and references to Formula Years t-1 and t-2 are to be construed accordingly; and

**PCFM Variable Value** means a value held in the PCFM Variable Values Table for the licensee, contained in the GD1 Price Control Financial Model:

- (a) which is capable of being revised by a direction of the Authority following a determination under a relevant Price Control Condition; and
  - (b) whose revision does not constitute a modification of the GD1 Price Control Financial Model for the purposes of [GDC 57] Special Condition [x] (Governance of GD1 Price Control Financial Instruments).
3. The RE value relating to a particular Formula Year represents the total amount of allowed expenditure (in 2009/10 prices) for all Repex for that Formula Year and RE values as at 1 April 2013 reflect forecast levels of Repex at the outset of the ~~price-control period~~ [Price Control Period](#).

### Part A: Application of the mechanisms in this condition

4. The application of the mechanisms set out in this condition provides for:

- (a) the determination of allowed expenditure amounts for Repex for particular Formula Years which reflect actual levels of Repex activity in the Formula Years concerned; and
- (b) the determination and direction of revised RE values so that, as a consequence of the Annual Iteration Process, the value of the term MOD<sub>t-2</sub> as calculated for Formula Year t-2 for the purposes of ~~Price Control~~ [GDC \_\_\_\_\_ 20] Special Condition [•x] (Restriction of revenue in respect of the Distribution Network Transportation Activity ~~Charges~~) will result in an adjustment of the licensee's base revenue (whether upwards or downwards) in a manner that:
- (i) reflects allowed expenditure amounts determined under Part B of this condition; and
  - (ii) takes account of allowed expenditure for Repex for the purposes of the Totex Incentive Mechanism Adjustment as set out in Part [•] of [GDC 47] Special Condition [x] (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments) and in accordance with the methodology set out in Chapter [•] of the GD1 Price Control Financial Handbook.

**Part B: Determination of allowed expenditure for Repex and determination of revisions to RE values**

5. Subject to paragraph 6, a revised RE value is to be determined for each Formula Year t-2 in accordance with the formula ~~given set out~~ in paragraph 7.
6. The first Formula Year for which a revised RE value is to be determined is Formula Year 2013/14.
7. The formula referred to in paragraph 5 is:

$$RE_{t-2} = \left[ \sum_{n=1}^3 (L_{nt-2} \times U_{nt-2}) \right] \times 1,000 + (SR_{t-2} \times USR_{t-2}) + (ST_{t-2} \times UST_{t-2}) + (SN_{t-2} \times USN_{t-2})$$

where:

L<sub>nt-2</sub> means the length of Above Risk Threshold Tier 2 Mains in kilometres decommissioned in respect of diameter band n and Formula Year t-2 for the Distribution Network, where the diameter bands are defined as set out in the following table, except that any diameter of mains not covered by the table or any mains measured in metric measurement is to be reported in the diameter band corresponding to

the nearest imperial equivalent:

Diameter band n	Nominal internal diameter of mains decommissioned (inches)
1	8-9
2	10-12
3	>12-18

$U_{nt-2}$  means the specific matrix costs in respect of diameter band n and Formula Year t-2 for the licensee's Distribution Network as set out in the relevant table in Appendix 1;

$\sum_{n=1}^5$  means the summation of the diameter bands n;

$SR_{t-2}$  means the number of Above Risk Threshold Tier 2 Domestic Services Replaced in respect of Formula Year t-2 for the Distribution Network;

**Comment [RUG0140]:** "Above Risk Threshold Tier 2 Domestic Services Replaced" needs to be defined

$USR_{t-2}$  means the unit cost for Above Risk Threshold Tier 2 Domestic Services Replaced in respect of Formula Year t-2 for the Distribution Network as set out in the relevant table in Appendix 2;

**Comment [RUG0141]:** "Above Risk Threshold Tier 2 Domestic Services Replaced" needs to be defined

$ST_{t-2}$  means the number of Above Risk Threshold Tier 2 Domestic Services Transferred in respect of Formula Year t-2 for the Distribution Network;

**Comment [RUG0142]:** "Above Risk Threshold Tier 2 Domestic Services Transferred" needs to be defined.

$UST_{t-2}$  means the unit cost for Above Risk Threshold Tier 2 Domestic Services Transferred in respect of Formula Year t-2 for the Distribution Network as set out in the relevant table in Appendix 2;

**Comment [RUG0143]:** "Above Risk Threshold Tier 2 Domestic Services Transferred" needs to be defined.

$SN_{t-2}$  means the number of Above Risk Threshold Tier 2 Non-Domestic Services Replaced and Non-Domestic Services Transferred in respect of Formula Year t-2 for the Distribution Network; and

**Comment [RUG0144]:** "Above Risk Threshold Tier 2 Non-Domestic Services Replaced" needs to be defined.

$USN_{t-2}$  means the unit cost for Above Risk Threshold Tier 2 Non-Domestic Services Replaced and Non-Domestic Services Transferred in respect of Formula Year t-2 for the Distribution Network as set out in the relevant table in

**Comment [RUG0145]:** "Above Risk Threshold Tier 2 Non-Domestic Services Replaced" needs to be defined.



Appendix 2.

**[Note: expressions that occur in the definitions (set out in the right-hand column) of the above algebraic terms have the meanings given to them in Part D below.]**

8. The Authority shall, by 30 November in each Formula Year t-1, issue a direction in accordance with the provisions of Part C of this condition, specifying the revised RE value for Formula Year t-2.
9. The Authority may also revise the RE value for a Formula Year earlier than Formula Year t-2 (an 'earlier Formula Year'), notwithstanding that the RE value concerned might have been previously revised, provided that:
  - (a) the revision is necessary to reflect a review by the Authority of the values of the terms L, SR, ST or SN pertaining to the earlier Formula Year or to correct errors in relation to those values; and
  - (b) the revised RE value for the earlier-Earlier Formula Year is calculated in accordance with the formula set out in paragraph 7, but substituting the earlier-Earlier Formula Year for each year designation 't-2' in the formula; and
  - (c) the revised RE value for the earlier Formula Year is specified in a direction issued in accordance with the provisions of Part C of this condition.

**Comment [RUGO146]:** Under what condition will this review take place? What are the parameters?

**Comment [RUGO147]:** On what basis will errors be corrected? Is there a condition this is linked to which sets out the parameters?

**Part C: Procedure for direction of revised RE values by the Authority**

10. Any revised RE values determined by the Authority in accordance with Part B of this condition, will be directed by the Authority by 30 November in each Formula Year t-1.
11. Before issuing any directions under paragraph 10, the Authority will give Notice to the licensee of all of the values that it proposes to direct.
12. The Notice referred to in paragraph 11 must:
  - (a) state that any revised RE values have been determined in accordance with Part B of this condition; and
  - (b) specify the period (which must not be less than 14 days from the date of the Notice) within which the licensee may make any representations or objections concerning the determination of any revised RE values.
13. The Authority shall have due regard to any representations or objections duly received under paragraph 12, and give reasons for its decisions in relation to them.

**Comment [RUGO148]:** Rather than 14 days, we are suggesting 28 days throughout the price control conditions.

14. Where the Authority directs any revised RE values for earlier Formula Years under paragraph 9 in Part B of this condition, the effect of using those revised RE values in the Annual Iteration Process for the GD1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term MOD for Formula Year t and, for the avoidance of doubt, it shall not have any retrospective effect on a previously directed value of the term MOD.
15. If, for any reason in any Formula Year t-1, the Authority does not make a direction in relation to revised RE values by 30 November, then no ~~revised RE~~ revised RE values will be used in the Annual Iteration Process that is required by [GDC 26] Special Condition [x] to be undertaken by the Authority by 30 November in that same Formula Year t-1. In those circumstances, the Authority shall take full account of the position when determining and directing any revised RE values in respect of the next Annual Iteration Process.

**Comment [RUG0149]:** What is meant by "take full account of the position"? What will be the process to achieve this?

## Part D: Interpretation

16. For the purposes of this condition only:

**Above Risk Threshold Tier 2 Mains** means Included Mains where the pipe diameter is greater than 8 inches and less than 18 inches, and which have a Risk Score greater than the Threshold Risk Score-;.

**Above Risk Threshold Tier 2 Services** means service pipes connecting to Above Risk Threshold Tier 2 Mains-;.

**Decommissioning** means, in relation to any main or service:

- (a) removing the main or service from physical operation, or
- (b) inserting a new polyethylene service for which the existing service acts merely as a guide, or
- (c) applying an internal lining of sufficient strength and durability to comply with Regulation 5 of the Pipeline Safety Regulations [1996](#), or
- (d) any other means of rendering the existing non- polyethylene service safe as agreed with [HSE](#),

**Comment [RUG0150]:** HSE should be defined as the Health and Safety Executive

and "decommissioned" is to be read accordingly-;.

**Domestic Premises** means premises at which a supply of gas is taken at a rate that is reasonably expected not to exceed 73,200 kilowatt hours a year-;.

**Domestic Services** means, in relation to services to Domestic Premises:

**Replaced**

- (a) the laying of a new polyethylene service to the premises to replace an existing non-polyethylene service, or
- (b) the insertion of a new polyethylene service for which the existing service acts merely as a guide, or
- (c) the application to an existing service of an internal lining of sufficient strength and durability to comply with Regulation 5 of the Pipeline Safety Regulations [1996](#), or
- (d) the making safe by any other means of an existing non-polyethylene service, as agreed with HSE,

**Comment [RUG0151]:** HSE should be defined as the Health and Safety Executive

and in respect of which the costs of replacement may include any associated Purge and Re-Light Costs.

**Domestic Services Transferred**

means the transfer of an existing polyethylene service to a new main at a Domestic Premises (and in respect of which the costs of the transfer may include any associated Purge and Re-Light Costs).

**Included Mains**

means all mains which prior to Decommissioning were mains that operated at low, medium, or intermediate distribution pressures and consisted of materials other than Standard Mains Materials (and includes all decommissioned, transferred, or replaced services).

