

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

DRAFT

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

.....	1
SPECIAL CONDITIONS: RELATED TO RESTRICTION OF REVENUE .....	4
[GDC19] Special Condition [x]. Restriction of revenue in respect of the Distribution Network Transportation Activity: Definitions.....	5
[GDC 20] Special Condition [x]. Restriction of revenue in respect of the Distribution Network Transportation Activity .....	6
[GDC 21] Special Condition [x]. Distribution Network allowed pass-through items.....	13
[GDC 8] Special condition [x]. NTS Exit Capacity Cost Adjustment .....	18
[GDC 24] Special condition [x]. Incentive adjustment in respect of the Broad Measure of Customer Satisfaction .....	24
[GDC 25] Special Condition [x]. Revenue adjustments for performance in respect of gas shrinkage and environmental emissions .....	33
[GDC 48] Special Condition [x]. Discretionary reward scheme revenue amounts .....	44
[GDC11] Special Condition [x]. The Network Innovation Allowance .....	46
[GDC10] Special Condition [x]. The Network Innovation Competition [Non-socialised version] .....	51
[GDC10] Special Condition [x]. The Network Innovation Competition [Socialised version]	55
[GDC29] Special Condition [x]. Disapplication.....	60
[GDC 31] Special Condition [x]. Services treated as Excluded Services.....	61
[GDC 30] Special Condition [x]. Allocation of revenues and costs for calculations under the price control in respect of the Distribution Network .....	64
SPECIAL CONDITIONS: PRICE CONTROL FINANCIAL MODEL (PCFM) VARIABLES .....	67
[GDC 9] Special Condition [x]. The Innovation Roll-out Mechanism .....	68
[GDC 22] Special Condition [x]. Mains and Services Replacement Expenditure .....	75
[GDC 28] Special Condition [x]. Arrangements for the recovery of uncertain costs.....	82
SPECIAL CONDITIONS: FINANCIAL CONDITIONS.....	91
[GDC 64] Special Condition [x]. Legacy price control adjustments.....	92
[GDC 47] Special Condition [x]. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments.....	98
[GDC 27] Special condition [x]. Specified financial adjustments.....	103
[GDC 26] Special Condition [x]. Annual Iteration Process for the GD1 Price Control Financial Model .....	109
[GDC 57] Special Condition [x]. Governance of GD1 Price Control Financial Instruments	113
STANDARD CONDITIONS .....	117
Condition 1: Definitions and Interpretation [GTC/GDC 105 & 106].....	118
Condition 2: Application of Section C (Transportation Services Obligations) [GTC/GDC 112] .....	119
Condition 13: <del>Change Co-ordination for the Utilities Act 2000</del> Not Used [GTC/GDC 93].	121
Condition 28: Termination of Shipping Arrangements [GTC/GDC 95].....	122
STANDARD SPECIAL CONDITIONS – PART A .....	124
Standard Special Condition A3. Definitions and Interpretation [GTC/GDC 109].....	125
Standard Special Condition A8. Emergency Services and Enquiry Service Obligations [GTC/GDC 82] .....	127
Standard Special Condition A10. <del>Provision and Return of Meters</del> Not Used [GTC 32] .....	132
Standard Special Condition A29. <del>Change of Financial Year</del> Not Used [GTC/GDC 93].....	133
Standard Special Condition A30. Regulatory Accounts [GTC/GDC71].....	134

Standard Special Condition A32. <del>Definition of Permitted Purpose</del> Not Used [GTC/GDC 94]	146
Standard Special Condition A35. Prohibition of Cross-Subsidies [GTC/GDC 138]	147
Standard Special Condition A36. Restriction on Activity and Financial Ring Fencing [GTC 139]	149
Standard Special Condition A40. Regulatory Instructions and Guidance [GTC/GDC 74]	153
Standard Special Condition A43. <del>Provision of Metering and Meter Reading Services</del> Not Used	158
Standard Special Condition A46. <del>Non-discrimination in the Provision of Metering Activities</del> Not Used	159
Standard Special Condition A55. Data Assurance requirements [GTC/GDC 76]	160
STANDARD SPECIAL CONDITIONS – PART D	165
Standard Special Condition D9: <del>Distribution Network Transportation Activity Incentive Scheme and Performance Reporting</del> Not Used [GDC 74]	166
Standard Special Condition D10. Quality of service standards [GDC89]	167
Standard Special Condition D11. Charging obligations [GDC 141]	174
Standard Special Condition A10 D17. Provision and Return of Meters [GTC 32]	176
[Same as current condition SSC A10]	176
Standard Special Condition A43 D18. Provision of Metering and Meter Reading Services [GTC 32]	177
[Same as current condition SSC A43]	177
Standard Special Condition A46-D19. Non-discrimination in the Provision of Metering Activities [GTC 32]	178
Standard Special Condition D20. Distributed Gas: Connections Guide and Information Strategy [GDC 83]	179
Standard Special Condition D21. Methodology for Network Output Measures [GDC 73]	183

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

DRAFT

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

Currently Special Condition E1

DRAFT

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

### Introduction

XX.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]

### Part A: Licensee's obligation

XX.2 The licensee, in setting Distribution Network Transportation Charges, shall use its best endeavours to ensure that, in Formula Year t, Distribution Network Transportation Activity Revenue ( $R_t$ ) shall not exceed Maximum Distribution Network Transportation Activity Revenue ( $AR_t$ ) in that year.

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

XX.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"):

$$AR_t = BR_t + PT_t + Ex_t + BM_t + SHR_t + EEI_t + DRS_t + NIA_t [+NICF_t] - K_t$$

XX.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 Distribution Network Transportation Activity Revenue in Formula Year t 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 Distribution Network allowed pass through items as derived in accordance 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 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 derived in

accordance with Part B of [GDC 24] Special Condition [x] (Incentive adjustment in respect of the Broad Measure of Customer Satisfaction).

$SHR_t$  means the amount of the shrinkage allowance revenue adjustment made in Formula Year t as 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 Environment Emissions Incentive revenue adjustment made in Formula Year t as 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 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 derived in accordance with [GDC 11] Special Condition [x] (The Network Innovation Allowance).

$NICF_t$  means the amount of the revenue adjustment made in Formula Year t in respect of the allowance given under the Network Innovation Competition as derived in accordance with [GDC 10] Special Condition [x] (The Network Innovation Competition).

[Note, the inclusion of this term is subject to consultation.]

$K_t$  has the value zero in Formula Year 2013/14, and in each subsequent Formula Year means the amount of the correction factor in Formula Year t derived in accordance with the formula set out in Part D of this condition.

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

XX.5 For the purposes of the Principal Formula, the amount of  $BR_t$  is derived in accordance with the following formula:

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

XX.6 In the formula for the  $BR_t$  term above:

$PU_t$  means the amount set out against the relevant Distribution Network in Appendix 1 and represents the opening base revenue allowance determined by the Authority in relation to the conveyance of gas to premises.

$MOD_t$  has the value zero in Formula Year 2013/14 and, in each subsequent Formula Year, is the value of the incremental change for Formula Year t to the relevant Distribution Network's opening base revenue allowance (set out in Appendix 1) derived from the Annual Iteration

of the GD1 Price Control Financial Model and is derived in accordance with the process set out in Parts A and B of [GDC26] Special Condition [x] (Annual Iteration Process for the GD1 Price Control Financial Model).

RPIF<sub>t</sub> is the price index adjustment factor as derived in accordance with paragraph 20.7 of this condition.

TRU<sub>t</sub> has the value zero in Formula Years 2013/14 and 2014/15 and, in each subsequent Formula Year, means the amount of the revenue adjustment (in 2009/10 prices) made in Formula Year t in respect of the assumed value of the Retail Prices Index in Formula Year t-2 minus 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.

XX.7 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:

$$RPIA_t = \frac{RPI_t}{RPI_{2009/10}}$$

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

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

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.

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.]

RPI<sub>2009/10</sub> means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from April 2009 to March 2010.

GRPIF<sub>c</sub> 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.]

XX.8  $TRU_t$  is derived in accordance with the following formula:

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

XX.9 In the formula for the  $TRU_t$  term above:

$PVF_t$  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.

$REV_{t-2}$  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:

$$REV_{t-2} = \frac{BR_{t-2} + RB_{t-2} + LF_{t-2} + PD_{t-2} + TPWI_{t-2} + Ex_{t-2} + SHRA_{t-2} + EEI_{t-2}}{RPIF_{t-2}}$$

where:

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

$RB_{t-2}$  means the amount of the business rates adjustment in Formula Year t-2 as derived in accordance with Part B of [GDC 21] Special Condition [x].

$LF_{t-2}$  means the amount of the licence fee adjustment in Formula Year t-2 as derived in accordance with Part C of [GDC 21] Special Condition [x].

$PD_{t-2}$  means the amount of the pension deficit charge adjustment in Formula Year t-2 as derived in accordance with Part D of [GDC 21] Special Condition [x].

$TPWI_{t-2}$  means the amount of the third party damage and water ingress adjustment in Formula Year t-2 as derived in accordance with

Part E of [GDC 21] Special Condition [x].

$Ex_{t-2}$  means the amount of the revenue adjustment made in Formula Year t-2 in respect of NTS Exit Capacity costs and incentives as derived in accordance with Part B of [GDC 8] Special Condition [x].

$SHRA_{t-2}$  means the amount of the shrinkage allowance revenue adjustment made in Formula Year t-2 as derived in accordance with paragraph 25.8 of [GDC 25] Special Condition [x].

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

XX.10 For the purposes of the Principal Formula,  $K_t$  is derived from the following formula:

$$K_t = (R_{t-2} - AR_{t-2}) \times \left(1 + \frac{I_{t-2} + PR_t}{100}\right) \times \left(1 + \frac{I_{t-1}}{100}\right)$$

where:

$R_{t-2}$  means the Distribution Network Transportation Activity Revenue as defined in [GDC 19] Special Condition [x] (Definitions for the Special Conditions) in respect of the Formula Year t-2, except in the Formula Year commencing 1 April 2014 where it shall be the Distribution Network Transportation Activity Revenue in respect of Formula Year commencing 1 April 2012 as defined in Special Condition E1 (Revenue restriction definitions in respect of the Distribution Network) of this licence in the form in which it was in force at 31 March 2012.

$AR_{t-2}$  means the Maximum Distribution Network Transportation Activity Revenue as derived in accordance with Part B of this condition in respect of the Formula Year t-2 except in the Formula Year commencing 1 April 2014 where it shall be the Maximum Distribution Network Transportation Activity Revenue in respect of the Formula Year commencing 1 April 2012 as derived in accordance with paragraph 5 of Special Condition E2 (Restriction of revenue in respect of 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.  
[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 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**

XX.11 For the purposes of Part D of this condition, the value of the interest rate adjustment  $PR_t$  is to be treated as follows:

- (a) if, in respect of Formula Year  $t-2$ , Distribution Network Transportation Activity Revenue exceeds 106 per cent of Maximum Distribution Network Transportation Activity Revenue,  $PR_t$  must have the value of 3;
- (b) if, in respect of Formula Year  $t-2$ , Distribution Network Transportation Activity Revenue is less than 94 per cent of Maximum Distribution Network Transportation Activity Revenue,  $PR_t$  must have the value of zero;

and in all other cases

$PR_t$  must have the value 1.5.

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

XX.12 If, in respect of each of two successive Formula Years, the licensee's Distribution Network Transportation Activity Revenue exceeds 112 per cent of Maximum Distribution Network Transportation Activity Revenue, the licensee:

- (a) must provide an explanation for that event in writing to the Authority by 31 July following the end of the Formula Years in question; and
- (b) must not increase its Distribution Network Transportation Charges during the Formula Year following the Formula Years in question except and to the extent that the Authority has consented to such an increase.

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

XX.13 If, in respect of each of two successive Formula Years, the licensee's Distribution Network Transportation Activity Revenue is less than 90 per cent of Maximum Distribution Network Transportation Activity Revenue, the Authority, after consultation with the licensee, may by notice to the licensee specify the value of the term  $R_{t-2}$  to be used for the purposes of calculating the licensee's correction factor term ( $K_t$ ) under Part D of this condition

XX.14 The value specified by the Authority for  $R_{t-2}$  under paragraph XX.13 may not be lower than the original value for  $R_{t-2}$  or higher than 90 per cent of the value of the  $AR_{t-2}$  term to be used in the calculation to which that paragraph refers.

## **Appendix 1**

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

**(see paragraph XX.6 of this condition)**

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

DRAFT

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

### Introduction

- XX.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) for the purposes of Part B of [GDC20] Special Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity).
- XX.2 The effect of the application of the  $PT_t$  term in Part B of [GDC20] Special Condition [x] is to ensure that the level of the licensee's Maximum Distribution Network Transportation Activity Revenue derived 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 ( $PT_t$ )

- XX.3 For the purposes of Part B of [GDC20] Special Condition [x], the total amount of the  $PT_t$  term is derived in accordance with the following formula (in this condition, the "Principal Formula"):

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

- XX.4 In the Principal Formula:

$RB_t$  means the amount in Formula Year t derived in accordance with the formula set out in Part B below, representing the business rates adjustment.

$LF_t$  means the amount in Formula Year t derived in accordance with the formula set out in Part C below, representing the licence fee adjustment.

$PD_t$  means the amount in Formula Year t derived in accordance with the formula set out in Part D below, representing the pension deficit charge adjustment.

$TPWI_t$  means the amount in Formula Year t 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.

$TG_t$  means the amount in Formula Year t 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).

$MP_t$  means the amount in Formula Year t equal to miscellaneous pass-through costs incurred by the licensee and not reflected in any other part of this condition, which the Authority has (following consultation with the licensee) directed the licensee to treat as part of  $MP_t$ .

**Part B: Calculation of the business rates adjustment term ( $RB_t$ )**

XX.5 For the purposes of the Principal Formula, but subject to paragraph 21.7,  $RB_t$  is derived in accordance with the following formula:

$$RB_t = \left( \frac{RBA_{t-2}}{RPIA_{t-2}} - RBE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

XX.6 In the formula for the  $RB_t$  term above:

$RBA_{t-2}$  means the amount, in Formula Year t-2, 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).

$RBE_{t-2}$  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 that applies to the licensee.

$RPIA_{t-2}$  has the value given to it by Part C of [GDC20] Special Condition [x].

$PVF_t$  is the present value adjustment term as defined in Part C of [GDC 20] Special Condition [x].

$RPIF_t$  has the value given to it by Part C of [GDC20] Special Condition [x].

XX.7 In any Formula Year ("the Relevant Formula Year") in which a revaluation, 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,  $RB_t$  will have the value of zero in that year and in each subsequent Formula Year, unless the Authority has satisfied itself that the licensee has used its best endeavours to minimise the amount of the prescribed rates. In which case the Authority may direct that the formula set out in this Part B is to apply for the purposes of calculating the  $RB_t$  term in the specific Formula Year and in each of the subsequent Formula Years.

**Part C: Calculation of the licence fee adjustment term ( $LF_t$ )**

XX.8 For the purposes of the Principal Formula,  $LF_t$  is derived in accordance with the following formula:

$$LF_t = \left( \frac{LFA_{t-2}}{RPIA_{t-2}} - LFE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

XX.9 In the formula for the  $LF_t$  term above:

- $LFA_{t-2}$  means the amount of the payments, in Formula Year t-2, made by the licensee in respect of the Distribution Network Transportation Activity under standard condition 3 (Payments by the Licensee to the Authority).
- $LFE_{t-2}$  means the amount of the licence fee allowance in Formula Year t-2, and is represented by the amount set out in Appendix 2 that applies to the licensee.
- $RPIA_{t-2}$  has the value given to it by Part C of [GDC20] Special Condition [x].
- $PVF_t$  is the present value adjustment term as defined in Part C of [GDC 20] Special Condition [x].
- $RPIF_{t-2}$  has the value given to it by Part C of [GDC20] Special Condition [x].