**Non-Domestic Premises**

means premises at which a supply of gas is taken at a rate which is reasonably expected to exceed 73,200 kilowatt hours a year.

**Non-Domestic Services Replaced**

- means, in relation to to any services to Non-Domestic Premises:
- (a) the laying of a new polyethylene service to the premises to replace an existing non-polyethylene service, or
  - (b) the insertion of a new polyethylene service whereby the existing service acts merely as a guide, or
  - (c) the application to an existing service of an internal lining of sufficient strength and durability to comply with Regulation 5 of the Pipeline Safety Regulations [1996](#), or
  - (d) the making safe by any other means of an existing non-polyethylene service ~~safe~~, as agreed with HSE,

**Comment [RUG0152]:** HSE should be defined as the Health and Safety Executive

	and in respect of which the costs of replacement may include any associated Purge and Re-Light Costs <sup>2</sup> ;	
<b>Non-Domestic Services Transferred</b>	means the transfer of an existing polyethylene service to a new main at a Non-Domestic Premises (and in respect of which the costs of the transfer may include any associated Purge and Re-Light Costs) <sup>2</sup> ;	
<b>Purge and Re-Light Costs</b>	means the costs of purging the service and any other associated equipment of air and of relighting the customer’s appliances <sup>2</sup> ;	
<b>Risk Score</b>	means the Mains Prioritisation Risk <b>Score</b> (MPRS) as calculated for the mains or services <sup>2</sup> ;	<b>Comment [RUG0153]:</b> “Main s Prioritisation Risk Score” needs to be defined
<b>Standard Mains Materials</b>	means polyethylene or any similar polymer-based material (other than polyvinyl chloride), or steel that is provided with cathodic rust protection <sup>2</sup> ; and	
<b>Threshold Risk Score</b>	means the <del>Threshold Risk Score</del> <b>threshold risk score</b> agreed between the licensee and the HSE as part of the licensee’s approved programme under <del>Regulation 13 of the</del> Pipeline Safety <del>Regulation 13.</del> <u>Regulations 1996.</u>	<b>Comment [RUG0154]:</b> HSE should be defined as the Health and Safety Executive

**Appendix 1: Distribution Network specific matrix costs (£ per metre, at 2009/10 price levels) for Above Risk Threshold Tier 2 Mains: Distribution Network: XX**

	Specific matrix costs (£ per metre)							
Diameter band n	t=1	t=2	t=3	t=4	t=5	t=6	t=7	t=8
1								
2								
3								
[XX]								

**Appendix 2: Appendix 2: Distribution Network unit costs for Above Risk Threshold Tier 2 ~~services-replaced~~ Domestic Services Replaced (USR), Above Risk Threshold Tier 2 ~~services-transferred~~ Domestic Services Transferred (UST), and Above Risk Threshold Tier 2 ~~non-domestic services~~ Non-Domestic Services Replaced (USN)**

(£ per service, at 2009/10 price levels)

Licensee XX:

	Specific services costs (£/ service)							
	t=1	t=2	t=3	t=4	t=5	t=6	t=7	t=8
USR								
UST								
USN								

[etc]								
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**[GDC 28] Special Condition [x]. Arrangements for the recovery of uncertain costs**

[To note generic introduction paragraphs relating to the interaction with the financial model to be reviewed in order to ensure consistency with other conditions that result in a change to MOD]

[We are now working on the basis that each item will have its own PCFM Variable Value. Condition will need to be amended to reflect]

**Introduction**

28.1 The purpose of this condition is to allow the licensee or the Authority to propose, and the Authority to determine, such adjustments ("relevant adjustments") as are necessary to enable the licensee to recover the categories of costs set out in paragraph 28.4 (each "an uncertain cost category") insofar as they are efficiently incurred or, in the case of Enhanced Physical Site Security Costs, are directed by the Secretary of State to be paid under the Counter-Terrorism Act 2008.

**Deleted:** relevant

**Comment [RUG0155]:** There is scope for confusion between "Relevant Costs" and "relevant cost category". We suggest that this is resolved by changing "relevant cost category" to "uncertain costs category", which also picks up the title of the condition.

28.2 The IAE term derived in accordance with this condition will be a revised PCFM Variable Value for the Annual Iteration Process described in [GDC26] Special Condition [x] (Annual Iteration Process for the GD1 Price Control Financial Model). As a consequence of the Annual Iteration Process, the value of the term MOD as ~~calculated~~ derived for Formula Year t for the purposes of Part C of [GDC20] Special Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity Charges) will result in an adjustment of the licensee's Base Distribution Network Transportation Activity Revenue (whether upwards or downwards) in a manner that is consistent with the policy outlined in the GD1 Price Control Financial Methodologies.

**Comment [j156]:** How will these be assessed - what criteria will be used?

**Comment [RUG0157]:** "IAE" term should be defined

**Deleted:** for the GD1 Price Control Financial Model as

28.3 The IAE term derived in accordance with this condition will also constitute an element of [Total Allowed Totex] for the purposes of deriving the [efficiency incentive performance] as set out in Part E of [GDC47] Special Condition [x] (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments). Total Allowed Totex is calculated in accordance with the methodology set out in Chapter [x] of the GD1 Price Control Financial Methodologies contained within the GD1 Price Control Financial Handbook.

**Comment [RUG0158]:** We note that Part D (rather than Part E) of GDC47 has now been struck out. Further, the definition of "Total Allowed Totex" has also been deleted in GDC47. Thus please confirm how this IAE term will constitute an element of Totex under that condition.

28.4 The uncertain cost categories referred to in paragraph 28.1 are:

**Deleted:** relevant

- (a) Specified Street Works Costs;
- (b) Connection Charging Boundary Change Costs;
- (c) Enhanced Physical Site Security Costs;
- (d) Smart Metering Roll-Out Costs; and



(e) Large Load Connection Costs.

28.5 The licensee or the Authority may propose relevant adjustments in respect of an uncertain cost category only during certain periods ("application windows") that are specified in Part B below.

Deleted: a relevant

28.6 This condition also enables the Authority to review the Fuel Poor Network Extensions Scheme operated by the licensee and, if appropriate, to direct that an adjustment be made to reflect the effect of any modification or termination of ~~the~~ that scheme.

28.7 This condition also enables the Authority to review the Central Agent Costs incurred by the licensee and, if appropriate, to direct that an adjustment be made to reflect the effect of any change in these costs.

### Part A: Licensee's or Authority's ability to propose a relevant adjustment

28.8 The licensee may by Notice to the Authority, and the Authority may by Notice to the licensee, propose, in accordance with Parts B and C below, a relevant adjustment to the PCFM Variable Value in relation to any uncertain cost category where the costs within that category:

Deleted: relevant

- (a) are Relevant Costs within the meaning of paragraph 28.9; and
- (b) constitute a material amount within the meaning of paragraph 28.10.

28.9 The Relevant Costs in respect of an uncertain cost category are any new or additional costs (net of any cost savings that are fortuitous or otherwise not attributable to prudent management action) that were not allowed for in the costs included for that category when the Authority determined the Price Control Conditions.

Deleted: a relevant

Comment [j159]: These terms require clarification

Comment [RUGO160]: As to the reference to "Special Conditions", we suggest the deletion of this term and the insertion of "Price Control Conditions"

28.10 A material amount in respect of any uncertain cost category is the amount of Relevant Costs within that category, when multiplied by the licensee's Efficiency Incentive Rate as set out in Appendix 1, that exceeds or is likely to exceed 1 per cent of the licensee's Average Annual Base Revenue over the ~~price control period~~ Price Control Period beginning 1 April 2013 as set out in Appendix 2.

Deleted: Special

Comment [RUGO161]: Whilst "Average Annual Base Revenue" is set out in Appendix 2, it does not appear to be a defined term and therefore query need to capitalise.

28.11 A relevant adjustment is one:

- (a) which the licensee or the Authority believes would have the effect of enabling the licensee to recover Relevant Costs which would not otherwise be recoverable under the Special Conditions; and
- (b) which applies only in respect of Relevant Costs that the licensee has incurred, or is likely to incur, on and after 1 April 2013.

Comment [RUGO162]: As to the reference to "Special Conditions", again suggest that this is replaced with "Price Control Conditions"

### Part B: Application windows for relevant adjustment proposals

28.12 There are two application windows during which a relevant adjustment may be proposed by Notice served under Part A above:

- (a) the first application window opens on 1 May 2015 and closes on 31 May 2015; and
- (b) the second application window opens on 1 May 2018 and closes on 31 May 2018.

28.13 A Notice under Part A above may not be served outside the application windows set out in [paragraph 28.10](#) above.

28.14 A relevant adjustment relating to any [uncertain cost category](#) may be proposed during both the first application window and the second application window [as set out in paragraph 28.12](#), provided that in relation to each such application, the proposal complies with the provisions of paragraphs ~~28.11~~ [28.9](#) and ~~28.12~~ [28.10](#).

Deleted: relevant

28.15 Any relevant adjustment proposed outside the appropriate application window as set out in paragraph 28.12 will not be determined by the Authority under the process that is provided for in this condition.

### Part C: Other provisions relating to relevant adjustment proposals

28.16 A Notice served under Part A must in all cases:

- (a) state the obligations or requirements to which the Notice relates;
- (b) set out the basis on which the relevant adjustment in respect of each [uncertain cost category](#) to which the Notice relates has been calculated; and
- (c) state the date from which it is proposed that the relevant adjustment will have effect ("the adjustment date").

Deleted: relevant

28.17 The adjustment date must not be a date that is earlier than:

- (a) 1 April 2016 in the case of a relevant adjustment proposed during the first application window; and
- (b) 1 April 2019 in the case of a relevant adjustment proposed during the second application window.

### Part D: Authority's power to determine the relevant adjustment

28.18 [Where](#) a Notice has been served under Part A above, the Authority may, within four months after the close of the appropriate application window, after consultation with the licensees, determine the relevant adjustment that is to be made to the PCMF Variable Value in such manner as it considers [in the circumstances](#) appropriate having regard to the purposes of this [condition](#).