**Part D: Calculation of the pension deficit charge adjustment term ( $PD_t$ )**

XX.10 For the purposes of the Principal Formula,  $PD_t$  is derived in accordance with the following formula:

$$PD_t = \left( \frac{PDA_{t-2}}{RPIA_{t-2}} - PDE_{t-2} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

XX.11 In the formula for the  $PD_t$  term above:

- $PDA_t$  means the amount of the payments, in Formula Year t-2, made by the licensee to meet the Distribution Network Pension Deficit Charge levied by the NTS Operator on the Distribution Network.
- $PDE_t$  means the amount of the Distribution Network Pension 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.
- $RPIA_{t-2}$  has the value given to it by Part C of [GDC20] Special Condition [x].
- $PVF_t$  is the present value adjustment term as defined in Part C of [GDC 20] Special Condition [x].
- $RPIF_t$  has the value given to it by Part C of [GDC20] Special Condition [x].

**Part E: Calculation of third party damage and water ingress adjustment term (TPWI<sub>t</sub>)**

XX.12 For the purposes of the Principal Formula, but subject to paragraph 21.15, TPWI<sub>t</sub> is derived in accordance with the following formula:

$$TPWI_t = \max\left[0.95 \times \left((TPWR_{t-2} + TPWU_{t-2}) - (0.015 \times PU_{t-2} \times RPIA_{t-2})\right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t\right]$$

XX.13 In the formula for the TPWI<sub>t</sub> term above:

- TPWR<sub>t-2</sub> means the total amount of payments, in Formula Year t-2, 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-2</sub> means the total amount of payments, in Formula Year t-2, 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-2</sub> means the opening base revenue allowance of the licensee in Formula Year t-2 and shall have the value set out in Appendix 1 of [GDC20] Special Condition [x].
- RPIA<sub>t-2</sub> has the value given to it by Part C of [GDC20] Special Condition [x].
- PVF<sub>t</sub> is the present value adjustment term as defined in Part C of [GDC 20] Special Condition [x].
- RPIF<sub>t</sub> has the value given to it by Part C of [GDC20] Special Condition [x].

XX.14 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 XX.6 of this condition relating to the RBE term)**

Licensee	RBE (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Gas DN Licensee 1	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx



Gas DN Licensee 2	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
-------------------	-----	-----	-----	-----	-----	-----	-----	-----

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

(see paragraph XX.10 of this condition relating to the LFE term)

Licensee	LFE (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Gas DN Licensee 1	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Gas DN Licensee 2	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx

**APPENDIX 3: Distribution Network Pensions Deficit Charge allowance**

(£m, 2009/10 prices)

(see paragraph XX.12 of this condition relating to the PDE term)

Licensee	PDE (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Gas DN Licensee 1	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Gas DN Licensee 2	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx

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

### Introduction

- XX.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 [GDC20] Special Condition [x] (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.
- XX.2 This condition also provides a cost-sharing mechanism with respect to NTS Exit Capacity costs which is linked to the Totex Incentive Strength Rate.

### Part A: Overall adjustment formula (Ext)

- XX.3 In the Formula Year 2013/14 and 2014/15 the NTS Exit Capacity Cost Adjustment term ( $Ex_t$ ) shall equal zero. In each subsequent Formula Year  $Ex_t$  will for the purposes of [GDC20] Special Condition [x] be derived in accordance with the following formula:

$$Ex_t = \left\{ \left[ \frac{ExC_{t-2} + EI_{t-2}}{RPIA_{t-2}} \right] - AEx_{t-2} \right\} \times PVF_{t-2} \times PVF_{t-1} \times RPIF_{t-2}$$

where:

$ExC_{t-2}$  means, in respect of Formula Year t-2, 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.

$EI_{t-2}$  means the exit capacity incentive in respect of the relevant Distribution Network for Formula Year t-2 and is derived in accordance with the provisions of Part C below.

$AEx_{t-2}$  means the Allowed NTS Exit Capacity Cost as set out in Appendix 1 of this condition

$PVF_t$  is the present value adjustment term as defined in Part C of [GDC 20] Special Condition [x].

$RPIF_t$  has the value given to it by Part C of [GDC20] Special Condition [x].

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

- XX.4  $ExC_t$  (the NTS Exit Capacity Costs term) is derived in accordance with the following formula:

$$ExC_t = ExCC_t + ExFFC_t$$

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 by the licensee in respect of NTS Offtake (Flat) Capacity.

ExFFC<sub>t</sub> 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 by the licensee in respect of NTS Offtake (Flexibility) Capacity.

### Part C: Distribution Network exit capacity incentive revenue (EI<sub>t</sub>)

XX.5 The Distribution Network exit capacity incentive revenue in Formula Year t (EI<sub>t</sub>) is derived in accordance with the following formula:

$$EI_t = IQI \times [EIT_t - EDC_t]$$

where:

IQI means the Totex Incentive Strength 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, derived in accordance with paragraph 8.6.

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, derived in accordance with paragraph 8.7.

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

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

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

where:

NTSICH<sub>E<sub>v,t,d</sub></sub> means either

- (a) 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

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

### Formula for the Distribution Network exit performance measure (EDC<sub>t</sub>)

XX.7 The Distribution Network exit performance measure in Formula Year t (EDC<sub>t</sub>) is derived for the purposes of paragraph 8.5 in accordance with the following formula:

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

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 NTS in respect of Buybacks for Formula Year t
$NTSOC_t$	means payments made to the NTS 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

XX.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:

Day	has the meaning given to that term in the Network Code.
Deemed Cost	
Distribution Network	means the relevant gas distribution network defined with reference to the aggregate of its constituent Local Distribution Zones (LDZs) as set below: Distribution Network Local Distribution Zone

	(LDZ)
	Northern Northern, North East
	Scotland Scotland
	Southern South East, Southern
	Wales and West Wales North, Wales South, South West
Distribution Network Transportation Activity	[To be defined in GDC 19]
Offtake	[To be defined]
Efficiency Incentive Rate	[To be defined]
NTS (TO) Exit Capacity Charge	means the charge in p/peak Day kWh/d for NTS exit capacity as set out in the NTS Gas Transportation Statements published pursuant to Standard Special Condition A4 (Charging – General) and Standard Special Condition A5 (Obligations as Regard Charging Methodology) of National Grid Gas plc’s gas transporter licence in respect of the NTS;
NTS Gas Transportation Statement	[To be defined].
NTS Offtake (Flat) Capacity	means capacity which causes or permits gas to flow from the NTS at a rate which is even over the course of the Day in accordance with paragraph 1.2.3 (d) (i) of section B of the network code having effect on 15 December 2007;
NTS Offtake (Flexibility) Capacity	means capacity which causes or permits gas to flow from the NTS at a rate of offtake or flow which is not even over the course of a Day in accordance with paragraph 1.2.3 (d) (ii) of section B of the network code having effect on 15 December 2007;
Buybacks	[To be defined]
Overrun Costs	[To be defined]
NTS Operator	has the meaning given to NTS Operator in Standard Special Condition A3: (Definitions and Interpretation);

## Appendix 1

(see paragraph XX in relation to the AEX<sub>t</sub> term)

**Allowed NTS Exit Capacity (2009/10 prices)**

Licensee	AEX <sub>t</sub>							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
NGGD East	xx	xx	xxx	xxx	xxx	xxx		
NGGD WM	xx	xx	xxx	xxx	xxx	xxx		
NGGD NW								
NGGD Lon								

**Appendix 2**

(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)**

Licensee	Offtake v	NTSTVE <sub>v,t</sub> (GWh/d)							
		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
East	EM1	xxx	xxx	xxx	xxx	xxx	xxx		
	EM2	xxx	xxx	xxx	xxx	xxx	xxx		
	EM3								
	EM4								
	EA1								
	EA2								
	EA3								
	EA4								
London	NT1								
	NT2								
	NT3								
NW	NW1								
	NW2								
WM	WM1								
	WM2								

	WM3								
East									

DRAFT

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

### **Introduction**

- 25.1 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 under Part B of [GDC 20] Special Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity).
- 25.2 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 and the extent to which it effectively engages with its stakeholders.

### **Part A: Structure of this condition**

- 25.3 This condition is organised as follows:
- (a) Part B provides the formula for the calculation of the Broad Measure of Customer Satisfaction adjustment ( $BM_t$ );
- 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 ( $CS_t$ ), complaints metric term ( $CM_t$ ) and stakeholder engagement term ( $SE_t$ ) respectively;
- 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; and
- 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.

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

- 25.4 For the purposes of Part B of [GDC20] Special Condition [x], the Broad Measure of Customer Satisfaction adjustment ( $BM_t$ ), and is derived in accordance with the following formula:

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

where:

$CS_t$  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, and is derived in accordance



with the provisions of Part C below.

- $CM_t$  means 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, and is derived in accordance with the provisions of Part D below.
- $SE_t$  means 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 high quality outcomes for its stakeholders as specified in the Stakeholder Engagement Incentive Guidance 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 4.
- $I_t$  means the means the Average Specified Rate in Formula Year t.  
[the definition of Average Specified Rate 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."]

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

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

$$CS_t = CSA_t + CSB_t + CSC_t$$

25.6 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:

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

25.7 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 and is derived in accordance with the following formula:

$$CSAD_t = CSAS_t - CSAUQ_t$$

where:

- $CSAS_t$  means the licensee's actual performance for the planned supply interruptions element of the customer satisfaction survey for Formula Year t.
- $CSAUQ_t$  means the licensee's target planned supply interruption score, fixed at [x – a value to be informed by the trial survey and outlined in Final Proposals].

- 25.8 For the purposes of the formula set out in paragraph 6 above,  $CSAR_t$  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:

$$CSA_t = MIN \left[ \left( \frac{CSAD_t}{CSAMX_t - CSAUQ_t} \right) \times CSOU_t, CSOU_t \right]$$

where:

$CSAMX_t$  means the planned supply performance maximum reward score which is fixed as [x- a value to be informed by the trial survey and outlined in Final Proposals].

$CSOU_t$  means the maximum positive adjustment to Maximum Distribution Network Transportation Activity Revenue for the licensee in Formula Year t specified in Appendix 1.

- 25.9 For the purposes of the formula set out in paragraph 6 above  $CSAP_t$  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 formula below:

$$CSAP_t = MIN \left[ \left( \frac{CSAD_t}{CSAMR_t - CSAUQ_t} \right) \times CSOD_t, CSOD_t \right]$$

where:

$CSAMP_t$  means the planned supply interruptions maximum penalty score which is fixed as [x- a value to be informed by the trial survey and outlined in Final Proposals].

$CSOD_t$  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 2.

- 25.10 For the purposes of the formula set out in paragraph 5 above,  $CSB_t$  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:

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

- 25.11 For the purposes of the formula set out in paragraph 10 above,  $CSBD_t$  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.

$$CSBD_t = CSBS_t - CSBUQ_t$$

where:

$CSBS_t$  means the licensee's actual performance for the unplanned supply interruptions element of the customer satisfaction survey for

Formula Year t.

$CSBUQ_t$  means the licensee's target unplanned supply interruption score, which is fixed as [x – a value to be informed by the trial survey and outlined in Final Proposals].

- 25.12 For the purposes of the formula set out in paragraph 10 above,  $CSBR_t$  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:

$$CSBR_t = MIN \left[ \left( \frac{CSBD_t}{CSBMX_t - CSBUQ_t} \right) \times CSOU_t, CSOU_t \right]$$

where:

$CSBMX_t$  means the planned supply performance maximum reward score which is fixed as [x– a value to be informed by the trial survey and outlined in Final Proposals].

$CSOU_t$  means the maximum positive adjustment to Maximum Distribution Network Transportation Activity Revenue for the licensee in Formula Year t specified in Appendix 1.

- 25.13 For the purposes of the formula set out in paragraph 10 above,  $CSBP_t$  means the negative 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:

$$CSBP_t = MIN \left[ \left( \frac{CSBD_t}{CSBMP_t - CSBUQ_t} \right) \times CSOD_t, CSOD_t \right]$$

where:

$CSBMP_t$  means the unplanned supply interruptions maximum penalty score which is fixed as [x– a value to be informed by the trial survey and outlined in Final Proposals].

$CSOD_t$  means the maximum negative adjustment to Maximum Distribution Network Transportation Activity Revenue for the licensee in Formula Year t specified in Appendix 2.

- 25.14 For the purposes of the formula set out in paragraph 5 above  $CSC_t$  means the adjustment in respect of the licensee's performance in Formula Year t, in relation to the target for the connections element of the customer satisfaction score, and is derived in accordance with the following formula:

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

- 25.15 For the purposes of the formula set out in paragraph 14 above,  $CSCD_t$  means the licensee's performance for the connections element of the customer satisfaction survey for Formula Year t, relative to the target score for the connections element of the customer satisfaction survey for Formula Year t and is derived in accordance with the following formula:

$$CSCD_t = CSCS_t - CSCUQ_t$$

where:

CSCS<sub>t</sub> means the licensee's actual performance for the connections element of the customer satisfaction survey for Formula Year t as calculated for that year.

CSCUQ<sub>t</sub> means the licensee's target connections score, which will be fixed at [x- a value to be informed by the trial survey and outlined in Final Proposals] for the Formula Year t.

25.16 For the purposes of the formula set out in paragraph 14 above, CSCR<sub>t</sub> means the positive adjustment (if any) in respect of the licensee's connections performance for Formula Year t and is derived in accordance with the following formula:

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

where:

CSCMX<sub>t</sub> means the connections performance maximum reward score which is fixed as [x- a value to be informed by the trial survey and outlined in Final Proposals].

CSOU<sub>t</sub> means the maximum positive adjustment to Maximum Distribution Network Transportation Activity Revenue for the licensee in Formula Year t specified in Appendix 1.

25.17 For the purposes of the formula set out in paragraph 14 above, CSCP<sub>t</sub> means the negative adjustment in respect of the licensee's connections performance for Formula Year t, and is derived in accordance with the following formula:

$$CSCP_t = MIN \left[ \left( \frac{CSCD_t}{CSCMP_t - CSCUQ_t} \right) \times CSOD_t, CSOD_t \right]$$

where:

CSCMP<sub>t</sub> means the connections maximum penalty score which is fixed as [x - a value to be informed by the trial survey and outlined in Final Proposals].

CSOD<sub>t</sub> means the maximum negative adjustment to Maximum Distribution Network Transportation Activity Revenue for the licensee in Formula Year t specified in Appendix 2.

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

25.18 The term CM<sub>t</sub> means 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, and is derived in accordance with the following formula:

$$CM_t = IF[CMIS_t \geq 0, 0, MAX(CMIS_t \times IRCM_t, -ARCM_t)]$$

25.19 CMIS<sub>t</sub> 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:

$$CMIS_t = UQCM_t - CMP_t$$

25.20 For the purposes of the formula set out in paragraph 19 above,  $UQCM_t$  means the target score for the complaints metric, fixed at a value of [X– a value to be informed by the trial survey and outlined in Final Proposals] for Formula Year t.

25.21 For the purposes of the formula set out in paragraph 19 above,  $CMP_t$  means the complaints metric performance term and is derived in accordance with the following formula:

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

where:

$PCUDPO_t$  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 reported for that year.

$PCUDPT_t$  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 reported for that year.

$PRC_t$  means the percentage of Repeat Complaints for Formula Year t as reported for that year.

$POF_t$  means the percentage of Ombudsman findings against the licensee for Formula Year t as reported for that year.

25.22 In the formula for the  $CM_t$  term in paragraph 18 above,  $IRCM_t$  means the incentive rate for the complaints metric for Formula Year t, and is derived in accordance with the following formula:

$$IRCM_t = \left( \frac{ARCM_t}{UQCM_t - MLCM_t} \right)$$

where

$ARCM_t$  means the maximum negative adjustment to the licensee's Maximum Distribution Network Transportation Activity Revenue as specified for Formula Year t in Appendix [x]. This term is also used to calculate  $CM_t$ .