**Comment [RUG0163]:** This paragraph should be made expressly subject to paragraph 28.19.

**Comment [RUG0164]:** This para refers to "consultation with the licensees", which is in contrast to GTC28.18 which provides "after consulting the licensee". Will consultation occur with licensees other than NGG?

28.19 Where a Notice has been served under Part A in relation to Connection Charging Boundary Change Costs, the Authority may proceed to determine and direct a relevant adjustment of the Special Conditions in the licence held by each ~~gas~~-DN Operators, subject to appropriate consultation with each such licensee before it makes that determination [and direction](#).

#### **Part E: Other provisions relating to the power of determination**

28.20 In determining a relevant adjustment under Part D the Authority may confirm, reject, or vary the proposed relevant adjustment.

28.21 Without limiting the general effect of paragraph 28.20, a determination by the Authority of a relevant adjustment may include such adjustments as it thinks fit in respect of costs likely to be incurred by the licensee in any subsequent Formula Year within the [uncertain](#) cost category to which the relevant adjustment relates.

Deleted: relevant

#### **Part F: Licensee's right to make the relevant adjustment**

28.22 If the Authority has not determined a relevant adjustment proposed in a Notice given to the Authority by a licensee under Part A within four months of the close of the appropriate application window, and that Notice has not been withdrawn, the licensee may give Notice to the Authority that the relevant adjustment proposed in its notice shall take effect from the adjustment date for all relevant purposes under the Price Control Conditions.

#### **Part G: Review of the Fuel Poor Network Extensions Scheme**

28.23 The Authority may at any time after 1 April 2013-~~u~~ review the licensee's operation of the Fuel Poor Network Extensions Scheme ("the ~~scheme~~[Scheme](#)"), with a view to ensuring that it remains efficient and cost-effective for its stated purposes.

28.24 In conducting that review, the Authority must consult:

- (a) the licensee and other ~~gas~~-DN Operators; and
- (b) such other persons as it considers appropriate.

28.25 The licensee must supply the Authority with any information that it reasonably requests for the purposes of its review, including, in particular, calculations in accordance with a methodology prescribed by the Authority that will enable the Authority to assess the overall net carbon savings achieved by the ~~scheme~~[Scheme](#).

28.26 The Authority may, as a result of its review, decide that the ~~scheme~~[Scheme](#):

- (a) should be continued without modifications;
- (b) should be continued with modifications; or

(c) should cease.

28.27 Where the Authority decides that the ~~scheme~~ Scheme:

(a) should be modified; or

(b) should cease,

it may direct that an adjustment be made to the PCFM Variable Value with effect from the beginning of the next Formula Year following the Formula Year in which the direction is given so as to reflect the effect of its decision in relation to the revenues that would otherwise continue to be recoverable by the licensee under the Special Conditions for the purpose of operating the ~~scheme~~ Scheme.

**Comment [RUGO165]:** The reference to "Special Conditions" should be changed to "Price Control Conditions"

28.28 A direction under paragraph 28.27 may not be given later than six months before the beginning of the next Formula Year to which that paragraph refers.

#### Part H: Review of Central Agent Costs

28.29 The Authority may ~~at any time after 1 April 2013~~ review the costs ("the Central Agent Costs") incurred by the licensee in fulfilling its obligations under Standard Special Condition A15 (Central Agent). The purpose of the review will be to establish the efficient level of Central Agent Costs in the event that Standard Special Condition ~~15~~ A15 (Agency) is amended or deleted.

**Comment [RUGO166]:** Standard Special Condition A15 refers to "Agency" as opposed to "Central Agent Costs". This should be rectified.

28.30 In conducting that review, the Authority must consult:

(a) the licensee and other ~~gas~~ DN Operators; and

(b) such other persons as it considers appropriate.

28.31 The licensee must supply the Authority with any information that it reasonably requests for the purposes of its review.

28.32 Following its review, the Authority may decide that the efficient level of Central Agent Costs;

(a) should continue without modification; or

(b) should be modified.

28.33 Where the Authority decides that the efficient level of Central Agent Costs should be modified, it may direct that an adjustment be made to the PCFM Variable Value ~~with effect from the beginning of the next Formula Year following the Formula Year in which the direction is given~~ so as to reflect the effect of its decision in relation to the revenues that would otherwise continue to be recoverable by the licensee under the Special Conditions for the purpose of fulfilling its obligations under Standard Special Condition A15 (Agency).

**Comment [RUGO167]:** Replace "Special Conditions" with "Price Control Conditions"

28.34 A direction under paragraph 28.33 may not be given later than 30 November prior to the beginning of the next Formula Year to which that paragraph refers.

## Part I: Treatment of an adjustment or a relevant adjustment

28.35 The amount of the term IAET for the purposes of deriving the PCFM Variable Value for the Annual Iteration Process shall be the sum of:

- (a) any relevant adjustment (or adjustments) in respect of any Formula Year t, whether determined by the Authority under Part D or made by the licensee under Part F of this condition; and
- (b) any adjustment in respect of any Formula Year t that may be directed by the Authority under Part G and Part H of this condition.

## Part J: Interpretation

28.36 For the purposes of this condition, the following definitions apply:

<b>Central Agent Costs</b>	[definition to be added, please see Finance and Uncertainty Supporting Paper for details];
<b>Connection Charging Boundary Change Costs</b>	means <del>Relevant Costs</del> <u>costs</u> incurred by the licensee as a consequence of any material change to the charging methodology, as required by standard condition 4B (Connection Charging Methodology) and approved under this licence by the Authority and in force at 1 April 2013 in relation to Distributed Entry Connections by persons requiring such connections. <del>—</del> <u>;</u>
<b>Distributed Entry Connections</b>	[definition to be added];
<b>Efficiency Incentive Rate</b>	means the incentive rate for the licensee, <del>and as</del> <u>set</u> out in Appendix 1 to this condition. <del>;</del> <u>;</u>
<b>Enhanced Physical Site Security Costs</b>	means <del>Relevant Costs</del> <u>costs</u> incurred by the licensee for the purposes of <u>;</u> (a) implementing any formal recommendation or requirement of the Secretary of State to enhance the physical security of any of the sites within the licensee's Distribution Network; or (b) complying with any requirement arising under sections 85 to 90 of the Counter-Terrorism Act 2008 to make payments to the Secretary <u>of</u> State for costs incurred by him in respect of the provision of extra policing services in or around a <u>gas facility</u> . <del>;</del> <u>;</u>
<b>Fuel Poor Network Extensions</b>	means the scheme of that name that incentivises a <del>gas</del> DN Operator to extend its Distribution Network to premises not previously connected to that

**Comment [j168]:** condition determines relevance - if "relevant included here will lead to circularity

**Comment [RUG0169]:** Does "gas facility" have the meaning provided in section 85(4) of the Act?

<b>Scheme</b>	network that are occupied by individuals in fuel poverty-;]
<del><b>Central Agent Costs</b></del>	<del>[definition to be added, please see Finance and Uncertainty Supporting Paper for details]</del>
<del><b>Relevant Costs</b></del>	<del>has the meaning given to that term at paragraph 28.9 of this condition.</del>
<b>Large Load Connections Costs</b>	[definition to be added, please see Finance and Uncertainty Supporting Paper for details];]
<u><b>Relevant Costs</b></u>	<u>has the meaning given to that term at paragraph 28.9 of this condition;</u>
<b>Smart Metering Roll-Out Costs</b>	[definition to be added, please see Finance and Uncertainty Supporting Paper for details]; <u>and</u>
<b>Specified Street Works Costs</b>	means any <del>Relevant Costs</del> <u>costs</u> specified below that may be incurred by the licensee in complying with obligations or requirements arising under any orders or regulations made pursuant to Part 3 of the Traffic Management Act 2004 (or, in Scotland, the Transport (Scotland) Act 2005) that impose a permit scheme, or under any wider street works legislation applicable to the licensee: <ul style="list-style-type: none"> <li>(a) one-off set-up costs,</li> <li>(b) permit fee costs,</li> <li>(c) administrative costs arising from the introduction of permit schemes,</li> <li>(d) costs arising from the introduction of permit conditions,</li> <li>(e) costs arising from changes to working practices required by the introduction or alteration of any code of practice applicable to the licensee,</li> <li>(f) costs arising from lane rental charges levied on the licensee by highway authorities,</li> <li>(g) costs arising from changes to inspection fees payable by the licensee,</li> <li>(h) costs arising from changes to the requirements imposed on the licensee in respect of highway reinstatement, and</li> <li>(i) costs arising from the introduction of new congestion charging schemes or changes to existing ones.</li> </ul>

28.37 Expressions defined in paragraph 28.36 are to be read and given effect subject to any further explanation or elaboration set out in the relevant Regulatory Instructions and Guidance issued by the Authority under [GDC74] (Regulatory Instructions and Guidance).

**APPENDIX 1: EFFICIENCY INCENTIVE RATE**

(see paragraph 28.10 of this condition)

<b>Gas DN Licensee</b>	<b>Incentive rate</b>
Gas DN Licensee 1	XX per cent
Gas DN Licensee 2	XX per cent
Gas DN Licensee 3	XX per cent
Gas DN Licensee 4	XX per cent
Gas DN Licensee 5	XX per cent
Gas DN Licensee 6	XX per cent
Gas DN Licensee 7	XX per cent
Gas DN Licensee 8	XX per cent

**APPENDIX 2: AVERAGE ANNUAL BASE REVENUE**

(see paragraph 28.10 of this condition)

<b>Gas DN Licensee</b>	<b>£m (2009/10 prices)</b>
Gas DN Licensee 1	AA.A
Gas DN Licensee 2	BB.B
Gas DN Licensee 3	CC.C
Gas DN Licensee 4	DD.D
Gas DN Licensee 5	EE.E
Gas DN Licensee 6	FF.F
Gas DN Licensee 7	GG.G
Gas DN Licensee 8	HH.H

**SPECIAL CONDITIONS: FINANCIAL CONDITIONS**



## [GDC 64] Special Condition[x]. Legacy price control adjustments

### Introduction

64.1 The purpose of this condition is to determine:

- (a) any appropriate revisions to the PCFM Variable Values relating to the items specified in Part A of this condition; and
- (b) the Formula Years to which the revised values referred to in subparagraph (a) relate,

for use in the Annual Iteration Process for the GD1 Price Control Financial Model as described in [GDC 26] Special Condition [x] (Annual Iteration Process for the GD1 Price Control Financial Model).

64.2 For the purposes of this **condition**:

**Comment [RUG0170]:** We suggest that these definitions are included in GDC19

#### **Formula Year t**

means the Formula Year in which the value for the term MOD, calculated through a particular Annual Iteration Process, is used in the formula set out in Part C of [GDC 20] Special Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity) and references to Formula Year t-1 are to be construed accordingly.

#### **PCFM Variable Value**

means a value held in the PCFM Variable Values Table for the licensee, contained in the GD1 Price Control Financial Model:

- (a) which is capable of being revised by a direction of the Authority following a determination under a relevant **Special Condition**; and
- (b) whose revision does not constitute a modification of the GD1 Price Control Financial Model for the purposes of [GDC 57] Special Condition [x] (Governance of GD1 Price Control Financial Instruments).

**Comment [RUG0171]:** "Special Condition" should be replaced with "Price Control Condition".

64.3 The application of the mechanisms set out in this condition ~~means will~~ have the effect that as a consequence of the Annual Iteration Process, the value of the term MOD as ~~calculated derived~~ for Formula Year t for the purposes of [GDC 20] Special Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity) will result in an appropriate adjustment of the licensee's ~~base Base~~ Distribution Network Transportation Activity Revenue (whether upwards or downwards) in a manner that appropriately reflects the revenue allowance

**Comment [RUG0172]:** Suggest capitalise "base" on the sixth which is consistent with our comments on para 20.4

and, as applicable, **Regulatory Asset Value** (RAV) balance adjustments attributable to the licensee in respect of:

**Comment [RUG0173]:** We suggest that the definition of "Regulatory Asset Value" be set out in GDC19 as it is used in different price control conditions.

- (a) activities carried out by the licensee;
- (b) incentivised performance by the licensee; and/or;
- (c) costs or expenditure incurred by the licensee,

in Formula Years prior to Formula Year 2013/14 (the 'legacy period'), in relation to one or more of the schemes and mechanisms referred to in Parts A and B of this **condition**.

**Deleted:** price control periods prior to

**Comment [RUG0174]:** As to the reference to "price control periods prior to Formula Year 2013/14", we would suggest that instead the actual years are inserted. Alternatively, the reference should be to "Formula Years".

64.4

#### **Part A: Determination and direction of revised PCFM Variable Values for legacy price control adjustments**

64.5 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) legacy price control revenue allowance adjustments (LAR values); and
- (b) legacy price control adjustments to RAV balance additions (LRAV values).

**Deleted:** This condition should be read and construed in conjunction with, [GDC 26] Special Condition [x] (Annual Iteration Process for the GD1 Price Control Model), and [GDC 57] Special Condition [x] (Governance of GD1 Price Control Financial Instruments).

64.6 Except where the Authority makes a determination under this part, the LAR values and LRAV values for all Formula Years shall be zero.

**Comment [RUG0175]:** Should this instead read, "Except where the Authority makes a determination under this Part A, the LAR values and LRAV values for all Formula Years shall be zero as at 1 April 2013"?

64.7 Subject to paragraphs 64.8 and 64.9 of this condition, the Authority shall, by 30 November in each Formula Year t-1:

**Deleted:** are

**Deleted:** as at 1 April 2013

**Deleted:** The

- (a) determine whether any LAR values or LRAV values should be revised in relation to one or more of the schemes and mechanisms referred to in Parts A and B of this condition; and

- (b) issue a direction in accordance with the provisions of Part C of this condition specifying any revised values that have been determined and the Formula Years to which they relate.

64.8 The first Formula Year in which the Authority will make a determination pursuant to paragraph 64.7 is Formula Year 2013/14.

64.9 Revised LAR and LRAV values will normally relate to Formula Year 2013/14.

64.10 The revised LAR value for any Formula Year from 2013/14 onwards is determined in accordance with the following formula:

$$\text{LAR} = \text{PAR} + \text{TAR} + \text{FAR} + \text{CAR} + \text{MAR}$$

where:

- PAR means the revenue allowance adjustment in respect of ~~true-ups for legacy period~~ pension scheme expenditure in the legacy period, determined in accordance with Part B of this condition;
- TAR means the revenue allowance adjustment ~~driven by~~ in respect of the licensee's gearing levels and corporate debt interest costs in the legacy period, determined in accordance with Part B of this condition;
- FAR means the revenue allowance adjustment in respect of the ~~close-out of legacy period~~ non gas fuel poor network extension scheme activity in the legacy period, determined in accordance with Part B of this condition;
- CAR means the revenue allowance adjustment in respect of the ~~close-out of the legacy period~~ Capex rolling incentive in the legacy period, determined in accordance with Part B of this condition; and
- MAR means the revenue allowance adjustment in respect of the ~~close-out of legacy period~~ mains and services replacement expenditure arrangements in the legacy period, determined in accordance with Part B of this condition,

in each case, for the same Formula Year.

64.11 The revised LRAV value for any Formula Year from 2013/14 onwards is determined in accordance with the following formula:

$$\text{LRAV} = \text{FRAV} + \text{CRAV} + \text{MRAV}$$

where:

- FRAV means the adjustment to the licensee's RAV balance additions in respect of the ~~close-out of legacy period~~ non gas fuel poor network extension scheme activity in the legacy period, determined in accordance with Part B of this condition;
- CRAV means the adjustment to the licensee's RAV balance additions in respect of the ~~close-out of the legacy period~~ Capex rolling incentive in the legacy period, determined in accordance with Part B of this condition; and
- MRAV means the adjustment to the licensee's RAV balance additions in respect of the ~~close-out of legacy period~~ mains and services replacement expenditure arrangements in the legacy period, determined in accordance with Part B of this condition,

**Comment [RUG0176]:** Delete the words "true-ups for" as these words are unnecessary, unless "true-up" is to be defined in the Handbook, in which case a reference to where this definition is to be placed should be inserted in this condition

**Comment [RUG0177]:** "pension scheme" will need to be defined in the Handbook

**Comment [RUG0178]:** "gearing levels and corporate debt interest" will need to be defined in the Handbook

**Comment [RUG0179]:** "close-out" should be deleted as unnecessary, or "close-out" will need to be defined in the Handbook, in which case a reference to where this definition is to be placed should be inserted in this condition

**Comment [RUG0180]:** "non gas fuel network extension scheme activity" needs to be defined

**Comment [RUG0181]:** Either "close-out" should be deleted as unnecessary, or "close-out" will need to be defined in the Handbook, in which case a reference to where this definition is to be placed should be inserted in this condition

**Comment [RUG0182]:** "Capex rolling incentive" will need to be defined

**Comment [RUG0183]:** Either "close-out" should be deleted as unnecessary, or "close-out" will need to be defined in the Handbook, in which case a reference to where this definition is to be placed should be inserted in this condition

**Comment [RUG0184]:** mains and services replacement expenditure arrangements" will need to be defined

**Comment [RUG0185]:** "legacy period" will also need to be defined

**Comment [RUG0186]:** Either "close-out" should be deleted as unnecessary, or "close-out" will need to be defined in the Handbook, in which case a ... [2]

**Comment [RUG0187]:** Either "close-out" should be deleted as unnecessary, or "close-out" will need to be defined in the Handbook, in which case a ... [3]

**Comment [RUG0188]:** Either "close-out" should be deleted as unnecessary, or "close-out" will need to be defined in the Handbook, in which case a ... [4]

in each case, for the same Formula Year.

64.12 Where the Authority directs any revised LAR values or LRAV values for Formula Years earlier than Formula Year t, the effect of using those revised values in the Annual Iteration Process for the GD1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term MOD for Formula Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term MOD.

**Comment [j189]:** Requires definition

## **Part B: Determination of component values for the determination of LAR and LRAV values**

64.13 This Part provides for the determination of component values for the determination of LAR values and LRAV values.

64.14 Subject to paragraph 64.15, the Authority shall, by 30 November in each Formula Year t-1, determine the value of the following terms:

- (a) PAR, in accordance with the methodology set out in part A of chapter 10 of the GD1 Price Control Financial Handbook;
- (b) TAR, in accordance with the methodology set out in part B of chapter 10 of the GD1 Price Control Financial Handbook;
- (c) FAR and FRAV, in accordance with the methodology set out in part C of chapter 10 of the GD1 Price Control Financial Handbook;
- (d) CAR and CRAV, in accordance with the methodology set out in part D of chapter 10 of the GD1 Price Control Financial Handbook; and
- (e) MAR and MRAV, in accordance with the methodology set out in part A of chapter 10 of the GD1 Price Control Financial Handbook.

**Comment [RUGO190]:** The version of the Handbook that we have, provides for legacy adjustments to be determined in accordance with Chapter 10, which has not been completed. We will therefore need to review this Chapter once ready to finalise our comments on this paragraph.

~~64.15~~ 64.16 The Authority shall include a statement of any values determined pursuant to paragraph 64.14 in a direction given under Part C of this condition.

**Comment [j191]:** Delete as covered by 64.8

**Deleted:** The first Formula Year in which the Authority will make determinations pursuant to paragraph 64.14 is Formula Year 2013/14

**Deleted:** .¶

## **Part G: Procedure to be followed for direction of revised PCFM Variable Values relating to legacy price control adjustments by the Authority**

64.17 Subject to paragraph 64.8, revised LAR values and LRAV values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Formula Year t-1.