$MLCM_t$  means the score to which the maximum level of penalty will be applied, this is a fixed score [x] for Formula Year t.

25.23 For the purposes of this condition, the following definitions apply:

**Complaint** means any expression of dissatisfaction made to an organisation, related to any one or more of its products, its services or the manner in which it has dealt with any such expression of dissatisfaction, where a response is either provided by or on behalf of that organisation at the point at which contact is made or a response is explicitly or implicitly required or expected to be provided thereafter. A more detailed definition is outlined in the Regulatory Instructions and

Guidance (RIGs).

Resolved Complaint	A resolved complaint is a consumer complaint in respect of which there remains no outstanding action to be taken by the regulated provider. A more detailed definition is outlined in the Regulatory Instructions and Guidance (RIGs).
Repeat Complaints	A repeated complaint is where the customer makes contact to express dissatisfaction with the same or substantially the same matter that was the subject of a previously Resolved Complaint within a 12 month period. A more detailed definition is outlined in the Regulatory Instructions and Guidance (RIGs).
Ombudsman finding against the licensee	An Energy Ombudsman decision in favour of the complainant is one where the GDN is required to make a payment over and above that previously offered to the complainant, change its processes beyond what it had previously indicated to the complainant that it would, or both, as described in the Regulatory Instructions and Guidance (RIGs).

#### **Part E: Adjustments arising from stakeholder engagement performance**

- 25.24 The Stakeholder Engagement term ( $SE_t$ ) is derived in accordance with the provisions of this Part E.
- 25.25 The maximum value of the  $SE_t$  term for each Formula Year that can be determined by the Authority for each licensee is set out in Appendix 4.
- 25.26 The maximum value is to be decided by the Authority in accordance with provisions set out in paragraph 4.
- 25.27 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 Incentive Guidance that is published on the Authority's website (and that may be modified from time to time in accordance with the provisions outlined in paragraph 29 below).
- 25.28 In addition to making provision for the matters mentioned in paragraph 27, the Stakeholder Engagement Incentive Guidance may also make provision for:
- (a) the appointment, by the Authority, of persons who will assess the stakeholder submissions and make recommendations based on key areas of assessment; the key areas of assessment to be considered in that year; and the manner and process by which the stakeholder engagement submissions will be assessed against those key areas and the Authority will allocate the stakeholder engagement reward.

[To make modification process consistent across all licence conditions]

- 25.29 Before modifying the Stakeholder Engagement Incentive Guidance, the Authority, by Notice given to all licensees in whose licence this condition has effect, will:
- (a) state that it proposes to modify the guidance, and specify the date on which it proposes that the provisions of the modified Stakeholder Engagement Incentive Guidance should take effect;

set out the text of the modified guidance and the reasons for the Authority's proposed modifications; and

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.

- 25.30 The Authority will consider any representations that are duly made and the Authority will give reasons for its decision.
- 25.31 The Authority will modify the Stakeholder Engagement Incentive Guidance by issuing a direction to that effect for the purposes of this condition following the procedure set out in paragraph XX.
- 25.32 The term "stakeholder", wherever it appears in this condition, refers to individuals or organisations that can be impacted by the activities of the network company. They may have a direct or indirect interest in their business, and their contact with the network company may be anything from a daily interaction to those who have occasional contact.
- 25.33 For the purposes of determinations made by the Authority pursuant to the provisions of Part B above, "high quality outcomes" will be defined in the Stakeholder Engagement Incentive Guidance in relation to the key areas of assessment set out in the Guidance for the year in question.

#### **Part F: Power of the Authority to replace Part C and D data**

- 25.34 This paragraph applies where the report of an Examiner nominated by the Authority finds that the level of accuracy of any data used for the purposes of any formula in Part C or Part D of this condition is less than the level of accuracy specified for such information in the Regulatory Instructions and Guidance issued under [GDC74] Special Condition [x] (Regulatory Instructions and Guidance).
- 25.35 If paragraph 34 applies, the Authority may, after consultation in accordance with paragraph 36 with the licensee and having due regard to all relevant information and circumstances, and so as to mitigate any distortion to the licensee's performance for the purpose of this condition 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.
- 25.36 Before issuing a direction under paragraph 35, the Authority must give Notice to the licensee of:
- (a) the terms of the proposed direction;
- the reasons why it proposes to issue the direction; and
- the period (which must not be less than 14 days from the date of the Notice) within which the licensee may make representations or objections.
- 25.37 The Authority must consider any representations or objections duly received under paragraph 34, and give reasons for any decision it makes in relation to them.

#### **Appendices 1 to 4 follow immediately below.**

Appendix 1: Value of CSOUT

Appendix 2: Value of CSODt

Appendix 3: Value of ARCMt

Appendix 4: The maximum value of SET

DRAFT



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

### **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").
- 25.2 This condition also provides for the licensee to:
- (a) understand the basis of 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.

### **Part A: Formula for calculating the Maximum Distribution Network Shrinkage Allowance (SHR)**

- 25.3 In the Formula Year 2013/14 and 2014/15 the Maximum Distribution Network Shrinkage Allowance (SHR<sub>t</sub>) shall equal zero. In each subsequent Formula Year t SHR<sub>t</sub> will, for the purposes of [GDC20] Special Condition [x], be derived in accordance with the following formula:

$$SHR_t = SHRA_t + SHRR_t$$

where:

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

SHRA<sub>t</sub> means the Distribution Network shrinkage allowance in respect of the relevant Distribution Network for Formula Year t, as derived

in accordance with the formula in paragraph 25.4.

SHRR<sub>t</sub> means the Distribution Network shrinkage roller allowance in respect of the relevant Distribution Network for Formula Year t, as derived in accordance with the formula in paragraph 25.5.

25.4 For the purposes of paragraph 25.3 of this condition, SHRA<sub>t</sub> is derived in accordance with the following formula:

$$SHRA_t = \sum_{\text{all } i} \left( \frac{ASC_{t-2,i}}{RPIA_{t-2}} - ALSC_{t-2,i} \right) \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$$

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

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

t means a year within the price control period. t=1 refers to the formula year commencing 1 April 2013.

ASC<sub>t-2,i</sub> means the actual shrinkage cost in respect of Formula Year t-2 for each LDZ i of the relevant Distribution Network.

ALSC<sub>t-2,i</sub> means the amount of the allowance in respect of the shrinkage cost in Formula Year t-2 for each LDZ i of the relevant Distribution Network, as set out in Appendix 1.

RPIA<sub>t-2</sub> has the value give to it by Part C of [GDC20] Special Condition [x].

PVF<sub>t</sub> has the value give to it by Part C of [GDC20] Special Condition [x].

RPIF<sub>t</sub> Has the value give to it by Part C of [GDC20] Special Condition [x].

25.5 For the purposes of paragraph 25.3 of this condition, SHRR<sub>t</sub> is derived in accordance with the following formula:

$$SHRR_t = \sum_{\text{all } i} \sum_{n=1}^{t-2} SIP_{n,i} \times \frac{8}{(8 - (n - 1))} \times IQI$$

where:

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

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

t means a year within the price control period. t=1 refers to the formula year commencing 1 April 2013.

n means an index for t.

IQI means the Efficiency Incentive Rate as specified for the Licensee in [document/definitions in licence].

SIP<sub>t-2,i</sub> means the incremental performance in Formula Year t-2 and is derived in accordance with the following formula.

$$SIP_{t-2,I} = SOP_{t-2,i} - SOP_{t-3,i}$$

where:

$SOP_{t-2,i}$  means annual shrinkage outperformance in respect of Formula Year t-2 and is derived in accordance with the following formula.  $SOP_{t-3,i}$  is calculated accordingly, except in Formula Year t that begins 1 April 2015 when it shall equal zero:

$$SOP_{t-2,i} = GPRC_{t-2} \times SB_{t-2,i} - ASC_{t-2,i}$$

where:

$SB_{t-2,i}$  means the LDZ allowed shrinkage volume in respect of Formula Year t-2 for each LDZ i of the relevant Distribution Network as set out in Appendix 2.

$GPRC_{t-2}$  means the gas price reference cost in respect of Formula Year t-2, and is derived in accordance with the provisions of Part B below.

$ASC_{t-2,i}$  means the actual shrinkage cost in respect of Formula Year t-2 for each LDZ i of the relevant Distribution Network.

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

25.6 For the purposes of the formula for  $SHRR_t$  under Part A above, the gas price reference cost (GPRC) in respect of Formula Year t-2 is derived in accordance with the following formula:

$$GPRC_{t-2} = CF \times \left( \frac{\sum_{all\ d} Wdy + Wed}{WD} \right)$$

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-2.

Wdy means the day ahead 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.

Wed means the day ahead 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.

WD means the number of Days within the Formula Year t-2.

25.7 Following the end of the last formula year, the Authority will make a post period adjustment to the revenue earned under the Maximum Distribution Shrinkage Allowance during the RIIO-GD1 period, to take account of non-enduring performance which has not been rewarded or penalised.

25.8 The post-period revenue adjustment will be derived in accordance with the following formula:

$$PRGSAS = TNEBS \times GPRC_{avg} \times IQI$$

where:

GPRC<sub>avg</sub> means the average GPRC from 1 April 2013 to 31 March 2021.

TNEBS means the outperformance which has not been sustained throughout the price control period and is derived according to the following formula:

$$TNEBS = \sum_{t=1}^8 TNEBS_t$$

and:

$$TNEBS_t = \begin{cases} \max[SOP_t - \max(SOP_8, 0), 0] & \text{if } SOP_t > 0 \\ \min[SOP_t - \min(SOP_8, 0), 0] & \text{if } SOP_t \leq 0 \end{cases}$$

### Part C: Formula for Environmental Emissions Incentive revenue (EEI<sub>t</sub>)

25.9 In the Formula Year 2013/14 and 2014/15 the Environmental Emissions Incentive revenue (EEI<sub>t</sub>) shall equal zero. In each subsequent Formula Year EEI<sub>t</sub> will for the purposes of [GDC20] Special Condition [x] be derived in accordance with the following formula:

$$EEI_t = \sum_i \sum_{n=1}^{t-2} \left[ IP_{n,i} \times \frac{8}{8 - (n - 1)} \right] \times IQI \times CC_{t-2} \times RPIA_{t-2}$$

where:

CC<sub>t-2</sub> means the environmental emissions factor as set out in Appendix 4.

IP<sub>t-2,i</sub> means the incremental performance in Formula Year t-2 and is derived in accordance with the following formula:

$$IP_{t-2,i} = OP_{t-2,i} - OP_{t-3,i}$$

where:

OP<sub>t-2,i</sub> means annual outperformance in respect of Formula Year t-2 and is derived in accordance with the following formula. OP<sub>t-3,i</sub> is calculated accordingly, except in Formula Year t that begins 1 April 2015 when it shall equal zero:

$$OP_{t-2,i} = LB_{t-2,i} - LV_{t-2,i}$$

where:

- LB<sub>t-2,i</sub> means the LDZ allowed leakage volume in respect of Formula Year t-2 for each LDZ i of the relevant Distribution Network as set out in Appendix 3 (which is part of this condition).
- LV<sub>t-2,i</sub> means the LDZ actual leakage volume in respect of Formula Year t-2, and is derived from the application of The Shrinkage and Leakage Model maintained by the licensee under Part D below.

25.10 Following the conclusion of the Formula Year commencing in April 2020, the Authority will make a post period adjustment to Environmental Emissions Incentive revenue during the RIIO-GD1 period, to take account of non enduring performance which has not been rewarded or penalised.

25.11 The post-period revenue adjustment will be derived in accordance with the following formula:

$$PRGSA = TNEB \times CC_{avg} \times IQI$$

where:

CC<sub>avg</sub> means the average CC (as set out in appendix 4) from 1 April 2013 to 31 March 2021.

TNEB means the outperformance which has not been sustained throughout the price control period and is derived according to the following formula:

$$TNEB = \sum_{t=1}^8 TNEB_t$$

and:

$$TNEB_t = \begin{cases} \max[OP_t - \max(OP_8, 0), 0] & \text{if } OP_t > 0 \\ \min[OP_t - \min(OP_8, 0), 0] & \text{if } OP_t \leq 0 \end{cases}$$

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

25.12 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 as modified from time to time in accordance with the provisions set out in Part E of this condition.

25.13 The Shrinkage and Leakage model must be designed to facilitate the accurate calculation and reporting of gas shrinkage and gas leakage in or from each of the LDZs operated by the licensee.

25.14 The licensee must, by 31 July in each Formula Year, make publicly available and provide to the Authority, 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.

25.15 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 facilities as the Authority may reasonably require, for the purpose of enabling it to 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.

25.16 The licensee must not make any modification to The Shrinkage and Leakage Model except where, and to the extent that, it is directed to do so by the Authority pursuant to paragraph 25.26.

### **Part E: Modification of The Shrinkage and Leakage Model**

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

25.18 The licensee must consult with other DN Operators, 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.

25.19 Any modification that 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, as would maintain the incentive properties of the Maximum Distribution Network Shrinkage Allowance and of the Environmental Emissions Incentive, at the same levels as those applicable before the proposed modification.

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

- (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 25.21.

25.21 That report must set out:

- (a) the modifications originally proposed;
- (b) the revised allowed shrinkage and allowed leakage volumes proposed pursuant to paragraph 25.19;
- (c) the representations (if any) that were made to the licensee by other DN Operators, 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;
- (e) a copy of the independent expert’s report referred to in paragraph 25.24;
- (f) an explanation of how the proposed modifications would better achieve the objective set out in paragraph 25.13; and
- (g) a timetable, developed in accordance with paragraph 25.25, for implementing the modifications originally proposed or any alternative modifications developed in the light of any representations made by other DN Operators, gas shippers or other interested parties, including the date with effect from which such modifications (if made) would take effect.

- 25.22 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.
- 25.23 If requested by other DN Operators, the licensee must provide all the information required to enable DN Operators to comply with paragraph 25.22, including the proposed allowed shrinkage and allowed leakage volumes for the licensee which would result from the proposed modification, even if the licensee does not agree that the modification better meets the objective set out in paragraph 25.13.
- 25.24 The report submitted by the licensee under paragraph 25.20 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 objective set out in paragraph 25.13 and, where applicable, their 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.
- 25.25 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.
- 25.26 Where the Authority considers that a modification set out in such a report or a report submitted by another DN Operator under equivalent provisions in its licence 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 objective set out in paragraph 25.13, 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 25.22.
- 25.27 The Authority may, at any time, direct that either or both of paragraphs 25.20 and 25.21 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**

- 25.28 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.
- 25.29 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.

25.30 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**

25.31 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").

25.32 The first SLSM Report must be submitted to the Authority not later than 31 July 2014, and subsequent SLSM Reports must be submitted to the Authority not later than 31 July once every two Formula Years.

25.33 The purposes of the SLSM 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.

25.34 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) 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 gas leakage with respect to each LDZ that it operates;
- (c) the steps that 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.

25.35 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 its best endeavours to summarise and take account of those responses in the final SLSM Report prepared for submission to the Authority.

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

### **Part H: Interpretation**

25.37 For the purposes of this condition:



Bank Holiday

means a Bank Holiday within the meaning of the Banking and Financial Dealings Act 1971.

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. These processes and procedures 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 and the actual leakage volume used for the purposes of each respective formula; and
- (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.

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 allowance in respect of shrinkage costs for the period beginning on 1 April 2013 and ending on 31 March 2021**

Distribution Network	LDZ	Shrinkage allowance (£, 2009/10 prices)							
		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 shrinkage volume (the SB term) for the period beginning on 1 April 2013 and ending on 31 March 2021**

Distribution Network	LDZ	Shrinkage 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: LDZ allowed leakage volume (the LB term) for the period beginning on 1 April 2013 and ending on 31 March 2021**

Distribution 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 4: Environmental emissions factor (the CC term) for the period beginning on 1 April 2013 and ending on 31 March 2021**

Environmental emissions factor $CC_t$ (£ / MWh pre-tax 2009 prices)								
	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

- XX.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.
- XX.2 This condition determines:
- the discretionary reward amount (as represented by the  $DRSW_t$  term) for each of Formula Years 2016/17 and 2017/18 of the price control arrangements in force under this licence at 31 March 2013 (see Part B below); and
  - the discretionary reward amount (as represented by the  $DRSX_t$  term) for each of Formula Years 2013/14 to 2015/16 of the price control period, commencing on 1 April 2013 (see Part A below).

### Part A: Formula for the calculation of the $DRS_t$ term

- XX.3 For the purposes of paragraph 48.2(b),  $DRS_t$  is derived in accordance with the following formula:

$$DRS_t = DRSW_t + DRSX_t$$

- XX.4 In the formula for  $DRS_t$  above:

$DRS_t$  means such positive adjustment (if any) to the Maximum Distribution Network Transportation Activity Revenue of the licensee under [GDC20] Special Condition [x], 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.

$DRSW_t$  means such positive adjustment (if any) to the Maximum Distribution Network Transportation Activity Revenue of the licensee under [GDC20] Special Condition [x], in respect of the licensee's performance under the 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 B below.

$DRSX_t$  means such positive adjustment (if any) to the Maximum Distribution Network Transportation Activity Revenue of the licensee under [GDC20] Special Condition [x], in respect of the licensee's performance under the Discretionary Reward Scheme during the price control period, as may be determined by the Authority:

- 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.

## Part B: Formula for the calculation of the $DRSW_t$ term

XX.5 For the purposes of paragraph 48.2(a),  $DRSW_t$  is derived in accordance with the following formula:

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

XX.6 In the formula for  $DRSW_t$  above:

$DRA_{t-2}$  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 Year 2011/12, as may be determined by the Authority by 30 November 2012 (for Formula Year 2013/14); and (ii) Formula Year 2012/13, as may be determined by the Authority by 30 November 2013 (for Formula Year 2014/15) in respect of those years.

$I_t$  means the Average Specified Rate in Formula Year  $t$ . [Average Specified Rate in the definitions condition]

## Part C: Definitions

XX.7 For the purposes of this condition:

Discretionary Reward Scheme means (as the context requires) either:

- (a) in relation to the calculation of the  $DRSW_t$  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 its 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 its performance in delivering additional environmental and social outputs not funded under the Special Conditions in force during the price control period.

## **[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 Part B of [GDC20] Special Condition [x] ((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 Part B of [GDC20] Special Condition [x] is to adjust the calculation of the licensee's Maximum Distribution Network Transportation Activity Revenue (AR) in order to fund investment in innovation under the NIA established pursuant to this condition.
- 11.3 This condition also makes appropriate provision for arrangements relating to the regulation, administration and governance of the NIA .

### **Part A: Calculation of the NIA term**

- 11.4 For the purposes of Part B of [GDC20] Special Condition [x], the NIA adjustment for the Formula Year t is derived in accordance with the following formula (in this condition, the "Principal Formula"):

$$NIA_t = ANIA_t - NIAR_t$$

- 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 either Part B below; 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 which the Authority has determined, in accordance with provisions set out in paragraph 11.10 of this condition and the NIA Governance Document, to be unrecoverable (see Part C below).

- 11.6 Expenditure incurred by the licensee may only be recovered under the NIA 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 from the following formula:

$$ANIA_t = PTR_A \times \min[(ENIA_t + BPC_t), (NIAV \times BR_t)]$$

- 11.8 In the formula for the ANIA term above:

$PTR_A$  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 incurred by the licensee in respect of Eligible NIA Projects as calculated by the licensee in accordance with the NIA Governance Document and reported to the Authority in accordance with [GDC 74] Special Condition [x] (Regulatory Instructions and Guidance);

BPC<sub>t</sub> means the Eligible NIC Bid Preparation Costs for the Formula Year t as calculated by the licensee in accordance with this condition and reported to the Authority in accordance with [GDC 74] Special Condition [x] (provided that, where the licensee is part of an Electricity Transmission 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 by the group under the Network Innovation Competition, as defined in [GDC 10] Special Condition [x] (the Network Innovation Competition) whichever is less in the Formula Year t insofar as the Authority consents otherwise);

NIAV means the licensee's NIA Percentage, and has the value that is attributed to the licensee in Appendix 1 (which has effect as part of this condition); and

BR<sub>t</sub> means Base Transmission Network Activity Revenue in Formula Year t, and is derived in accordance with Part B of [GDC20] Special Condition [x].

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 derived by the following formula:

$$\text{NIAIE}_t \leq Z \times \text{ENIA}_t$$

where:

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

Z Z has the value of 0.25, except insofar as the Authority consents otherwise.

### **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 NIART that will reduce the licensee's NIA 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 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, which projects must meet, which are applied by the licensee before Eligible NIA Projects can be started;
- (b) the information that is to be published by the licensee before Eligible NIA Projects can be started;
- (c) the circumstances in which the licensee will require permission from the Authority before beginning an Eligible NIA Project;
- (d) the processes and procedures that will be in place for the assessment and approval (where necessary) of such projects described in 11.12(c);
- (e) arrangements for ensuring that relevant learning from Eligible NIA Projects can be captured and disseminated by the licensee to other licensees;
- (f) 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);
- (g) arrangements relating to the treatment of intellectual property rights in respect of Eligible NIA Projects; and
- (h) any other matters relating to the regulation, governance or administration of the NIA .

11.13 The licensee must comply with such provisions of the NIA Governance Document as require its compliance as if the NIA Governance Document were part of this condition.

#### **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 the licensee and all other licensees with a condition of similar effect to this condition in their license, must:

- (a) state that it proposes to issue the NIA Governance Document, and specify the date on which it proposes that this should take effect;
- (b) set out the text of the 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 proposed NIA Governance Document may be made.

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 may be satisfied by action taken by the Authority before, as well as by action taken after, the commencement of this condition.

11.17 In paragraph 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 F: Interpretation**

11.18 For the purposes of this condition:



Allowable NIA Expenditure	has the meaning given to that term in either Part B of this condition;
Eligible NIA Expenditure	means the amount of expenditure spent or accrued by the licensee in respect of Eligible NIA Projects and Eligible NIC Bid Preparation Costs and forms part of Allowable NIA Expenditure as set out in Part B of this condition;
Eligible NIA Internal Expenditure	means the amount of Eligible NIA Expenditure spent or accrued on the internal resources of the licensee;
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 to enable the projects to be funded under the provisions of this condition;
Eligible NIC Bid Preparation Costs	means the amount of expenditure spent or accrued by the licensee when preparing submissions for the Network Innovation Competition as defined in [GDC10] Special Condition [x] (the Network Innovation Competition) 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;
Gas Distribution Group	means any group of DN Operators in which the licensee and every other DN Operator within the group are Affiliates;
Network Innovation Allowance	has the meaning given to that term in the Introduction this condition;
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 and including matters relating to the calculation of the Eligible NIA expenditure;
NIA Percentage	means the percentage of allowed revenue licensees may use for NIA projects set out in Appendix 1 of this condition (which has effect as part of this condition); and
Unrecoverable Expenditure	means expenditure on a NIA project the Authority has determined does not satisfy the requirements of the NIA Governance Document.

## APPENDIX 1: NIA Percentage

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

Licensee	NIA Percentage
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	

DRAFT

## **[GDC10] Special Condition [x]. The Network Innovation Competition [Non-socialised version]**

[This version of the condition is only applicable if we choose to run the NIC under a non-socialised funding mechanism. We will make that decision at FP]

### **Introduction**

- 10.1 The purpose of this condition is to establish arrangements known as the Network Innovation Competition (“NIC”) that will enable the Authority to determine the amount of the Network Innovation Competition Funding (“NICF”) term that is to apply in Part B of [GDC 20] (Restriction of revenue in respect of the Distribution Network Transportation Activity) with respect to the funding of innovative low carbon or environmental projects carried out by the licensee.
- 10.2 The effect of the application of the NICF term in Part B of [GDC20] is to adjust the calculation of the licensee’s Maximum Distribution Network Transportation Activity Revenue in order to fund investment in innovation under the NIC established pursuant to this condition.
- 10.3 This condition also makes provision for arrangements relating to the regulation, administration, and governance of the NIC.

### **Part A: Function of the Network Innovation Competition (NIC)**

- 10.4 The function of the NIC is to enable the licensee to fund Eligible NIC Projects by means of revenues collected by the licensee through its Distribution Network Transportation Charges pursuant to the NIC Funding Mechanism described in Part B below as varied, where appropriate, by the Funding Return Mechanism described in Part C below.
- 10.5 The amount of the NICF term that is to be incorporated into the Maximum Distribution Network Transportation Activity Revenue in accordance with the provisions of [GDC 20] in respect of any Formula Year comprises the total of the allowed revenues of the licensee recovered under the NIC Funding Mechanism in that year.
- 10.6 Accordingly, for the purposes of Part B of [GDC 20], the amount of the NICF adjustment in any Formula Year is determined in accordance with Parts B to D below and subject to the relevant provisions of the NIC Governance Document.

### **Part B: The NIC Funding Mechanism**

- 10.7 The NIC Funding Mechanism is the mechanism by which the licensee recovers the amount of authorised NIC Funding in any Formula Year.
- 10.8 The NIC Funding is the total amount of funding authorised by the Authority for the licensee, in accordance with the provisions of the NIC Governance Document, for the purpose of funding Eligible NIC Projects.

### **Part C: The Funding Return Mechanism**

- 10.9 The Funding Return Mechanism provides for the recovery from the licensee, in each case to such extent (if any) as may be relevant, of:
  - (a) Halted Project Revenues;

- (b) Disallowed Expenditure; and
- (c) Returned Royalty Income.

- 10.10 The Funding Return is the total amount arising under paragraph 10.9.
- 10.11 Halted Project Revenues are revenues received under the NIC Funding Mechanism in respect of an Eligible NIC Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 10.12 Disallowed Expenditure is revenue received under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 10.13 Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any other transmission licensee), less Directly Attributable Costs, and that is payable to customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.
- 10.14 For the purposes of paragraph 10.13, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any other gas transporter licensee) that have not been otherwise remunerated by Base Distribution Network Transportation Activity Revenue, Excluded Services, or the NIC Funding Mechanism.

#### **Part D: Determination of the amount of the NICF term**

- 10.15 The NICF term is the amount for Formula Year  $t$  that is to be recovered by the licensee, as determined by the Authority under paragraph 10.16 in relation to:
- (a) the NIC Funding specified for that year; and
- any Funding Return specified for that year.
- 10.16 In each Formula Year  $t$ , as provided for by the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee and all other gas transporter licensees, will specify in accordance with the appropriate provisions set out in the NIC Governance Document:
- (a) the value for  $NICF_t$  for the licensee (being the net amount, if any, to be recovered by the licensee in order to contribute to its own NIC Funding for that Formula Year);
  - (b) the manner in which and the timescale over which the net amounts referred to in paragraph (a) are to be recovered.
- 10.17 The licensee must comply, to the extent that is applicable to it, with any direction issued by the Authority under paragraph 10.16.

#### **Part E: The NIC Governance Document**

- 10.18 The Authority will issue, and may from time to time revise, a document, to be known as the NIC Governance Document, for purposes connected with the regulation, governance, and administration of the NIC.

- 10.19 The NIC Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:
- (a) the eligibility criteria to be applied by, and information to be provided to, the Authority in relation to the assessment and approval of proposed NIC Projects;
  - (b) the evaluation 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, and financing of such projects' funding (where necessary);
  - (d) arrangements to ensure that relevant learning from the implementation of Eligible NIC Projects can be captured and disseminated by the licensee to other gas transporter licensees;
  - (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 NIC Governance Document);
  - (f) arrangements relating to the treatment of intellectual property rights including Returned Royalty Income in respect of Eligible NIC Projects; and
  - (g) any other matters relating to the regulation, governance, or administration of the NIC.
- 10.20 The licensee must comply with the NIC Governance Document as requires its compliance as if it formed part of this condition.

#### **Part F: Procedure for issuing the NIC Governance Document**

- 10.21 Before issuing the NIC Governance Document under this condition, the Authority, by Notice given to the licensee and all other gas transporter licensees, must:
- (a) state that it proposes to issue the document, and specify the date on which it proposes that the document should take effect;
  - (b) set out the text of the 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 with respect to the proposal may be made.
- 10.22 The Authority must consider any representations that are duly made and not withdrawn.
- 10.23 The requirements of paragraphs 10.21 and 10.22 may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.
- 10.24 In paragraph 10.21, "issuing the NIC Governance Document" includes issuing any revision of the document, and the procedure provided for under that paragraph will apply to any such revision.

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

- 10.25 For the purposes of this condition:

Disallowed Expenditure	has the meaning given to that term in paragraph 10.12 of this condition
Directly Attributable Costs	has the meaning given to that term in paragraph 10.14 of this condition.
Eligible NIC Project	means a project undertaken by the licensee or any other gas transporter licensee that appears to the Authority to satisfy such requirements of the NIC Governance Document as are necessary to enable the project to be funded under the NIC Funding Mechanism.
Funding Return	has the meaning given to that term in paragraph 10.10 of this condition.
Funding Return Mechanism	has the meaning given to that term in paragraph 10.9 of this condition.
Halted Project Revenues	has the meaning given to that term in paragraph 10.11 of this condition.
NIC Funding	has the meaning given to that term in paragraph 10.8 of this condition.
NIC Funding Mechanism	has the meaning given to that term in paragraph 10.7 of this condition.
Returned Royalty Income	has the meaning given to that term in paragraph 10.13 of this condition.
NIC Governance Document	means the document issued by the Authority under Part E of this condition, subject to the requirements of Part F, relating generally to the NIC and including matters relating to the NIC Funding Mechanism.
Project Direction	means a direction issued by the Authority pursuant to the NIC Governance Document setting out the terms to be followed in relation to an Eligible NIC Project as a condition of its funding under the NIC Funding Mechanism.

10.26 Expressions defined in paragraph 10.25 above are to be read and given effect subject to any further explanation or elaboration that might be set out in the NIC Governance Document in relation to such expressions

## **[GDC10] Special Condition [x]. The Network Innovation Competition [Socialised version]**

[This version of the condition is only applicable if we run the NIC under a socialised funding mechanism. We will make that decision at FP]

### **Introduction**

- 10.1 The purpose of this condition is to establish arrangements known as the Network Innovation Competition (“NIC”) with respect to the funding of innovative low carbon or environmental projects carried out by the licensee.
- 10.2 This condition also makes provision for arrangements relating to the regulation, administration, and governance of the NIC.

### **Part A: Function of the Network Innovation Competition (NIC)**

- 10.3 The function of the NIC is to enable the licensee to fund Eligible NIC Projects by means of payments received from the NTS Operator in accordance with the determination process described in Part B below as varied, where appropriate, by the Funding Return Mechanism described in Part C below.

### **Part B: The NIC Funding Mechanism**

- 10.4 The NIC Funding Mechanism is the mechanism by which the licensee receives the amount of authorised NIC Funding in any Formula Year from the NTS Operator, less any Funding Return as described in Part B.

### **Part C: The Funding Return Mechanism**

- 10.5 The Funding Return Mechanism relates to payments to be made by the licensee to the NTS Operator, in each case to such extent (if any) as may be relevant, of:
  - (a) Halted Project Revenues;
  - (b) Disallowed Expenditure; and
  - (c) Returned Royalty Income.
- 10.6 The Funding Return is the total amount, in respect of the licensee, of any amounts arising under paragraph 10.5.
- 10.7 Halted Project Revenues are any revenues received by the licensee from the NTS Operator under the NIC Funding Mechanism in respect of an Eligible NIC Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 10.8 Disallowed Expenditure is any revenue received by the licensee from the NTS Operator under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.