64.18 Before issuing any directions under paragraph 64.17, the Authority will give Notice to the licensee of all of the values that it proposes to direct.

64.19 The Notice referred to in paragraph 64.18 must:

- (a) state that any revised LAR [values](#) and LRAV values have been determined in accordance with Parts A and B of this condition; and
- (b) specify the period (which must not be less than 14 days from the date of the Notice) within which the licensee may make any representations or objections concerning the determination of any revised LAR [values](#) or LRAV values.

**Comment [RUG0192]:** Rather than 14 days, suggest 28 days for consistency of drafting.

64.20 The Authority shall have due regard to any representations or objections duly received under paragraph 64.19, and give reasons for its decisions in relation to them.

64.21 If, for any reason in any Formula Year t-1, the Authority does not make a direction in relation to revised LAR [values](#) and LRAV values by 30 November, the Authority shall direct the values concerned as soon as is practicable, consistent with the purpose of paragraph 26.10 of [GDC 26] Special Condition [x] (Annual Iteration Process for the GD1 Price Control Financial Model) and, in any case, before directing a value for MOD<sub>t</sub> under that paragraph.

**Part H: Interpretation**

64.22 For the purposes of this condition, the following definitions apply:

<b>Annual Iteration Process</b>	has the meaning given in Special Condition [GDC 26] <a href="#">Special Condition [x] (Annual Iteration Process for the GD1 Price Control Financial Model)</a> .
<b>GD1 Price Control Financial Handbook</b>	has the meaning given in Special Condition [GDC 57] <a href="#">Special Condition [x] (Governance of GD1 Price Control Financial Instruments)</a> .
<b>GD1 Price Control Financial Methodologies</b>	has the meaning given in Special Condition [GDC 57] <a href="#">Special Condition [x] (Governance of GD1 Price Control Financial Instruments)</a> .
<b>GD1 Price Control Financial Model</b>	has the meaning given in Special Condition [GDC 57] <a href="#">Special Condition [x] (Governance of GD1 Price Control Financial Instruments)</a> .

**Comment [j193]:** Delete as in appropriate attempt to avoid statutory licence mod procedure

**Deleted:** Expressions used in paragraphs 64.2 and 64.22 are to be read and given effect subject to any further explanation or elaboration within the GD1 Price Control Financial Methodologies that

**Deleted:** may be applicable to them.¶

| 64.23 ↓

**[GDC 47] Special Condition [x]. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments**

**Introduction**

47.1 The purpose of this condition is to establish the basis for determining PCFM Variable Values for the licensee’s actual Totex expenditure, in relation to the **Totex Incentive Mechanism**, that are to be used for the purposes of the Annual Iteration Process for the GD1 Price Control Financial Model in accordance with [GDC 26] Special Condition [x] (Annual Iteration Process for the GD1 Price Control Financial Model).

**Comment [RUGO194]:** “Totex Incentive Mechanism” should be defined.

47.2 For the purposes of this **condition**:

**Comment [RUGO195]:** We suggest that these definitions are moved to GDC19.

**Formula Year t** means the Formula Year in which the value for the term MOD, calculated through a particular Annual Iteration Process, is used in the formula set out in Part C of [GDC 20] Special Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity) and references to Formula Year t-1 and t-2 are to be construed accordingly; **and**

**PCFM Variable Value** means a value held in the PCFM Variable Values Table for the licensee, contained in the GD1 Price Control Financial Model:

- (a) which is capable of being revised by a direction of the Authority following a determination under a relevant **Special Condition**; **and**
- (b) whose revision does not constitute a modification of the GD1 Price Control Financial Model for the purposes of [GDC 57] Special Condition [x] (Governance of GD1 Price Control Financial Instruments).

**Comment [RUGO196]:** Rather than “Special Condition” suggest “Price Control Condition”, which will in turn be defined in GDC19.

47.3 The application of the mechanisms set out in this condition ensures that, as a consequence of the Annual Iteration Process:

- (a) the value of the term MOD as ~~calculated~~ **derived** for Formula Year t for the purposes of [GDC 20] **Special Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity)** will result in an adjustment of the licensee’s ~~base~~ **Base** Distribution Network Transportation Activity Revenue (whether upwards or downwards); **and**
- (b) appropriate adjustments will be made to the licensee’s Regulatory Asset Value (RAV) **balance**,

**Comment [RUGO197]:** This should expressly refer to “Part C” of GDC 20

**Comment [RUGO198]:** We suggest capitalise “base” in accordance with our comments under para 20.5

**Comment [RUGO199]:** As to sub-para (b), “RAV” is used in the legacy conditions also and thus suggest a definition be provided in GDC19

that ~~appropriately~~ reflect the licensee's performance under the Totex Incentive Mechanism, in accordance with the methodology set out in Chapter 6 of the GD1 Price Control Financial Handbook.

**Comment [RUGO200]:** Chapter 6 of the Handbook has not been completed and therefore we will not be able to finalise our comments on this condition until provided with that Chapter.

47.4

#### **Part A: Totex Incentive Mechanism applicable to the licensee**

47.5 The Totex Incentive Mechanism ensures that the licensee bears an appropriate share of any over spend, or retains an appropriate share of any under spend, represented by a difference, in respect of a given Formula Year, between:

- (a) the licensee's allowed Totex expenditure; and
- (b) the licensee's actual Totex expenditure.

47.6 The 'appropriate share' referred to in paragraph 47.5 is represented by the efficiency incentive rate (set down against the licensee's name in the table at Appendix 1 to this condition).

47.7 Totex Incentive Mechanism adjustments are applied under the Annual Iteration Process for the GD1 Price Control Financial Model.

47.8 This condition provides for the determination and direction of revisions to the six PCFM Variable Values that relate to the licensee's actual Totex expenditure. PCFM Variable Values which relate to the licensee's allowed Totex expenditure are specified in other [Price Control Conditions](#) of the licence, and are scheduled in the methodology set out in Chapter 6 of the GD1 Price Control Financial Handbook.

**Deleted:** This condition should be read and construed in conjunction with, [GDC 26] Special Condition [x] (Annual Iteration Process for the GD1 Price Control Financial Model), and [GDC 57] Special Condition [x] (Governance of GD1 Price Control Financial Instruments).

**Comment [RUGO201]:** Rather than using "special conditions", please use "Price Control Conditions", as will be defined in GDC19

#### **Part B: Process for determining PCFM Variable Values for ~~the Totex~~ the Totex Incentive Mechanism**

47.9 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) actual load related capex expenditure (ALC values);
- (b) actual other capex expenditure (AOC values);
- (c) actual controllable opex [expenditure](#) (ACO values);
- (d) actual replacement expenditure (ARE values);
- (e) actual non-operational capex [expenditure](#) (ANC values); and
- (f) actual contributions (ACC values).

**Deleted:** special c

**Comment [RUGO202]:** We will need to review Chapter 6 of the Handbook once it is available

47.10 Actual contributions (see paragraph 47.9(f)) relate to payments made by customers in respect of infrastructure, and ACC values will normally be [negative](#).

**Comment [RUGO203]:** We would like more information on this para to be set out in the Handbook i.e. in relation to payments made by customers in respect of infrastructure.

47.11 Subject to paragraph 47.12, the Authority shall, by 30 November in each Formula Year t-1

- (a) determine revised ALC [values](#), AOC [values](#), ACO [values](#), ARE [values](#), ANC [values](#) and ACC values for Formula Year t-2; and
- (b) issue a direction in accordance with the provisions of Part C of this condition specifying the revised values that have been determined and the Formula Years to which they relate,

in each case in accordance with the methodology contained in chapter 6 of the GD1 Price Control Financial [Handbook](#).

**Comment [RUGO204]:** Chapter 6 of the Handbook has not been completed and therefore we will not be able to finalise our comments on this condition until provided with that Chapter.

47.12 The first Formula Year in which the Authority will make a determination pursuant to paragraph 47.11 is Formula Year 2015/16.

47.13 The Authority may also direct revisions to ALC [values](#), AOC [values](#), ACO [values](#), ARE [values](#), ANC [values](#) and ACC values for Formula Years earlier than Formula Year t-2, where that is necessary to take into account any restatement of, or correction to, [Price Control Cost Information](#) submitted by the licensee, [under any provision of the licence](#). Any directions under this paragraph will be made in accordance with the provisions of Part C of this condition.

**Comment [RUGO205]:** "Price Control Cost Information" should be defined. Suggest specific reference to GDC 74

**Comment [j206]:** Need specific reference to GDC 74

47.14 Where the Authority directs any revised ALC [values](#), AOC [values](#), ACO [values](#), ARE [values](#), ANC [values](#) or ACC values for Formula Years earlier than Formula Year t-2, the effect of using those revised values in the Annual Iteration Process for the GD1 Price Control Financial Model will, subject to a [time value of money adjustment](#), be reflected in the calculation of the term MOD for Formula Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term MOD.

**Comment [j207]:** Must be defined

### **Part C: Procedure to be followed for direction of revised PCFM Variable Values relating to the licensee's actual Totex expenditure by the Authority**

47.15 Subject to paragraph 47.12 revised ALC [values](#), AOC [values](#), ACO [values](#), ARE [values](#), ANC [values](#) and ACC values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Formula Year t-1.

47.16 Before issuing any directions under paragraph 47.15 the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

47.17 The notice referred to in paragraph 47.16 must:

- (a) state that any revised ALC [values](#), AOC [values](#), ACO [values](#), ARE [values](#), ANC [values](#) or ACC values have been determined in accordance with Part B of this condition; and



(b) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations or objections concerning the determination of any revised ALC [values](#), AOC [values](#), ACO [values](#), ARE [values](#), ANC [values](#) or ACC values.

47.18 The Authority shall have due regard to any representations or objections duly received under paragraph 47.17, and give reasons for its decisions in relation to them.