- 10.9 Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects undertaken by the licensee, less Directly Attributable Costs, and that is payable to customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.
- 10.10 For the purposes of paragraph 10.9, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects undertaken by the licensee that have not been otherwise remunerated by Base Distribution Network Transportation Activity Revenues as defined in GDC 20, Excluded Services, or the NIC Funding Mechanism.
- 10.11 In each Formula Year  $t$ , in accordance with the appropriate provisions of the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee, will specify:
- (a) the amount of any Funding Return that the licensee must pay to the NTS Operator; and
  - (b) the manner in which and the timescale over which that amount is to be so paid.
- 10.12 The licensee must comply with any direction that is issued by the Authority under paragraph 10.11.

### **Part C: Determination of the amount of the NIC term**

- 10.13 The NIC term is the net amount of NIC Funding less any Funding Return for the Formula Year  $t$  that is to be paid to the licensee by the NTS Operator, or vice versa, in compliance with the determination made for that purpose in a direction issued by the Authority pursuant to the provisions of Part D of [GTC 10] (The Network Innovation Competition) in the gas transporter licence held by the NTS Operator (“the NIC Funding Mechanism”).
- 10.14 The NIC Funding to which paragraph 10.4 refers is the proportion (if any) of total NIC Funding raised by the NTS Operator from its NTS Transportation Owner Charges in accordance with the NIC Funding Mechanism that the Authority determines is to be allocated to the licensee in respect of its Eligible NIC Projects, as adjusted by the amount of any Funding Return (as to which, see Part C below).
- 10.15 In each Formula Year  $t$ , as provided for by the NIC Governance Document and in accordance with the appropriate provisions of the NTS Operator’s licence the Authority will calculate and then, by direction given to the licensee and other licensees, will specify, in accordance with the appropriate provisions set out in the NIC Governance Document
- (a) the net amount of the NIC term;
  - (b) how the amount of that term has been calculated, taking account of any Funding Return; and
  - (c) the manner in which and the timescale over which the NTS Operator is required to transfer that amount to the licensee or vice versa.

### **Part D: The NIC Governance Document**



- 10.16 The Authority will issue, and may from time to time revise, a document, to be known as the NIC Governance Document, for purposes connected with the regulation, governance, and administration of the NIC.
- 10.17 The NIC Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:
- (a) the eligibility criteria to be applied by, and information to be provided to, the Authority in relation to the assessment and approval of proposed NIC Projects;
  - (b) the evaluation 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, and financing of such projects' funding (where necessary);
  - (d) arrangements to ensure that relevant learning from the implementation of Eligible NIC Projects can be captured and disseminated by the licensee to other licensees;
  - (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 NIC Governance Document);
  - (f) arrangements relating to the treatment of intellectual property rights including Returned Royalty Income in respect of Eligible NIC Projects; and
  - (g) any other matters relating to the regulation, governance, or administration of the NIC.
- 10.18 The licensee must comply with the NIC Governance Document as requires its compliance as if it formed part of this condition.

#### **Part E: Procedure for issuing the NIC Governance Document**

- 10.19 Before issuing the NIC Governance Document under this condition, the Authority, by Notice given to the licensee and all other licensees with a condition of similar effect to this condition in their license, must:
- (a) state that it proposes to issue the document, and specify the date on which it proposes that the document should take effect;
  - (b) set out the text of the 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 with respect to the proposal may be made.
- 10.20 The Authority must consider any representations that are duly made.
- 10.21 The requirements of paragraphs 10.19 and 10.20 may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.

10.22 In paragraph 10.19, “issuing the NIC Governance Document” includes issuing any revision of the document, and the procedure provided for under that paragraph will apply to any such revision.

### **Part F: Interpretation**

10.23 For the purposes of this condition:

Disallowed Expenditure	has the meaning given to that term in paragraph 10.8 of this condition
Directly Attributable Costs	has the meaning given to that term in paragraph 10.10 of this condition.
Eligible NIC Project	means a project undertaken by the licensee or any other gas transporter licensee that appears to the Authority to satisfy such requirements of the NIC Governance Document as are necessary to enable the project to be funded under the NIC Funding Mechanism.
Funding Return	has the meaning given to that term in paragraph 10.6 of this condition.
Funding Return Mechanism	has the meaning given to that term in paragraph 10.5 of this condition.
Halted Project Revenues	has the meaning given to that term in paragraph 10.7 of this condition.
NIC Funding	has the meaning given to that term in paragraph 10.14 of this condition.
NIC Funding Mechanism	Refer to the arrangements (pursuant to [GTC10] of its gas transporter licence) for the recovery by the NTS Operator through its NTS Transportation Owner Charges of the amount of total authorised NIC Funding in any Formula Year and the apportionment of that amount between the NTS Operator, the licensee, and all other licensees.
Returned Royalty Income	has the meaning given to that term in paragraph 10.9 of this condition.
NIC 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 NIC and including matters relating to the operation of the NIC Funding Mechanism.
Project Direction	means a direction issued by the Authority pursuant to the NIC Governance Document setting out the terms to be followed in relation to an Eligible NIC Project as a condition of its funding under the NIC Funding Mechanism.

10.24 Expressions defined in paragraph 10.23 above are to be read and given effect subject to any further explanation or elaboration that might be set out in the NIC Governance Document in relation to such expressions.

DRAFT

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

Currently being consulted on separately to RIIO - See

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=302&refer=Networks/Trans/PricingControls/RIIO-T1/ConRes>

DRAFT

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

### **Introduction**

- XX.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.
- XX.2 Excluded Services are services that conform with the General Principle set out at Part B below and that include, without limitation, those services listed at paragraph 31.10.
- XX.3 Excluded Services are services provided by the licensee for which revenue is derived but such revenue is excluded from the Maximum Distribution Network Transportation Activity Revenue as defined in [GDC20] Special Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity).

### **Part A Structure of this condition**

- XX.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.
- XX.5 Part 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.
- XX.6 Part C of this condition sets out, without limitation, certain categories of services provided by the licensee that are to be treated as Excluded Services.

### **Part B: Statement of General Principle**

- XX.7 The General Principle is that a service provided by the licensee as part of its Distribution Network Transportation Activity 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.
- XX.8 The charges referred to in paragraph 31.7 are those charges that are levied by the licensee in respect of :
- (a) Distribution Network Transportation Charges in accordance with [GDC 20] Special Condition [X] ; and
  - (b) an activity carried out under any provision of [GDC 10] (Network Innovation Competition)] which results in Royalty Income as defined in [GDC10].

### **Part C: Categories of Excluded Services**

- XX.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.

XX.10 Subject to Part D of this condition, Excluded Services shall include, but not be 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 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 licensee's Distribution Network to accommodate the extension, redesign, or redevelopment of any premises on which the asset in question is located or to which it is connected.

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) of the licence.

ES5 User pays agency services: This category consists of the provision of 'user pays' services or systems as set out in the Network Code in accordance with the definition set out in Standard Special Condition A3 of the licence, by the agency referred to in Special Condition A15 (Agency) of the 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)], 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:

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

is not made available by the licensee as a normal part of the activities of its Distribution Network Transportation Activity and Metering Business.

#### **Part D: Authority's power to give directions**

XX.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.

XX.12 Where a direction is given under paragraph 31.11, the licensee must, in accordance with the 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.

**Part E: Interpretation**

XX.13 For the purposes of this condition:

Excluded Services has the meaning provided in paragraph 31.2

DRAFT

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

### **Introduction**

- XX.1 This condition sets out how the licensee must allocate revenues and costs for the purposes of calculating its 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).
- XX.2 The condition also requires the licensee to have in place:
- (a) a methods statement, that sets out the methods that the licensee will use in the allocation and attribution of revenues and costs; and
  - (b) a methods report, which describes the manner in which, and the extent to which the licensee complied with the provisions of the methods statement.

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

- XX.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 must conform to the principles set out in paragraphs XX.4, XX.5 and XX.6.
- XX.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.
- XX.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.
- XX.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**

- XX.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 Metering Business to the following activities:
- (a) the Distribution Network Transportation Activity (as defined in Special Condition [GDC19]);



- (b) Liquefied Natural Gas import or export facility activity (has the meaning given in Part F of this condition);
- (c) LNG Storage Business (has the meaning given in Part F of this condition);
- (d) the Metering Business and Meter Reading Business (as defined in Special Condition [GDC19]); and
- (e) any Excluded Services provided in accordance with the principles set out in [GDC31] Special Condition [x] (Services treated as Excluded Services).

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

- XX.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 a form approved by the Authority that sets out the methods that the licensee intends to use in the allocation and attribution of revenues and costs.
- XX.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.
- XX.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.
- XX.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**

- XX.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**

- XX.13 Unless the Authority otherwise consents, the licensee must, by not later than four months after the end of each 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 and any direction made by the Authority under Part D in respect of that year; and
  - (b) states whether any modification should be made to the methods statement to reflect more closely the practice of the licensee.
- XX.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) gives the opinion as to the extent to which the licensee has properly prepared the methods report.

XX.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 on Activity and Financial Ring-Fencing), the licensee must report on those revenues and costs in accordance with this condition.

### **Part F: Interpretation**

XX.16 For the purposes of this condition, the following definitions apply:

Appropriate Auditor	has the meaning given in Standard Special Condition A3.
Liquefied 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 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.
Supply of LNG 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

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

DRAFT

## **[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 allowed innovation Roll-out 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).
- 9.2 The IRM value is set at £0m for all Formula years unless otherwise directed by the Authority.
- 9.3 The IRM value relating to a particular Formula Year represents the total amount of the licensee's allowed innovation Roll-out expenditure (in 2009/10 prices) for that Formula Year.
- 9.4 The application of the mechanisms in this condition provides for:
- (a) the licensee to propose adjustments to its IRM values during either of the two windows specified in Part C;
  - (b) determinations by the Authority in relation to proposals by the licensee under sub-paragraph (a); and
  - (c) the direction, where applicable of revised IRM values.
- 9.5 The determination and direction of revised IRM 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 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 Distribution Network Transportation Activity Revenue in a manner that:
- (a) takes account of the approval of changes to IRM values 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).

### **Part A: Features that qualify 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:
- (a) will deliver Carbon Benefits or any wider environmental benefits;
  - (b) will provide long-term value for money for gas consumers;
  - (c) will not enable the licensee to receive commercial benefits from the Roll-out within the remainder of the Price Control Period (for instance, where the Roll-out of a Proven Innovation will lead to cost savings (including benefits from

other incentives) 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.

### **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.
- 9.8 A material amount is the amount of the Innovation Roll-out Costs, when multiplied by the licensee's Totex Incentive Strength Rate as set out in Appendix 1, that exceeds or is likely to exceed 1 per cent of the licensee's materiality threshold amount, as set out in Appendix 2.
- 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.

### **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 either of the application windows 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 A above will be fulfilled by the additional funding sought;
- (f) propose relevant outputs or other end products 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 a Relevant Adjustment**

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 whether the proposed Relevant Adjustment should result in an adjustment to the IRM values 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 of this condition, and, the notice made under Part B of this condition; and
- (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.

### **Part F: Determination by the Authority of adjustments to IRM value**

9.16 This part sets out the basis for determining revisions to the IRM value for use in the Annual Iteration Process for the GD1 Price Control Financial Model.

9.17 Table 1 will be deemed to set out:

- (a) the amounts of allowed expenditure for each notice the Authority has determined in the year t-1 in accordance with Part E the licensee should be able to recover to fund the Roll-out of a Proven Innovation; and
- (b) the total amount of allowed expenditure for all notices the Authority has determined in the year t-1 in accordance with Part E the licensee should be able to recover under this condition, the IRM values.

**Table 1: Allowed expenditure the Authority has determined in accordance with Part E the licensee should be recoverable to fund the Roll-out of a Proven Innovation.**

Allowed expenditure (£m 2009/10 prices)	Formula Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
IRM notice								
Notice determined in year x the Authority has determined the licensee should be able to recover expenditure for Roll-out of innovation y.								
Etc								
Total								

9.18 The Authority shall, by 30 November in each Formula Year t-1 check whether the allowed expenditure for any Formula Year set out in Table 1 is different to the IRM value in the PCFM for the corresponding Formula Year and, in any case where it is different, the Authority shall:

- (a) determine that the IRM value for the applicable Formula Year is to be revised to reflect any changes as a result of determinations made by the Authority under Part E of this condition in the year t-1 set out in Table 1; and
- (b) issue a direction, in accordance with the provisions of Part G of this condition specifying any revised IRM values determined under sub-paragraph (a) and the Formula Years to which they relate.

**Part G: Procedure for direction of revised IRM values by the Authority**

9.19 Any revised IRM values determined by the Authority in accordance with Part F of this condition and GDC 47 (Determination of PCFM Variables Values for Totex Incentive Mechanism Adjustments) Special Condition[x] will be directed by the Authority by 30 November in each Formula Year t-1.

- 9.20 Before issuing any directions under paragraph 9.19, the Authority will give notice to the licensee of all of the values that it proposes to direct.
- 9.21 The notice referred to in paragraph 9.20 must:
- (a) state that any revised IRM values have been determined in accordance with Part F 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 IRM values.
- 9.22 The Authority shall have due regard to any representations or objections duly received in response to this notice under paragraph 9.21, and give reasons for its decisions in relation to them.
- 9.23 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 as set out in GDC 57 (Governance of GD1 Price Control Financial Instruments ) Special Condition (x), 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.
- 9.24 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] (Annual Iteration Process of the GD1 Price Control Financial Model) 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 IRM values in respect of the next Annual Iteration Process.

## Part H: Interpretation

- 9.25 For the purposes of this condition, the following definitions apply:

Carbon Benefits	means a contribution to the Government’s current strategy for reducing greenhouse gas emissions, as set out in the document entitled the “Carbon Plan” published by the Department of Energy and Climate Change;
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 (GDC20) Part [C] of Special Condition (Restriction of revenue in respect of the Distribution Network Transportation Activity) and references to Formula Year t-1 are to be construed accordingly;
Innovation	means any or all of the following: <ul style="list-style-type: none"> <li>(a) a specific piece of New Network Equipment;</li> </ul>



- (b) a novel arrangement or application of new or existing Network Equipment;
- (c) a novel operational practice;
- (d) or a novel commercial arrangement,

that is not, or is not within the scope of, an Ordinary Business Arrangement;

Innovation Roll-out Costs	means the proposed cost of Rolling out a Proven Innovation;
New Network Equipment	means any new asset that does not yet form part of the licensee's pipeline system or control centre for use in conjunction therewith;
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;
Ordinary Business Arrangement	<p>means any or all of the following:</p> <ul style="list-style-type: none"> <li>(a) a specific piece of existing Network Equipment;</li> <li>(b) an arrangement or application of existing Network Equipment;</li> <li>(c) an operational practice; or</li> <li>(d) a commercial arrangement,</li> </ul> <p>that is being used or is capable of being used, without modification, by the licensee or another Gas Transporter at the start of the Price Control Period;</p>
PCFM Variable Value	<p>means a value held in the PCFM Variable Values Table for the licensee contained in the GD1 Price Control Financial Model:</p> <ul style="list-style-type: none"> <li>(a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition ; and</li> <li>(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).</li> </ul>

Price Control Period	means the period of eight Formula Years beginning on 1 April 2013 and ending on 31 March 2021 during which, subject to [GDC29] Special Condition XX (Disapplication), the Special Conditions will have effect in this licence;
Proven Innovation	means an Innovation which the DN Operator can demonstrate has been successfully trialled or demonstrated either on the pipe-line system to which this licence relates or elsewhere;
Relevant Adjustment	has the meaning given to it in paragraph 9.9 of this condition; and
Roll-out	means the incorporation of a Proven Innovation into an Ordinary Business Arrangement.

#### APPENDIX 1: Totex Incentive Strength Rate

Licensee	Totex Incentive Strength Rate (%)
XXX	XXX
XXX	XXX
XXX	XXX

#### APPENDIX 2: Materiality threshold amount

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

Licensee	£m
XXX	XXX
XXX	XXX
XXX	XXX

## [GDC 22] Special Condition [x]. Mains and Services Replacement Expenditure

### Introduction

XX.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) in 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).

XX.2 For the purpose 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 [GDC 20] Special Condition [x] (Restriction of revenue in respect of the Distribution Network Transportation Activity).

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 to the GD1 Price Control Financial Model for the purposes of [GDC 57] Special Condition [x] (Governance of GD1 Price Control Financial Instruments).

XX.3 The  $RE_t$  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.

### Part A: Application of the mechanisms in this condition

XX.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, as calculated for Formula Year t, for the purposes of [GDC20] Special Condition [x] (Restriction of revenue in respect of Distribution Network Transportation Activity) will result in an adjustment of the licensee’s base revenue 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 [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 6 of the GD1 Price Control Financial Handbook.

**Part B: Determination of allowed expenditure for Repex and determination of revisions to RE values**

XX.5 Subject to paragraph XX.6, a revised RE value is to be determined for each Formula Year t-2 in accordance with the formula given in paragraph XX.7. In the Formula Year 2013/14 and 2014/15 the value of RE<sub>t</sub> shall equal zero.

XX.6 The first Formula Year t for which a revised RE value is to be determined is Formula Year 2015/16.

XX.7 The formula referred to in paragraph XX.5 is:

$$RE_t = \sum_{n=1}^3 (L_{n,t-2} \times U_{n,t-2}) \times 1000 + (SR_{t-2} \times USR_{t-2}) + (ST_{t-2} \times UST_{t-2}) + (SN_{t-2} \times USN_{t-2})$$

where:

L<sub>n,t-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<10
2	10-12

3	>12<18
---	--------

- $U_{n,t-2}$  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.
- $\sum_{n=1}^3$  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.
- $USR_{t-2}$  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.
- $ST_{t-2}$  means the number of Above Risk Threshold Tier 2 Domestic Services Transferred in respect of Formula Year t-2 for the Distribution Network.
- $UST_{t-2}$  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.
- $SN_{t-2}$  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.
- $USN_{t-2}$  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 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.]

- XX.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.
- XX.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;
  - (b) the revised RE value for the earlier Formula Year is calculated in accordance with the formula set out in paragraph 7, but substituting the 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.

## Part C: Procedure for direction of revised RE values by the Authority

- XX.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, or, in respect of any direction under paragraph 9 in part B of this condition by 30 November of the year in which the direction is to be made.
- XX.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.
- XX.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.
- XX.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.
- XX.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.
- XX.15 If, for any reason in any Formula Year t-1, the Authority does not make a direction under paragraph 8 in part B of this condition in relation to revised RE values by 30 November, then no 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.

## Part D: Interpretation

XX.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: <ul style="list-style-type: none"><li>(a) removing the main or service from physical operation, or</li><li>(b) inserting a new polyethylene service for which the existing service acts merely as a guide, or</li><li>(c) applying an internal lining of sufficient</li></ul> |

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,

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 Replaced** means, in relation to services to 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 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,

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 any services to Non-Domestic Premises:

- (a) the laying of a new polyethylene

	<p>service to the premises to replace an existing non-polyethylene service, or</p> <p>(b) the insertion of a new polyethylene service whereby the existing service acts merely as a guide, or</p> <p>(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</p> <p>(d) the making safe by any other means of an existing non-polyethylene service, as agreed with HSE,</p> <p>and in respect of which the costs of replacement may include any associated Purge and Re-Light Costs.</p>
Non-Domestic Services Transferred	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).
Purge and Re-Light Costs	means the costs of purging the service and any other associated equipment of air and of relighting the customer's appliances.
Risk Score	means the Mains Prioritisation Risk Score (MPRS) as calculated for the mains or services.
Standard Mains Materials	means polyethylene or any similar polymer-based material (other than polyvinyl chloride), or steel that is provided with cathodic rust protection.
Threshold Risk Score	means the threshold Risk Score agreed between the licensee and the HSE as part of the licensee's approved programme under Pipeline Safety Regulation 13.
Mains Prioritisation Risk Score	To be defined
HSE	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	x	x	x	x	x	x	x	x
2								
3								
[XX]								

**Appendix 2: Distribution Network unit costs for Above Risk Threshold Tier 2 Services comprising Domestic Services Replaced (USR), Domestic Services Transferred (UST), and Non-Domestic Services Replaced (USN)**

**(£ per service, at 2009/10 price levels)**

	Specific services costs (£/ service)							
	t=1	t=2	t=3	t=4	t=5	t=6	t=7	t=8
USR								
UST								
USN								
[etc]								

## [GDC 28] Special Condition [x]. Arrangements for the recovery of uncertain costs

### Introduction

XX.1. The purposes of this condition are:

- (a) to allow the licensee or the Authority to propose, and the Authority to determine, adjustments to the licensee's levels of allowed expenditure ("relevant adjustments") in relation to the categories of costs set out in paragraph XX.4 (each "an uncertain cost category");
- (b) to allow the Authority to review Agency Costs (as set out in Part B of this condition), and the Authority to determine, relevant adjustments to the licensee's level of allowed expenditure in relation to Agency Costs;
- (c) to allow the Authority to review the Fuel Poor Network Extension Scheme (as set out in Part C of this condition), and the Authority to determine, relevant adjustments to the licensee's level of allowed expenditure in relation to the Fuel Poor Network Extension Scheme; and
- (d) to determine any appropriate revisions to PCFM Variable Values necessary to implement relevant adjustments and to determine the Formula Years to which those revised PCFM Variable 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).

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

**PCFM Variable Value** means a value held in a 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 to the GD1 Price Control Financial Model for the purposes of [GDC 57] Special Condition [x] (Governance of GD1 Price

- XX.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 Relevant 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 appropriate adjustment of the licensee's Base Distribution Network Transportation Activity Revenue in a manner that takes account of the allowed expenditure levels in relation to the uncertain cost categories specified in paragraph XX.4, determined under Part A of this condition, allowed expenditure levels in relation to Agency Costs determined under Part B and allowed expenditure levels in relation to the Fuel Poor Network Extension Scheme determined under Part C of this condition for the purposes of the Totex Incentive Mechanism Adjustment, in accordance with the methodology set out in chapter 6 and 7 of the GD1 Price Control Financial Handbook.
- XX.4. The uncertain cost categories referred to in paragraph XX.1 are:
- (a) Connection Charging Boundary Change Costs;
  - (b) Enhanced Physical Site Security Costs;
  - (c) Large Load Connection Costs;
  - (d) Smart Metering Roll-out Costs; and
  - (e) Specified Street Works Costs.
- XX.5. 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: Proposal and determination of relevant adjustments**

- XX.6. This part provides for:
- (a) the proposal of relevant adjustments by the licensee or by the Authority;
  - (b) the determination of relevant adjustments by the Authority; and
  - (c) the deeming of relevant adjustments in certain circumstances.

#### **Proposal of relevant adjustments**

- XX.7. Subject to paragraph XX.10, the licensee may by notice to the Authority, and the Authority may by notice to the licensee, propose a relevant adjustment in relation to any uncertain cost category for any Formula Year or Formula Years from 2013/14 to 2020/21, provided that the proposed change to allowed expenditure:
- (a) is based on information about actual or forecast levels of efficient expenditure requirements, for an uncertain cost category that was not available when the licensee's opening base revenue allowance was derived;
  - (b) takes account of any prior relevant adjustments determined under this condition;
  - (c) in aggregate constitutes a material amount within the meaning of paragraph XX.8;

- (d) relates to costs incurred or expected to be incurred after 1 April 2013; and
- (e) constitutes an adjustment to allowed expenditure which cannot be made under the provisions of any other Special Condition of this licence.

XX.8. A material amount is an amount of change to allowed expenditure which, when multiplied by the licensee's Totex Incentive Strength Rate set out in Appendix 1, exceeds or is likely to exceed one per cent of the licensee's materiality threshold amount as set out in Appendix 2.

XX.9. A proposal made under paragraph XX.7 must include statements setting out:

- (a) the uncertain cost category to which the proposal relates;
- (b) the changes to the licensee's allowed expenditure levels that are proposed and the Formula Years to which those changes relate; and
- (c) the basis of calculation for the changes to the licensee's allowed expenditure levels referred to in sub-paragraph (b).

### **Application windows for relevant adjustment proposals**

XX.10. The licensee and the Authority may only propose relevant adjustments during the following application windows:

- (a) the first application window which opens on 1 May 2015 and closes on 31 May 2015; and
- (b) the second application window which opens on 1 May 2018 and closes on 31 May 2018.

XX.11. Relevant adjustments relating to any uncertain cost category may be proposed during both the first and second application window provided that each such relevant adjustment proposal complies with the provisions of paragraphs XX.7 to XX.9.

XX.12. Relevant adjustment proposals made outside the application windows set out in paragraph XX.10 will not be determined by the Authority under the provisions of this condition.

### **Authority's power to determine relevant adjustments**

XX.13. Where a proposal has been duly made under paragraph XX.7, the Authority may, within four months after the close of the relevant application window, determine any relevant adjustments that are to be made to the licensee's allowed expenditure levels and the Formula Years to which those changes relate, in such manner as it considers appropriate.

XX.14. In determining any relevant adjustment under paragraph XX.13, the Authority must:

- (a) consult with the licensee and other interested parties;
- (b) have particular regard to the purposes of this condition;
- (c) take no account of the general financial performance of the licensee under the price control arrangements set out in the Special Conditions of this licence.

XX.15. A determination under paragraph XX.13 may confirm, reject, or amend the proposed relevant adjustment.

- XX.16. Where a determination is made in relation to Connection Charging Boundary Costs, the Authority may proceed to determine and direct a relevant adjustment in the licence held by each DN Operator, subject to appropriate consultation with all licensees before it makes that determination
- XX.17. Without limiting the general effect of paragraph XX.15, a determination by the Authority of a relevant adjustment may specify changes to allowed expenditure levels for the licensee in relation to an uncertain cost category for any Formula Year from 2013/14 to 2020/21.
- XX.18. The Authority must notify the licensee of any determination made under paragraph XX.13 within 14 days of making the determination concerned.
- XX.19. If the Authority has not determined a relevant adjustment in relation to a proposal duly made by the licensee under paragraph XX.7 within four months after the close of the relevant application window, and the proposal has not been withdrawn, then the relevant adjustment, insofar as it relates to changes to allowed expenditure levels for the licensee for Formula Years specified in the proposal, shall be deemed to have been made.

### **Part B: Review of Agency Costs**

- XX.20. The Authority may, at any time after 1 April 2013, review the costs (“the Agency Costs”) incurred by the licensee in fulfilling its obligations under Standard Special Condition A15 (Agency). The purpose of the review will be to establish the efficient level of Agency Costs in the event that Standard Special Condition A15 (Agency) is amended or deleted.
- XX.21. In conducting that review, the Authority must consult:
- (a) the licensee and other Gas Transporters; and
- such other persons as it considers appropriate.
- XX.22. The licensee must supply the Authority with any information that it reasonably requests for the purposes of its review.
- XX.23. Following its review, the Authority may decide that the efficient level of Agency Costs:
- (a) should continue without modification; or
- should be modified.
- XX.24. Where the Authority decides that the efficient level of Agency Costs should be modified, it may direct that an adjustment be made to the PCFM Variable Values, to reflect the effect of its decision in relation to the allowed expenditure levels 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).

### **Part C: Review of the Fuel Poor Network Extensions Scheme**

- XX.25. The Authority may, at any time after 1 April 2013, review the licensee’s operation of the Fuel Poor Network Extensions Scheme (“the scheme”), with a view to ensuring that it remains efficient and cost-effective for its stated purposes.
- XX.26. 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.

XX.27. 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.

XX.28. Following its review, the Authority may decide that the scheme:

- (a) should continue without modification;
- (b) should continue with modifications; or
- (c) should cease.

XX.29. Where the Authority decides that the scheme:

- (a) should be modified; or
- (b) should cease,

it may direct that an adjustment be made to the PCFM Variable Value to reflect the effect of its decision in relation to the allowed expenditure levels that would otherwise continue to be recoverable by the licensee under the Special Conditions for the purpose of operating the scheme.

XX.30. A direction under paragraph XX.29 may not be given later than six months before the beginning of the next Formula Year.

#### **Part D: Determination of revisions to PCFM Variable Values**

XX.31. This Part provides for the determination and direction of revised PCFM Variable Values by the Authority for:

- (a) Connection Charging Boundary Change Costs (IAECCB values);
- (b) Enhanced Physical Site Security Costs (IAEEPS values);
- (c) Large Load Connection Costs (IAELLC values);
- (d) Smart Metering Roll-out Costs (IAESM values);
- (e) Specified Street Works Costs (IAESW values);
- (f) Agency Costs (IAECA values); and
- (g) Fuel Poor Network Extension Scheme (IAEFP).

XX.32. The Authority shall determine whether any PCFM Variable Values should be revised by 30 November following the relevant application window, or in relation to Agency Costs and the Fuel Poor Network Extension Scheme by 30 November or as soon as reasonable practicable thereafter following the end of a review of Agency Costs or the Fuel Poor Network Extension Scheme, for the purposes of implementing any relevant adjustments determined or deemed to have been made under the provisions of Part A, B and C of this condition.

XX.33. Determinations under paragraph XX.32 are to be made in accordance with the methodology contained in chapter 7 of the GD1 Price Control Financial Handbook.

XX.34. Where the Authority directs any revised PCFM Variable 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 E: Procedure to be followed for the direction of revised PCFM Variable Values relating to the recovery of uncertain costs**

XX.35. Revised PCFM Variable Values determined by the Authority in accordance with the provisions of Part D of this condition will be directed by the Authority by:

- (a) 30 November 2015 (or as soon as reasonable practicable thereafter), following the first application window; and
- (b) 30 November 2018 (or as soon as reasonable practicable thereafter), following the second application window.

XX.36. In relation to PCFM Variable Values for Agency Costs and the Fuel Poor Network Extension Scheme, revised PCFM Variable Values determined by the Authority in accordance with the provisions of Part D of this condition will be directed by the Authority by 30 November following the end of a review of Agency Costs or the Fuel Poor Network Extension Scheme.

XX.37. Before issuing any directions under paragraphs XX.35 and XX.36, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

XX.38. The notice referred to in paragraph XX.37 must:

- (a) state that any revised PCFM Variable Values have been determined in accordance with Part D 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 PCFM Variable Values.

XX.39. The Authority shall have due regard to any representations or objections duly received under paragraph XX.38, and give reasons for its decisions in relation to them.

XX.40. If, for any reason, the Authority does not make a direction required under paragraphs XX.35 and XX.36 by the date specified in that paragraph, the Authority shall direct the values concerned as soon as is reasonably practicable thereafter, 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  $MOD_t$  under that paragraph.

### **Part F: Interpretation**

XX.41. For the purposes of this condition, the following definitions apply:

Agency Costs	means costs incurred, or expected to be incurred, by the licensee for the purposes of meeting its obligations under Standard Special Condition A15 (Agency).
Connection Charging Boundary Change Costs	means costs incurred, or expected to be incurred, by the licensee as a consequence of any material change to the charging methodology, as required by Standard Condition 4B (Connection Charging

	Methodology) in relation to Distributed Entry Connections by persons requiring such connections.
Distributed Entry Connections	means connections to the Distribution Network of distributed gas facilities.
Enhanced Physical Site Security Costs	means costs incurred, or expected to be incurred, by the licensee for the purposes of: <ul style="list-style-type: none"> <li>(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</li> <li>(b) complying with any requirement arising under sections 85 to 90 of the Counter-Terrorism Act 2008 to make payments to the Secretary of State for costs incurred by him in respect of the provision of extra policing services in or around a gas facility.</li> </ul>
Fuel Poor Network Extensions Scheme	means the scheme of that name that incentivises a DN Operator to extend its Distribution Network to premises not previously connected to that network that are occupied by individuals eligible to receive a fuel poor voucher in accordance with the guidance set out in the connection charging methodology statement issued under Standard Condition 4B.
Large Load Connection Costs	means costs incurred, or expected to be incurred, by the licensee in connecting new loads in order to meet its Gas Act obligations to develop and maintain an efficient and economical pipeline system for the conveyance of gas. The costs are net of those recoverable directly from the connecting customer.
Smart Metering Roll-out Costs	means costs incurred, or expected to be incurred, by the licensee in relation to the roll-out of smart-meters. [this definition needs expanding]
Specified Street Works Costs.	means costs specified below that have been incurred, or are expected to 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> </ul>



- (b) permit fee costs;
- (c) administrative costs arising from the introduction of permit schemes;
- (d) costs arising from the introduction of permit conditions;
- (e) costs arising from changes to working practices required by the introduction or alteration of any code of practice applicable to the licensee;
- (f) costs arising from lane rental charges levied on the licensee by highway authorities;
- (g) costs arising from changes to inspection fees payable by the licensee;
- (h) costs arising from changes to the requirements imposed on the licensee in respect of highway reinstatement; and
- (i) costs arising from the introduction of new congestion charging schemes or changes to existing ones.