47.19 If, for any reason in any Formula Year t-1, the Authority does not make a direction in relation to revised ALC [values](#), AOC [values](#), ACO [values](#), ARE [values](#), ANC [values](#) and ACC values by 30 November, the Authority shall direct the values concerned as soon as is practicable, consistent with the purpose of paragraph 26.10 of [GTC26] Special Condition [x] (Annual Iteration Process for the GD1 Price Control Financial Model) and, in any case, before directing a value for MOD<sub>t</sub> under that paragraph.

**Part D: Interpretation**

47.20 In this condition the following defined terms have the respective meanings given to them below:

<b>Annual Iteration Process</b>	has the meaning given in Special Condition [GDC 26] <del>–</del> <a href="#">Special Condition [x] (Annual Iteration Process for the GD1 Price Control Financial Model)</a> ;
<b>GD1 Price Control Financial Handbook</b>	has the meaning given in Special Condition [GDC 57] <del>–</del> <a href="#">Special Condition [x] (Governance of GD1 Price Control Financial Instruments)</a> ;
<b>GD1 Price Control Financial Methodologies</b>	has the meaning given in Special Condition [GDC57] <del>–</del> <a href="#">Special Condition [x] (Governance of GD1 Price Control Financial Instruments)</a> ;
<b>GD1 Price Control Financial Model</b>	has the meaning given in Special Condition [GDC 57] <del>–</del> <a href="#">Special Condition [x] (Governance of GD1 Price Control Financial Instruments)</a> ; and
<b>Totex</b>	has the meaning given to that term in the methodology in Chapter 6 of the GD1 Price Control Financial <del>Handbook</del> .

**Comment [RUGO208]:** As to “Totex”, we need to review Chapter 6 of the Handbook.

47.21 Expressions used in paragraphs 47.2 and 47.20 are to be read and given effect subject to any further explanation or elaboration within the GD1 Price Control Financial Methodologies that may be applicable to them.

**Comment [j209]:** Delete as inappropriate attempt to avoid statutory licence mod procedure

**APPENDIX 1: Efficiency incentive rates  
(see Part A of this condition)**

<b>DN Operator Licensee</b>	<b>Sharing percentage</b>
National Grid Gas plc North West England	
National Grid Gas plc East of England	
National Grid Gas plc West Midlands	
National Grid Gas plc London	
Wales and West Utilities Ltd	
Northern Gas Networks Ltd	
Scotland Gas Networks plc	
Southern Gas Networks plc	

## [GDC 27] Special condition [x]. Specified financial adjustments

### Introduction

27.1 The purpose of this condition is to determine:

- (a) any appropriate revisions to the PCFM Variable Values relating to the items specified in Parts A to C of this condition; and
- (b) the Formula Years to which the revised values referred to in subparagraph (a) relate,

for use in the Annual Iteration Process for the GD1 Price Control Financial Model as described in [GDC 26] Special Condition [x] (Annual Iteration Process for the GD1 Price Control Financial Model).

27.2 For the purposes of this **condition**:

#### **Formula Year t**

means the Formula Year in which the value for the term MOD, calculated through a particular Annual Iteration Process, is used in the formula set out in Part C of [GDC 20] Special Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity) and references to Formula Year t-1 are to be construed accordingly. ~~and~~

**Comment [RUG0210]:** As previously commented, we suggest that these definitions be inserted in GDC19.

#### **PCFM Variable Value**

means a value held in the PCFM Variable Values Table for the licensee, contained in the GD1 Price Control Financial Model:

- (a) which is capable of being revised by a direction of the Authority following a determination under a relevant **Price Control Condition**; and
- (b) whose revision does not constitute a modification of the GD1 Price Control Financial Model for the purposes of [GDC 57] Special Condition [x] (Governance of GD1 Price Control Financial Instruments).

**Comment [RUG0211]:** Rather than "Special Condition" suggest "Price Control Condition".

**Deleted:** Special

27.3 The application of the mechanisms set out in this condition means that as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Formula Year t for the purpose of [GDC 20] Special Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity) will result in an appropriate adjustment to the licensee's ~~base~~ **Base** Distribution Network Transportation Activity Revenue (whether upwards or downwards) in a manner that ~~appropriately~~ reflects the licensee's:

**Comment [RUG0212]:** Suggest capitalise "base" in accordance with our comments under para 20.5.

- (a) revenue allowances for pension scheme established deficits, pension scheme administration and the Pension Protection Fund levy;
- (b) revenue allowances for tax liabilities; and
- (c) allowed percentage cost of corporate debt,

**Comment [RUGO213]:** As to sub-para (a), "established deficits" has been de-capitalised. Is this term different to the defined term in para 27.30?

determined under the methodologies set out in chapters 3, 4 and 5 of the ~~ET1~~ GD1 Price Control Financial Handbook respectively.

27.4 This condition should be read and construed in conjunction with, [GDC 26] Special Condition [x] (Annual Iteration Process for the GD1 Price Control Model), and [GDC 57] Special Condition [x] (Governance of GD1 Price Control Financial Instruments).

**Part A: Revenue allowances for pension scheme Established Deficits, pension scheme administration and the Pension Protection Fund levy**

27.5 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) pension scheme Established Deficit revenue allowances (EDE values); and
- (b) pension scheme administration and Pension Protection Fund levy revenue allowances (APFE values).

**Comment [RUGO214]:** As to sub-para (a), "pension scheme Established Deficit" should be defined rather than just "Established Deficit".

**Comment [RUGO215]:** As to sub-para (b), "pension scheme administration" should be defined.

27.6 Subject to paragraph 27.7, the Authority shall, by 30 November in each Formula Year t-1, determine whether any EDE values should be revised as a result of:

- (a) a valuation of the Established Deficit associated with a pension scheme sponsored by the licensee;
- (b) a review of the efficiency with which any Established Deficit position has been managed; or
- (c) a review of the level of payments actually made by the licensee to its pension scheme trustees,

**Comment [RUGO216]:** As to sub-para (a), we are unsure how this is directly linked to the handbook. A valuation is mentioned in paragraph 3.13 of the handbook, is this what is intended? This is generally unclear how it is linked with the handbook.

**Comment [RUGO217]:** As to sub-para (b), we can not see in the handbook where a review is provided for efficiency. We can see a reasonableness review under para 3.13 but not efficiency. Please clarify this position by reference to the handbook.

in each case in accordance with the methodology contained in chapter 3 of the GD1 Price Control Financial Handbook.

27.7 The first Formula Year in which the Authority will make a determination pursuant to paragraph 27.6 is Formula Year 2014/15.

27.8 Subject to paragraph 27.9, the Authority shall, by 30 November in each Formula Year t-1, determine whether any APFE values should be revised as a result of a review of the licensee's reported levels of:

- (a) pension scheme administration costs; and/or
- (b) Pension Protection Fund levy costs

**Comment [RUGO218]:** As to sub-para (c), again there does not seem to be any reference in the handbook to provide for a review of the level of payments. Please clarify how this is linked to the handbook.

**Comment [RUGO219]:** See comments under paragraph 27.6 on the timing issues.

in each case, in accordance with the methodology contained in chapter 3 of the GD1 Price Control Financial Handbook.

**Comment [RUGO220]:** We suggest that this provision is expressly linked to paragraphs 3.31 and 3.34 of the handbook.

27.9 The first Formula Year in which the Authority will make a determination pursuant to paragraph 27.8 is Formula Year 2014/15.

**Comment [RUGO221]:** See our comments on paragraph 27.7, which also apply here.

27.10 If the Authority determines under paragraph 27.6 or 27.8 that, in accordance with the methodologies contained in chapter 3 of the GD1 Price Control Financial Handbook, any EDE values or APFE values are to be revised, it shall by 30 November in the same Formula Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised EDE values and APFE values that have been determined and the Formula Years to which they relate.

27.11 Where the Authority directs any revised EDE values or APFE values for Formula Years earlier than Formula Year t, the effect of using those revised values in the Annual Iteration Process for the GD1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term MOD for Formula Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term MOD.

## **Part B: Tax liability allowances**

27.12 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) tax liability revenue allowance adjustments driven by tax trigger events (TTE values); and
- (b) tax liability revenue allowance adjustments driven by the licensee's gearing levels and corporate debt interest costs (TGIE values).

27.13 The TTE values and TGIE values for all Formula Years are zero as at 1 April 2013.

27.14 Subject to paragraph 27.15, the Authority shall, by 30 November in each Formula Year t-1, determine whether any TTE values should be revised as a result of one or more tax trigger events in accordance with the methodology contained in chapter 4 of the GD1 Price Control Financial Handbook.

**Comment [RUGO222]:** This paragraph accords with paragraph 4.5 of the handbook, however, the language used is inconsistent in that the reference is to "all formula years" and thus presuming more than 1 year yet then this zero amount only applies as at 1 April 2013. Please clarify.

27.15 The first Formula Year in which the Authority will make a determination of the type referred to in paragraph 27.14 is Formula Year 2013/14.

27.16 Subject to paragraph 27.17, the Authority shall, by 30 November in each Formula Year t-1 determine whether any TGIE values should be revised as a result of a review of:

- (a) the licensee's actual level of gearing; and
- (b) the level of debt interest charges actually incurred by the licensee,

in each case in accordance with the methodology contained in chapter 4 of the GD1 Price Control Financial Handbook.

- 27.17 The first Formula Year in which the Authority will make a determination pursuant to paragraph 27.16 is Formula Year 2014/15.
- 27.18 If the Authority determines under paragraph 27.14 or 27.16 that, in accordance with the methodologies contained in chapter 4 of the GD1 Price Control Financial Handbook, any TTE values or TGIE values are to be revised, it shall by 30 November in ~~the same~~ Formula Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised TTE values and TGIE values that have been determined and the Formula Years to which they relate.
- 27.19 Where the Authority directs any revised TTE values or TGIE values for Formula Years earlier than Formula Year t, the effect of using those revised values in the Annual Iteration Process for the GD1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term MOD for Formula Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term MOD.