**Totex Incentive Strength Rate** means the incentive rate for the licensee set out in Appendix 1 to this condition.

XX.42. Expressions defined in paragraph XX.41 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] Special Condition [x] (Regulatory Instructions and Guidance).

### **APPENDIX 1: TOTEX INCENTIVE STRENGTH RATE**

**(see paragraph XX.8 of this condition)**

<b>Licensee</b>	<b>Totex Incentive Strength Rate</b>
[name]	xxx
[name]	xxx
[name]	xxx

[name]	xxx
--------	-----

**APPENDIX 2: MATERIALITY THRESHOLD AMOUNT**

**(see paragraph XX.8 of this condition)**

<b>Licensee</b>	<b>£m (2009/10) prices</b>
[name]	xxx
[name]	xxx
[name]	xxx
[name]	xxx

DRAFT

**SPECIAL CONDITIONS: FINANCIAL CONDITIONS**

DRAFT

## [GDC 64] Special Condition [x]. Legacy price control adjustments

### Introduction

XX.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 PCFM Variable Values referred to in sub-paragraph (a) relate, for use in the Annual Iteration Process for the GD1 Price Control Financial Model as described in Special Condition GDC 26 (Annual Iteration Process for the GD1 Price Control Financial Model).

XX.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 Special Condition GDC 20 (Restriction of revenue in respect of the Distribution Network Transportation Activity) and references to Formula Year  $t-1$  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 arelevant Special Condition; and
- (b) whose revision does not constitute a modification of the GD1 Price Control Financial Model for the purposes of Special Condition GDC 57 (Governance of GD1 Price Control Financial Instruments).

XX.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 purposes of Special Condition GDC 20 will result in an appropriate adjustment of the licensee's Base Distribution Network Transportation Activity Revenue in a manner that appropriately reflects the revenue allowance and, as applicable, Regulatory Asset Value (RAV) balance adjustments attributable to the licensee in respect of:

- (a) activities carried out by the licensee;

- (b) incentivised performance by the licensee; and/or
- (c) costs or expenditure incurred by the licensee,
- (d) 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.

XX.4 This condition should be read and construed in conjunction with Special Conditions GDC 26 and GDC 57.

**Part A: Determination and direction of revised PCFM Variable Values for legacy price control adjustments**

XX.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).

XX.6 The LAR and LRAV values for each Formula Year are zero as at 1 April 2013.

XX.7 Subject to paragraphs 64.8 and 64.9 of this condition, the Authority shall, by 30 November in each Formula Year t-1:

- (a) determine whether any LAR 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.

XX.8 The first Formula Year in which the Authority will make a determination pursuant to paragraph 64.7 is Formula Year 2013/14.

XX.9 Revised LAR and LRAV values will normally relate to Formula Year 2013/14.

XX.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, in each case, for the same Formula Year:

- PAR means the revenue allowance adjustment in respect of adjustments for pension scheme expenditure in the legacy period, determined in accordance with Part B of this condition.
- TAR means the revenue allowance adjustment 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 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 Capex Rolling Incentive in the legacy period, determined in accordance with Part B of this condition.
- MAR means the revenue allowance adjustment in respect of the mains and services replacement expenditure arrangements in the legacy period, determined in accordance with Part B of this condition.

XX.11 The 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, in each case, for the same Formula Year:

- FRAV means the adjustment to the licensee's RAV balance additions in respect of the 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 Capex Rolling Incentive in the legacy period, determined in accordance with Part B of this condition.
- MRAV means the adjustment to the licensee's RAV balance additions in respect of the mains and services replacement expenditure arrangements in the legacy period, determined in accordance with Part B of this condition.

XX.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.

**Part B: Determination of component values for the determination of LAR and LRAV values**

XX.13 This Part provides for the determination of component values for the determination of LAR values and LRAV values.

XX.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 MRV, in accordance with the methodology set out in part A of chapter 10 of the GD1 Price Control Financial Handbook.

XX.15 The first Formula Year in which the Authority will make determinations pursuant to paragraph 64.14 is Formula Year 2013/14.

XX.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.

**Part G: Procedure to be followed for direction of revised PCFM Variable Values relating to legacy price control adjustments by the Authority**

XX.17 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.

XX.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.

XX.19 The Notice referred to in paragraph 64.18 must:

- (a) state that any revised LAR 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 or LRAV values.

XX.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.

XX.21 If, for any reason in any Formula Year t-1, the Authority does not make a direction in relation to revised LAR and LRAV values by 30 November, the Authority shall direct the values concerned as soon as is practicable, consistent with the purpose of paragraphs 26.11 to 26.13 of Special Condition GDC 26, and in any case, before directing a value for  $MOD_t$  under paragraph 26.12 of that condition

**Part H: Interpretation**

XX.22 For the purposes of this condition, the following definitions apply:

Annual Iteration Process	means, in relation to the GD1 Price Control Financial Model, the process set out in Special Condition GDC 26, 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;
Capex Rolling Incentive	means the incentive scheme referred to in paragraphs 6.4 to 6.10 of the Authority's publication 'Gas Distribution Price Control Review Final Proposals' (Reference 285/07) dated 3 December 2007;
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, 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 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 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  $MOD_t$  through the application of the Annual Iteration Process,

as modified from time to time, whether under this condition or otherwise; and

Non Gas Fuel Poor Network Extension Scheme

means the scheme of that name that incentivises a DN Operator to extend its Distribution Network to premises not previously connected to that network that are occupied by individuals eligible to receive a fuel poor voucher in accordance with the guidance set out in the connection charging methodology statement issued under Standard Condition 4B.



XX.23 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 may be applicable to them.

DRAFT

## [GDC 47] Special Condition [x]. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments

### Introduction

XX.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 Special Condition GDC 26 (Annual Iteration Process for the GD1 Price Control Financial Model).

XX.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 Special Condition GDC 20 (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 Special Condition GDC 57 (Governance of GD1 Price Control Financial Instruments).

XX.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 for Formula Year t for the purposes of Special Condition GDC 20 will result in an adjustment of the licensee's Base Distribution Network Transportation Activity Revenue; and

(b) appropriate adjustments will be made to the licensee's Regulatory Asset Value (RAV) balance, that 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.

XX.4 This condition should be read and construed in conjunction with Special Conditions GDC 26 and GDC 57.

## **Part A: Totex Incentive Mechanism applicable to the licensee**

- XX.5 The Totex Incentive Mechanism provides for the licensee to 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.
- XX.6 The 'appropriate share' referred to in paragraph 47.5 is represented by the Totex Incentive Strength Rate (set down against the licensee's name in the table at Appendix 1 to this condition).
- XX.7 Totex Incentive Mechanism adjustments are applied under the Annual Iteration Process for the GD1 Price Control Financial Model.
- XX.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 special conditions of the licence, and are scheduled in the methodology set out in chapter 6 of the GD1 Price Control Financial Handbook.

## **Part B: Process for determining PCFM Variable Values for the Totex Incentive Mechanism**

- XX.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); and
  - (e) actual non-operational capex expenditure (ANC values).
- XX.10 Subject to paragraph 47.11, the Authority shall, by 30 November in each Formula Year t-1:
- (a) determine revised ALC, AOC, ACO, ARE and ANC 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.

- XX.11 The first Formula Year in which the Authority will make a determination pursuant to paragraph 47.10 is Formula Year 2015/16.
- XX.12 The Authority may also direct revisions to ALC, AOC, ACO, ARE, and ANC 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 Review 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.

XX.13 Where the Authority directs any revised ALC, AOC, ACO, ARE, or ANC 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.

**Part C: Procedure to be followed for direction of revised PCFM Variable Values relating to the licensee's actual Totex expenditure by the Authority**

XX.14 Subject to paragraph 47.11 revised ALC, AOC, ACO, ARE and ANC 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.

XX.15 Before issuing any directions under paragraph 47.14 the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

XX.16 The notice referred to in paragraph 47.15 must:

- (a) state that any revised ALC, AOC, ACO, ARE or ANC 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, AOC, ACO, ARE or ANC values.

XX.17 The Authority shall have due regard to any representations or objections duly received under paragraph 47.16, and give reasons for its decisions in relation to them.

XX.18 If, for any reason in any Formula Year t-1, the Authority does not make a direction in relation to revised ALC, AOC, ACO, ARE and ANC values by 30 November, the Authority shall direct the values concerned as soon as is practicable, consistent with the purpose of paragraphs 26.11 to 26.13 of Special Condition GDC 26, and in any case, before directing a value for MOD<sub>t</sub> under paragraph 26.12 of that condition.

**Part D: Interpretation**

XX.19 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 Special Condition GDC 26, 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: <ul style="list-style-type: none"><li>(a) includes specific information and advice about the operation of the Annual</li></ul>

	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, whether under this condition or otherwise;
GD1 Price Control Financial Methodologies	means the methodologies that: <ul style="list-style-type: none"> <li>(a) are named as such in the GD1 Price Control Financial Handbook; and</li> <li>(b) together comprise a complete and documented explanation 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,</li> </ul> as modified from time to time, whether under this condition or otherwise;
Price Control Review Information	has the meaning given in Standard Special Condition A40 (Price Control Review Information);
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: <ul style="list-style-type: none"> <li>(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</li> <li>(b) that the Authority will use to determine the value of the term MOD through the application of the Annual Iteration Process,</li> </ul> as modified from time to time, whether under this condition or otherwise;
Regulatory Asset Value	has the meaning given to that term in the Glossary of the GD1 Price Control Financial Handbook;
Totex	has the meaning given to that term in the methodology in chapter 6 of the GD1 Price Control Financial Handbook; and
Totex Capitalisation Rate	has the meaning given to that term in chapter 6 of the GD1 Price Control Financial Handbook.

XX.20 Expressions used in paragraphs 47.2 and 47.19 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.

**APPENDIX 1: Totex Incentive Strength and Totex Capitalisation Rates**

**(see Part A of this condition)**

<b>Licensee</b>	<b>Totex Incentive Strength Rate (%)</b>	<b>Totex Capitalisation Rate (%)</b>
National Grid Gas plc North West England	xxx	
National Grid Gas plc East of England	xxx	
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

XX.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 sub-paragraph (a) relate,

for use in the Annual Iteration Process for the GD1 Price Control Financial Model as described in Special Condition GDC 26 (Annual Iteration Process for the GD1 Price Control Financial Model).

XX.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 Special Condition GDC 20 (Restriction of revenue in respect of the Distribution Network Transportation Activity) and references to Formula Year t-1 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 Special Condition GDC 57 (Governance of GD1 Price Control Financial Instruments).

XX.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 Special Condition GDC 20 will result in an appropriate adjustment to the licensee's Base Distribution Network Transportation Activity Revenue in a manner that appropriately reflects the licensee's:

- (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,

determined under the methodologies set out in chapters 3, 4 and 5 of the GD1 Price Control Financial Handbook respectively.

XX.4 This condition should be read and construed in conjunction with Special Conditions GDC 26 and GDC 57.

**Part A: Revenue allowances for Pension Scheme Established Deficits, Pension Scheme Administration and the Pension Protection Fund levy**

XX.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).

XX.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,

in each case in accordance with the methodology contained in chapter 3 of the GD1 Price Control Financial Handbook.

XX.7 The first Formula Year in which the Authority will make a determination pursuant to paragraph 27.6 is Formula Year 2014/15.

XX.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

in each case, in accordance with the methodology contained in chapter 3 of the GD1 Price Control Financial Handbook.

XX.9 The first Formula Year in which the Authority will make a determination pursuant to paragraph 27.8 is Formula Year 2014/15.

XX.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.



XX.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**

XX.12 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) tax liability revenue allowance adjustments in respect of tax trigger events (TTE values); and
- (b) tax liability revenue allowance adjustments in respect of the licensee's gearing levels and corporate debt interest costs (TGIE values).

XX.13 The TTE values and TGIE values for each Formula Year are zero as at 1 April 2013.

XX.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.

XX.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.

XX.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.

XX.17 The first Formula Year in which the Authority will make a determination pursuant to paragraph 27.16 is Formula Year 2014/15.

XX.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.

XX.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**

XX.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).

XX.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.

XX.22 The first Formula Year in which the Authority will make a determination pursuant to paragraph 27.21 is Formula Year 2013/14.

XX.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.

XX.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**

XX.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.

XX.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.

XX.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.

XX.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.

XX.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 paragraphs 26.11 to 26.13 of Special Condition GDC 26, and in any case, before directing a value for MODt under paragraph 26.12 of that condition.

### Part E: Interpretation

XX.30 For the purposes of this condition, the following definitions apply:

Annual Iteration Process	means, in relation to the GD1 Price Control Financial Model, the process set out in Special Condition GDC 26, 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;
Pension Scheme Administration	has the meaning given in chapter 3 of the GD1 Price Control Financial Handbook;
Pension Scheme Established Deficit	has the meaning given in chapter 3 of the GD1 Price Control Financial Handbook;
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: <ul style="list-style-type: none"><li>(a) includes specific information and advice about the operation of the Annual Iteration Process and the GD1 Price Control Financial Model; and</li><li>(b) contains, in particular, the GD1 Price Control Financial Methodologies,</li></ul> as modified from time to time, whether under this condition or otherwise;
GD1 Price Control Financial Methodologies	means the methodologies that: <ul style="list-style-type: none"><li>(a) are named as such in the GD1 Price Control Financial Handbook; and</li><li>(b) together comprise a complete and documented explanation 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.</li></ul> as modified from time to time, whether under this condition or otherwise;
GD1 Price Control Financial	means the model of that name (with a Formula Year

Model	<p>suffix) that was first published by the Authority on [•] December 2012:</p> <ul style="list-style-type: none"> <li>(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</li> <li>(b) that the Authority will use to determine the value of the term MOD through the application of the Annual Iteration Process,</li> </ul> <p>as modified from time to time, whether under this condition or otherwise; and</p>
Pension Protection Fund	Has the meaning given in chapter 3 of the GD1 Price Control Financial Handbook.

XX.31 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.

DRAFT

## [GDC 26] Special Condition [x]. Annual Iteration Process for the GD1 Price Control Financial Model

### Introduction

XX.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 Special Condition GDC 20 (Restriction of revenue in respect of the Distribution Network Transportation Activity) and references to Formula Year t-1 are to be construed accordingly; and

PCFM Variable Value 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 Special Condition GDC 57 (Governance of GD1 Price Control Financial Instruments).

XX.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 Special Condition GDC 20.

XX.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 in accordance with the procedures set out in chapter 1 of the GD1 Price Control Financial Handbook.

XX.4 The outcome of the Annual Iteration Process with respect to the value of the term MOD<sub>t</sub> will be notified to the licensee in accordance with Part B below.

### Part A: Steps comprising the Annual Iteration Process

XX.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 annual iteration process set out below are commenced.