**Part C: Allowed percentage cost of corporate debt**

- 27.20 This Part provides for the determination and direction of revised PCFM Variable Values for the licensee's allowed percentage cost of corporate debt (CDE values).
- 27.21 Subject to paragraph 27.22, the Authority shall by 30 November in each Formula Year t-1:
- (a) determine a revised CDE value for Formula Year t and each subsequent Formula Year in accordance with the methodology contained in chapter 5 of the GD1 Price Control Financial Handbook; and
  - (b) issue a direction in accordance with the provisions of Part D of this condition specifying the revised CDE values that have been determined and the Formula Years to which they relate.
- 27.22 The first Formula Year in which the Authority will make a determination pursuant to paragraph 27.21 is Formula Year 2013/14.
- 27.23 The Authority may also revise the CDE value for a Formula Year earlier than Formula Year t where necessary to take into account data updates referred to in the methodology contained in chapter 5 of the GD1 Price Control Financial Handbook.

27.24 Where the Authority directs any revised CDE values for Formula Years earlier than Formula Year  $t$ , the effect of using those revised values in the Annual Iteration Process for the GD1 Price Control Financial Model will, subject to a time value of money adjustment, be reflected in the calculation of the term MOD for Formula Year  $t$  and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term MOD.

**Part D: Procedure to be followed for direction of revised PCFM Variable Values relating to specified financial adjustments by the Authority**

27.25 Subject to paragraphs 27.7, 27.9, 27.15, 27.17 and 27.22, revised EDE, APFE, TTE, TGIE and CDE values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Formula Year  $t-1$ .

**Comment [RUGO223]:** Please note the timing issues as discussed above will also be relevant here.

27.26 Before issuing any directions under paragraph 27.25, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

27.27 The notice referred to in paragraph 27.26 must:

- (a) state that any revised EDE and APFE values have been determined in accordance with Part A of this condition;
- (b) state that any revised TTE and TGIE values have been determined in accordance with Part B of this condition;
- (c) state that any revised CDE values have been determined in accordance with Part C of this condition; and
- (d) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations or objections concerning the determination of any revised EDE, APFE, TTE, TGIE or CDE values.

**Comment [RUGO224]:** Rather than 14 days suggest 28 days as consistent with the other RIIO conditions.

27.28 The Authority shall have due regard to any representations or objections duly received under paragraph 27.27, and give reasons for its decisions in relation to them.

27.29 If, for any reason in any Formula Year  $t-1$ , the Authority does not make a direction in relation to revised EDE, APFE, TTE, TGIE and CDE values by 30 November, the Authority shall direct the values concerned as soon as is practicable, consistent with the purpose of paragraph 26.10 of [GTC 26] Special Condition [x] (Annual Iteration Process for the GD1 Price Control Financial Model) and, in any case, before directing a value for  $MOD_t$  under that paragraph.

**Part E: Interpretation**

27.30 For the purposes of this condition, the following definitions apply:

**Annual Iteration** has the meaning given in [GDC 26] Special Condition [~~GDC 26~~]-x]. (Annual Iteration

<b>Process</b>	<a href="#">Process for the GD1 Price Control Financial Model</a> );
<b>Established Deficit</b>	<del>Has</del> <a href="#">has</a> the meaning given in chapter 3 of the GD1 Price Control Financial Handbook
<b>GD1 Price Control Financial Handbook</b>	has the meaning given in <a href="#">[GDC 57] Special Condition [<del>GDC 57</del>].—x]. (Governance of GD1 Price Control Financial Instruments)</a> ;
<b>GD1 Price Control Financial Methodologies</b>	has the meaning given in <a href="#">[GDC 57] Special Condition [<del>GDC 57</del>].—x]. (Governance of GD1 Price Control Financial Instruments)</a> ;
<b>GD1 Price Control Financial Model</b>	has the meaning given in <a href="#">[GDC 57] Special Condition [<del>GDC 57</del>].—x]. (Governance of GD1 Price Control Financial Instruments)</a> ; and
<b>Pension Protection Fund</b>	<del>Has</del> <a href="#">has</a> the meaning given in chapter 3 of the GD1 Price Control Financial Handbook

**Comment [RUG0225]:** As to Chapter 3, it is not clear to us where this term is given its meaning. Is this intended to be a reference to para 3.15 of the handbook? Can this be clarified by an express reference to a paragraph number of the Chapter

**Comment [RUG0226]:** As to Chapter 3, it is not clear to us where this term is given its meaning. Can this be clarified by an express reference to a paragraph number of the Chapter

**Comment [j227]:** Delete as inappropriate means of avoiding statutory licence mod procedure

**Deleted:** Expressions used in paragraphs 27.2 and 27.30 are to be read and given effect subject to any further explanation or elaboration within the GD1 Price Control Financial Methodologies that may be applicable to them.¶

**Deleted:**

| 27.31 ↓



## [GDC 26] Special Condition [x]. Annual Iteration Process for the GD1 Price Control Financial Model

### Introduction

26.1 For the purposes of this condition:

**Formula Year t** means the Formula Year in which the value for the term MOD, calculated through a particular Annual Iteration Process, is used in the formula set out in Part C of [GDC 20] Special Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity) and references to Formula Year t-1 are to be construed accordingly.

**PCFM Variable Value** means a value held in the PCFM Variable Values Table for the licensee, contained in the GD1 Price Control Financial Model:

- (a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and
- (b) whose revision does not constitute a modification of the GD1 Price Control Financial Model for the purposes of [GDC 57] Special Condition [x] (Governance of GD1 Price Control Financial Instruments).

**Comment [RUG0228]:** We suggest that these definitions are moved to GDC19. In any event, the other price control conditions have the introduction first, and then the definitions, rather than the definitions as the first paragraph.

**Comment [RUG0229]:** As previously commented "Special Condition" should be amended to "Price Control Condition"

26.2 The purpose of this condition is to set out the steps of the Annual Iteration Process that the Authority will carry out in each Formula Year t-1 in relation to the GD1 Price Control Financial Model in order to determine the values of the term MOD for Formula Year t, for the purposes of the formula specified in [GDC 20] Special Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity).

26.3 The Annual Iteration Process will consist of, and will be carried out by the Authority in accordance with, the steps set out in Part A below, in a manner that is consistent with the procedures set out in chapter 1 of the GD1 Price Control Financial Handbook.

26.4 The outcome of the Annual Iteration Process with respect to the value of the term MOD will be notified to the licensee in accordance with Part B below.

### Part A: Steps comprising the Annual Iteration Process

26.5 The Authority will save a record copy of the GD1 Price Control Financial Model in the form, and with the content it has before any of the steps of the ~~iteration process~~ Annual Iteration Process set out below are commenced.

26.6 Step 1: ~~the~~The Authority will make revisions to PCFM Variable Values where and to the extent required in relation to price control adjustments for the licensee under:

**Comment [RUGO230]:** As to the reference to "price control adjustments", the usual description is just "adjustments". Please clarify.

- (a) [GDC 9] Special Condition [x] (The Innovation Roll-out Mechanism).
- (b) [GDC 22] Special Condition [x](Mains and Services Replacement Expenditure);
- (c) [GDC 27] Special Condition [X] (Specified financial adjustments);
- (d) [GDC 28] Special Condition [x] (Arrangements for the recovery of uncertain costs);
- (e) [GDC47] Special Condition [X] (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments);
- (f) [GDC64] Special Condition [X] (Legacy price control adjustments).

26.7 Step 2: ~~the~~The Authority will cause the GD1 Price Control Financial Model to perform its calculation functions once the revised PCFM Variable Values referred to under Step 1 above have been entered into the Variable Values Table for the licensee, where and to the extent required.

26.8 Step 3: ~~the~~The Authority will identify and record the value of the term MOD calculated as a result of Step 2 and shown as an output of the GD1 Price Control Financial Model. This value will include the effects of any revised PCFM Variable Values which, for the avoidance of doubt, shall not have any retrospective effect on a previously directed value of the term MOD.

#### **Part B: Notification of the value of the MOD term**

26.9 The value of the term MOD for Formula Year t will be directed by the Authority no later than 30 November in each Formula Year t-1.

26.10 If, for any reason, the Authority does not direct a value for MOD<sub>t</sub> by 30 November in any Formula Year t-1, the Authority shall direct the value concerned as soon as is practicable thereafter. In the intervening period (between the 30 November in the Formula Year t-1 concerned and the making of a direction under this paragraph)-, the value of MOD<sub>t</sub> shall be held to be equivalent to the value of MOD<sub>t-1</sub>.

#### **Part C: Interpretation**

26.11 In this condition the following defined terms have the respective meanings given to them below:

**Annual Iteration Process**

means, in relation to the GD1 Price Control Financial Model, the process set out in this condition, which is to be read and given effect subject to any further explanation or elaboration within the GD1 Price Control Financial Handbook that may be applicable to it;

**GD1 Price Control Financial Handbook**

means the document of that name that was published by the Authority under reference number [•]/12 on [•] December 2012 that:

(a) includes specific information and advice about the operation of the Annual Iteration Process and the GD1 Price Control Financial Model; and

(b) contains, in particular, the GD1 Price Control Financial Methodologies as modified from time to time;

**GD1 Price Control Financial Methodologies**

means the methodologies that:

(a) are named as such in the GD1 Price Control Financial Handbook; and

(b) together comprise a complete and documented explanation, ~~presented in a coherent and consistent manner,~~ of the methods, principles, and assumptions that the Authority will apply for the purposes of determining the PCFM Variable Values that are to be used in the Annual Iteration Process;

**GD1 Price Control Financial Model**

means the model of that name (with a Formula Year suffix) that was first published by the Authority on [•] December 2012:

(a) that is represented by a workbook in Microsoft Excel ® format maintained under that name (with a Formula Year suffix) on the Authority's website; and

(b) that the Authority will use to determine values for the term MOD through the application of the Annual Iteration Process.

26.12 For the avoidance of doubt, neither:

- (a) an Annual Iteration Process for the GD1 Price Control Financial Model carried out in accordance with this condition, including in particular the steps set out in Part A of this condition; nor
- (b) a change to the Formula Year included in the name of and text within the GD1 Price Control Financial Model (as referred to at paragraphs [5.22(b) and (c)] of [GDC57] (Governance of GD1 Price Control Financial Instruments),

~~is shall constitute~~ a modification of the GD1 Price Control Financial Model within the meaning of Part B of [GDC 57] Special Condition [x] (Governance of GD1 Price Control Financial Instruments).

26.13 This condition should be read and construed in conjunction with Special Condition 57 (Governance of GD1 Price Control Financial Instruments).

## **[GDC 57] Special Condition [x]. Governance of GD1 Price Control Financial Instruments**

### **Introduction**

57.1 The purpose of this condition is to establish a robust and transparent change control framework for each of the following GD1 Price Control Financial Instruments, namely:

- (a) the GD1 Price Control Financial Handbook, which contains the GD1 Price Control Financial Methodologies; and
- (b) the GD1 Price Control Financial Model.

**Comment [RUG0231]:** “GD1 Price Control Financial Instruments” is not a defined term. Please clarify.

57.2 Each of the GD1 Price Control Financial Instruments forms part of this condition and (subject to paragraph 57.3) may only be modified by the Authority in accordance with the provisions of Parts A and B below.

57.3 Parts A and B are without prejudice to the powers of the Authority to modify any part of this condition (including any GD1 Price Control Financial Instrument) under section 23 of the Act.

57.4 For the purposes of this condition, Formula Year  $t$  means the Formula Year in which the value for the term MOD, calculated through a particular Annual Iteration Process, is used in the formula set out in Part C of [GDC 20] Special Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity), and references to Formula Year  $t-1$  are to be construed accordingly.

**Comment [RUG0232]:** Suggest that this definition is moved to GDC19.

### **Part A: Assessment of the likely impact of an intended modification**

57.5 Before initiating any modification of a GD1 Price Control Financial Instrument, the Authority must assess whether that modification would be likely to have a significant impact on any of the following persons:

- (a) the licensee;
- (b) any other gas transporter licensee in whose licence a condition equivalent to this one has effect;
- (c) any person engaged in the shipping, transportation, or supply of gas conveyed through pipes or in the generation, transmission, distribution, or supply of electricity; and
- (d) energy consumers (whether considered individually, or as a whole, or by reference to any class or category of them) in Great Britain.

57.6 In making the assessment required by paragraph 57.5, the Authority must:

- (a) have particular regard to any impact which an intended modification would be likely to have on any component of the licensee’s allowed revenues or on any value, rate, time period, or calculation used in the determination of those allowed revenues; and

- (b) in respect of modifications to the GD1 Price Control Financial Model, have regard to any views expressed by the GD1 Price Control Financial Model Working Group.

57.7 For the purposes of paragraph 57.5, it is to be presumed (subject to paragraph 57.8) that a modification which serves to correct a manifest error contained in a GD1 Price Control Financial Instrument will not have a significant impact on any of the persons mentioned in that paragraph.

57.8 The presumption established by paragraph 57.7 is without prejudice to the licensee's right under paragraph 57.14 to ~~represent~~ make representations to the Authority that a particular modification would ~~in fact~~ be likely to have a significant impact on any of the persons listed in paragraph 57.5.

#### **Part B: Circumstances in which a modification may (and may not) be made**

57.9 If, having carried out the required assessment under Part A above, the Authority considers that an intended modification of a GD1 Price Control Financial Instrument would not be likely to have a significant impact on any of the persons mentioned in paragraph 57.5, it may modify that instrument in accordance with paragraphs 57.10 to 57.13 below.

**Comment [RUGO233]:** Rather than 57.10 to 57.13, should this be 57.10 to 57.14?

57.10 Before making any modification of a GD1 Price Control Financial Instrument under this Part B, the Authority must give the licensee, and all licensees in whose licence a condition equivalent to this one has effect, a Notice that:

- (a) sets out the proposed modification and the date from which the Authority proposes that it should have effect;
- (b) explains why in the Authority's opinion the modification is necessary;
- (c) sets out the Authority's view that the modification would not be likely to have a significant impact on any of the persons mentioned in paragraph 57.5; and
- (d) specifies a period of at least 28 days from the date of the Notice within which any representations with respect to the proposal may be made.

57.11 The Authority must publish any Notice issued under paragraph 57.10 on its Website and place a copy on the public register file for the licensee.

57.12 The Authority must consider any representations that are duly made and not withdrawn before deciding whether to proceed with the modification under this Part B.

57.13 Having complied with paragraphs ~~5.10 to 5.12~~ 57.10 to 57.12, the Authority may make the modification in a direction issued for the purposes of this Part B that sets out the modification and specifies the date from which it is to have effect (or the mechanism by which that date is to be determined).

57.14 If the licensee [states/demonstrates] in representations made under paragraph 57.10(d) that it reasonably considers that the proposed modification would ~~in~~

~~fact~~ be likely to have a significant impact of the type referred to in paragraph 57.5 or 57.6(a), the Authority may not make the modification under this Part B.

### **Part C: Availability and updating of GD1 Price Control Financial Instruments**

- 57.15 This Part C has effect in relation to the publication and availability of the GD1 Price Control Financial Handbook-2 including the constituent GD1 Price Control Financial Methodologies and the GD1 Price Control Financial Model.
- 57.16 The Authority must ensure that any modifications of the GD1 Price Control Financial Handbook-2 including the constituent GD1 Price Control Financial Methodologies, whether under Part B of this condition or otherwise, are promptly incorporated into a consolidated version of the GD1 Price Control Financial Handbook maintained on the Authority's Website.
- 57.17 The Authority must ensure that any modifications of the GD1 Price Control Financial Model, whether under Part B of this condition or otherwise, are promptly incorporated into a consolidated version of the GD1 Price Control Financial Model maintained on the Authority's Website.
- 57.18 Without limiting the general effect of paragraph 57.17, the Authority must by not later than 30 November in each Formula Year t-1:
- (a) publish on its Website, in Microsoft Excel ® format, the version of the GD1 Price Control Financial Model that will be used to determine the value of the term MOD with respect to Formula Year t for the purposes of Part C of Special Condition 20 (Restriction of revenue in respect of the Distribution Network Transportation Activity);
  - (b) ensure that the electronic name of the file is "GD1 Price Control Financial Model" followed by the Formula Year t-1 expressed in the format 20XX-XX;
  - (c) ensure that the words "GD1 Price Control Financial Model for the Annual Iteration Process that will take place by 30 November" followed by the Formula Year t-1 expressed in the format 20XX-XX are included as text within the file itself; and
  - (d) at the same time publish an up-to-date schedule of any modifications that have been made to the GD1 Price Control Financial Model, whether under Part B of this condition or otherwise, up to and including the date of such publication.

### **Part D: Interpretation**

57.19 This condition should be read and construed in conjunction with [GDC 26] Special Condition [x] (Annual Iteration Process for the GD1 Price Control Financial Model).

57.20 For the purposes of this condition, the following definitions apply:

**Comment [RUG0234]:** We suggest that these definitions are set out in GDC19 rather than set out both in this condition and condition GDC26.

**Annual Iteration Process**

means, in relation to the GD1 Price Control Financial Model, the process set out in [GDC 26] Special Condition [x] [\(Annual Iteration Process for the GD1 Price Control Financial Model\)](#), which is to be read and given effect subject to any further explanation or elaboration within the GD1 Price Control Financial Handbook that may be applicable to it.;

**GD1 Price Control Financial Handbook**

means the document of that name that was [first](#) published by the Authority under reference number [•]/12 on [•] December 2012 that:

(a) includes specific information and advice about the operation of the Annual Iteration Process and the GD1 Price Control Financial Model; and

(b) contains, in particular, the GD1 Price Control Financial Methodologies,

as [that document is](#) modified from time to time, whether under this condition or otherwise.;

**GD1 Price Control Financial Methodologies**

means the methodologies that:

(a) are named as such in the GD1 Price Control Financial Handbook; and

(b) together comprise a complete and documented explanation, ~~presented in a coherent and consistent manner,~~ of the methods, principles, and assumptions that the Authority will apply for the purposes of determining the PCFM Variable Values that are to be used in the Annual Iteration Process.;

~~as~~ [as those methodologies are](#) modified from time to time, whether under this condition or otherwise.;

**GD1 Price Control Financial Model**

means the model of that name (with a Formula Year suffix) that was first published by the Authority on [•] December 2012:

(a) that is represented by a workbook in Microsoft Excel ® format maintained under that name (with a Formula Year suffix) on the Authority's Website; and

(b) that the Authority will use to determine the value of the term MOD through the



application of the Annual Iteration Process,

as [that model is](#) modified from time to time, whether under this condition or otherwise. ~~;~~  
[and](#)

**GD1 Price Control  
Financial Model  
Working Group**

means the working group identified in and whose terms of reference are set out in Chapter 1 of the GD1 Price Control Financial Handbook.

**Part E: Interpretation**

31.13 For the purposes of this condition:

**Excluded Services** has the meaning provided in paragraph 31.2

**Page 123: [2] Comment [RUGO186] Goodman, Rupert 18/09/2012 19:22:00**

Either “close-out” should be deleted as unnecessary, or “close-out” will need to be defined in the Handbook, in which case a reference to where this definition is to be placed should be inserted in this condition

**Page 123: [3] Comment [RUGO187] Goodman, Rupert 18/09/2012 19:22:00**

Either “close-out” should be deleted as unnecessary, or “close-out” will need to be defined in the Handbook, in which case a reference to where this definition is to be placed should be inserted in this condition

**Page 123: [4] Comment [RUGO188] Goodman, Rupert 18/09/2012 19:22:00**

Either “close-out” should be deleted as unnecessary, or “close-out” will need to be defined in the Handbook, in which case a reference to where this definition is to be placed should be inserted in this condition