XX.6 Step 1: The Authority will make revisions to PCFM Variable Values where and to the extent required in relation to adjustments for the licensee under:

- (a) Special Condition GDC 9 (The Innovation Roll-out Mechanism);
- (b) Special Condition GDC 22 (Mains and Services Replacement Expenditure);
- (c) Special Condition GDC 27 (Specified financial adjustments);
- (d) Special Condition GDC 28 (Arrangements for the recovery of uncertain costs);
- (e) Special Condition GDC 47 (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments); and
- (f) Special Condition GDC 64 (Legacy price control adjustments).

- XX.7 Step 2: 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.
- XX.8 Step 3: The Authority will identify and record the value of the term  $MOD_t$  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.
- XX.9 Step 4: The Authority will give a direction to the licensee, in accordance with Part B of this condition, setting out the value for the term  $MOD_t$  which is to be used in the formula set out in Part C of Special Condition GDC 20 for the purposes of ascertaining the value of the term  $BR_t$ .

#### **Part B: Direction of the value of $MOD_t$**

- XX.10 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.
- XX.11 If, for any reason, the Authority does not direct a value for  $MOD_t$  by 30 November in any Formula Year t-1, then the Annual Iteration Process set out in Part A of this condition shall not have been completed and the provisions set out in paragraphs 26.12 and 26.13 shall apply.
- XX.12 The Authority shall complete the Annual Iteration Process set out in Part A of this condition as soon as is practicable after 30 November in the Formula Year t-1 concerned by directing a values for  $MOD_t$ .
- XX.13 In the intervening period (between the 30 November in the Formula Year t-1 concerned and the making of a direction under paragraph 26.12), the value of  $MOD_t$  shall be held to be the value shown for  $MOD_t$  in the Price Control Financial Model in its state following the last completed Annual Iteration Process which, for the avoidance of doubt, shall exclude the effect of any functional modifications under Special Condition GDC 57 made after the completion of that Annual Iteration Process.

#### **Part C: Interpretation**

- XX.14 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, 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 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 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 modified from time to time, whether under this condition or otherwise.

XX.15 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 57.18(b) and (c)] of Special Condition GDC 57,

shall constitute a modification of the GD1 Price Control Financial Model within the meaning of Part B of Special Condition GDC 57.

XX.16 This condition should be read and construed in conjunction with Special Condition GDC 57.

DRAFT



## **[GDC 57] Special Condition [x]. Governance of GD1 Price Control Financial Instruments**

### **Introduction**

- XX.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) GD1 Price Control Financial Handbook, which contains the GD1 Price Control Financial Methodologies; and
  - (b) the GD1 Price Control Financial Model.
- XX.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.
- XX.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.
- XX.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 Special Condition GDC 20 (Restriction of revenue in respect of the Distribution Network Transportation Activity), and references to Formula Year  $t-1$  are to be construed accordingly.

### **Part A: Assessment of the likely impact of an intended modification**

- XX.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.
- XX.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.

- XX.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.
- XX.8 The presumption established by paragraph 57.7 is without prejudice to the licensee's right under paragraph 57.14 to make representations to the Authority that a particular modification would be likely to have a significant impact of the type referred to in paragraph 57.5 or 57.6(a).

### **Part B: Circumstances in which a modification may (and may not) be made**

- XX.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.
- XX.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.
- XX.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.
- XX.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.
- XX.13 Having complied with paragraphs 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).
- XX.14 If the licensee states/demonstrates in representations made under paragraph 57.10(d) that it reasonably considers that the proposed modification would 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**

- XX.15 This Part C has effect in relation to the publication and availability of the GD1 Price Control Financial Handbook, including the constituent GD1 Price Control Financial Methodologies and the GD1 Price Control Financial Model.
- XX.16 The Authority must ensure that any modifications of the GD1 Price Control Financial Handbook, 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.
- XX.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.
- XX.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 GDC 20;
  - (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) 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**

XX.19 This condition should be read and construed in conjunction with Special Condition GDC 26 (Annual Iteration Process for the GD1 Price Control Financial Model).

XX.20 For the purposes of this condition, the following definitions apply:

Annual Iteration Process means, in relation to the GD1 Price Control Financial Model, the process set out in Special Condition GDC 26, 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, 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 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 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 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.

# STANDARD CONDITIONS

DRAFT

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

~~"industry framework document" for the purposes of standard condition 13 (Change Co-ordination for the Utilities Act 2000) only, has the meaning given in that condition;~~

DRAFT

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

1. Where the Secretary of State has provideds, 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 ~~cease to be suspended and 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~~

~~from the date the said scheme takes effect.~~ 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 provideds, 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; and

(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).<sup>۷</sup>

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 13: ~~Change Co-ordination for the Utilities Act 2000 Not Used~~ [GTC/GDC 93]**

[Delete entire condition]

DRAFT

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

**STANDARD SPECIAL CONDITIONS – PART A**

DRAFT

## Standard Special Condition A3. Definitions and Interpretation [GTC/GDC 109]

The following definitions to be amended in the manner set out below.

“ appropriate auditors”

means:

(a) in the case of a licensee which is a company within the meaning of section ~~1735~~ of the Companies Act ~~2006~~<sup>1985</sup>, a person appointed as auditor under Chapter 2 of Part 16 of ~~that the Companies Act 2006~~;

(b) in the case of any other licensee which is required by the law of a country or territory within the European Economic Area to appoint an auditor under provisions analogous to Chapter 2 of Part 16 of the Companies Act 2006, a person so appointed; and

(c) in any other case, a person who is eligible for appointment as a company auditor under sections 1212 and 1216 of the Companies Act 2006, or in relation to auditors appointed for financial years beginning before 6 April 2008, a person who is eligible for appointment as a company auditor under sections 25 and 26 of the Companies Act 1989;

"financial year"

means, subject to Standard Special Condition ~~A29 (Change of Financial Year)~~ ~~A30 (Regulatory Accounts)~~ (where applicable), a period of 12 months beginning on 1<sup>st</sup> April of each year and ending on 31<sup>st</sup> March of the following calendar year;

[Substitute current definition of "Permitted Purpose" with the following]

"permitted purpose"

means the purpose of all or any of the following:

(a) the transportation business;

(b) the metering business;

(c) the meter reading business;

(d) any other business or activity within the limits of paragraph 4 of Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing); and/or

without prejudice to the generality of paragraph (a) to (d), any payment or transaction lawfully made or undertaken by the licensee for a purpose within sub-paragraphs 1(b)(i) to (vii) of Standard Special Condition A39 (Indebtedness).

## Standard Special Condition A8. Emergency Services and Enquiry Service Obligations [GTC/GDC 82]

1. The licensee shall -
  - (a) establish, or procure the establishment of, and subsequently operate and maintain, or procure the subsequent operation and maintenance of, in co-ordination with all other gas transporters a single continuously manned telephone service for use by any person, with the facilities mentioned in paragraph 2, for the receipt of reports and the offering of information, guidance or advice about any matter or incident that -
    - (i) causes danger or requires urgent attention, or is likely to cause danger or require urgent attention, in relation to the supply of gas conveyed through pipes; or
    - (ii) involves the escape of gas from a network or from a gas fitting supplied with gas from a network (where the reference to an escape of gas from a gas fitting includes a reference to an escape or emission of carbon monoxide gas resulting from incomplete combustion of gas in such a fitting);
  - (b) arrange with other gas transporters for the information contained in reports received by that service of escapes of gas in respect of which the licensee may have any obligations to be given without delay to the licensee; and
  - (c) secure adequate publicity for the service and its telephone number, having regard, in particular, to the special needs of blind or partially sighted persons.
2. The facilities referred to in paragraph 1(a) shall include facilities for deaf or partially hearing persons which will assist them (if they have the equipment enabling them to take advantage thereof) to use the service.
3. The service established by the licensee in accordance with paragraph 1(a) shall -
  - (a) except for any charge applied by a user's telephone operator to 0800 numbers be provided without charge by the licensee to the user at the point of use; and
  - (b) ensure that all reports and enquiries are processed in a prompt and efficient manner.

4. In the establishment and operation of the service in accordance with paragraph 1 the licensee shall not discriminate between any persons or class or classes thereof.
5. In the establishment and operation of the service in accordance with paragraph 1 the licensee shall not restrict, distort or prevent competition in the supply of gas.
6. The licensee shall prepare and submit a statement setting out details of the service to be provided in accordance with paragraph 1, and the licensee shall give or send a copy of such statement to any person requesting it.
7. The licensee shall take steps to inform users of the service of any change to the telephone number of the service established in accordance with paragraph 1 as soon as is practicable prior to such change becoming effective.
8. Subject to paragraph 9, the licensee shall make arrangements which will secure that in preventing an escape of gas in any premises to which it conveys gas (or, where it conveys gas to any primary sub-deduct premises, in any secondary sub-deduct premises to which the gas is subsequently conveyed) -
  - (a) the prevention is effected, so far as it is reasonably practicable and safe to do so -
    - (i) in such a way as to maintain the supply of gas to those premises and to appliances designed for use by domestic customers for heating or cooking; and
    - (ii) by carrying out any appropriate minor repairs to appliances;
  - (b) the prevention is effected, so far as is reasonably practicable, by a person adequately trained to recognise signs of leakage of carbon monoxide and instructed to report any such signs to the owner or occupier of the premises; and
  - (c) if further repair work is required, information is given to the owner or occupier of the premises or, in their absence, left at the premises, as to persons in the locality who are members of a class of persons permitted pursuant to regulations under the Health and Safety at Work etc Act 1974 to perform repairs on gas fittings.
9. Nothing in paragraph 8(a) shall oblige the licensee to carry out any work which cannot be completed within 30 minutes of entering the premises for the purpose of preventing the escape or would use materials costing more than £4.65,



adjusted in accordance with standard condition 27 (Adjustment of Amounts by Reference to the Retail Price Index) by reference to the day on which the premises were entered for that purpose.

10. **NOT USED**

11. **NOT USED**

12. Except in the case of changes reasonably consequential upon an extension or a restriction of its licence, which are made with effect from the effective date of the extension or the restriction, the licensee shall not make any material change in the arrangements referred to in paragraph 8 except with the consent of the Authority.

13. The licensee shall use its best endeavours to ensure, so far as is reasonably practicable, that it conducts itself towards domestic customers in conformity with the arrangements referred to in paragraph 8.

14. Paragraph 15 shall apply in relation to relevant customers (defined in paragraph 21) and the premises of relevant customers.

15. The licensee shall ensure, so far as is reasonably practicable in the circumstances, having regard to the over-riding importance of safety, that where for reasons of safety (not being reasons relating solely to particular premises or a particular locality), the supply of gas to any relevant customer or the conveyance of gas to that customer's premises needs to be interrupted, reduced or restricted, the licensee shall, -

(a) when making such a request of a relevant supplier or shipper as is mentioned in paragraph 1 of standard condition 16 (Security and emergency arrangements) of the standard conditions of gas suppliers' licences or paragraph 2 of standard condition 5 (Obligations as Respects Emergencies etc) of the standard conditions of gas shippers' licences;

(b) when telling a relevant customer that he should refrain from using gas, in pursuance of such a term of that customer's contract for the supply of gas as is mentioned in paragraph 4(b) of standard condition 16 (Security and emergency arrangements) of the standard conditions of Gas Suppliers' licences, or

(c) when interrupting, reducing or restricting the conveyance of gas,

give priority to the maintenance of the supply of gas to, and the conveyance of gas to the premises of, relevant customers or classes of relevant customers in

accordance with, and to the extent specified in the list required by paragraph 17, and (to the extent that they supersede or supplement such list) such directions as may from time to time have been given by the Secretary of State under paragraph 19 or 20.

16. Where the reasons of safety referred to in paragraph 15 relate to the whole or a substantial part of Great Britain or there is a significant shortage of gas affecting the whole or a substantial part of Great Britain, the licensee shall so far as is reasonably practicable in the circumstances having regard to the over-riding importance of safety -
  - (a) (i) consult the network emergency co-ordinator; or
  - (ii) where the licensee is the network emergency co-ordinator, inform and if appropriate consult the Secretary of State,  
  
on the taking of any such steps as are mentioned in sub-paragraph (a) or (b) of that paragraph; and
  - (b) shall do so before taking any such steps.
17. The licensee, if licensed under section 7(2)(a) of the Act, shall -
  - (a) unless it has done so before being so licensed, establish a list of relevant customers who should be given priority as respects the maintenance of a supply of gas and the maintenance of the conveyance of gas to their premises; and
  - (b) as often as is appropriate, review the list, and so far as appears appropriate, amend it, after consultation with all relevant shippers which appear to the licensee to have an interest in the proposed amendment, and, without prejudice as aforesaid, shall conduct such a review and make any such amendments on being directed so to do by the Secretary of State.
18. When the licensee establishes, reviews or amends any list established under paragraph 17, it shall comply with any direction given by the Secretary of State as to:
  - (a) the classes of relevant customers on which the list is to be based;
  - (b) any other criteria on which the list is to be based;
  - (c) any other customers or classes of customers specifically required to be included in the list; and

- (d) the nature and extent of any priority which will be given to any relevant customer or class of relevant customer as specified in the list.
19. The licensee shall comply with any directions given by the Secretary of State for the purposes of this condition generally requiring priority to be given, in such manner and to such extent as may be specified in the directions, to the maintenance of the supply of gas to, and the conveyance of gas to the premises of, one or more relevant customers or classes of relevant customers.
20. Any question arising under this condition as to whether a particular relevant customer is required to be included in the list established, reviewed or amended under paragraph 17 shall be determined by the Secretary of State.
21. In this condition –
- (a) “**network emergency co-ordinator**” shall be construed in the same manner as that term is construed in the Gas Safety (Management) Regulations 1996; and
- (b) “**relevant customer**” includes –
- (i) any person who is supplied by a relevant supplier with gas conveyed to a particular supply point at a rate which is reasonably expected to exceed 732,000 kilowatt hours a year, to the extent that the terms on which that person is supplied permit such supply to be interrupted or reduced only in pursuance of such a term as is mentioned in paragraph 4 of standard condition 16 (Security and emergency arrangements) of the standard conditions of gas suppliers’ licences or in pursuance of directions given under section 2(1)(b) of the Energy Act 1976; and
- (ii) any person mentioned in any direction given by the Secretary of State in relation to paragraph 18(c) of this condition.
22. References in this condition to the maintenance of supply or conveyance of gas include references to the resumption of such supply or conveyance following its interruption or reduction.
23. Charges for the provision of services under this condition shall be set at a level which will allow the licensee to recover no more than its reasonable costs and a reasonable profit in providing this service.

**Standard Special Condition A10. Provision and Return of Meters  
Not Used [GTC 32]**

[Delete entire condition]

DRAFT

**Standard Special Condition A29. Change of Financial Year Not  
Used [GTC/GDC 93]**

[Delete entire condition]

DRAFT

## **Standard Special Condition A30. Regulatory Accounts [GTC/GDC71]**

### **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 C below; and
  - (b) maintains (and ensures that any 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 below.

### **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 [GTC 19] Special Condition [x] (Revenue restriction definitions in respect of the Distribution Network Transportation Activity: Definitions), or the NTS (as defined in [GTC19] 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 LNG Storage Business and LNG import or export facilities activities, where applicable;
  - (b) the Metering Business, separately identifying services provided pursuant to paragraph 1 of Standard Special Condition A10 (Provision and return of meters) with respect to each Distribution Network (as defined in [GDC19] Special Condition [x]), as appropriate;
  - (c) the 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
- (f) the whole business to which this licence relates, as represented by the consolidation of the businesses and activities referred to within sub-paragraphs (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 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, which must be prepared under the same Applicable Accounting Framework as the most recent or concurrent statutory accounts of the licensee.
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.
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.
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 Accounting 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 subparagraph 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 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 (Conduct of Transportation Business), A35 (Prohibition of Cross-Subsidies) and, to the extent applicable, A46 (Non-discrimination in the provision of metering activities) 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 LNG storage and LNG import or 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.
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
- (c) LNG import or export facility activity,

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 UK Corporate Governance Code issued under the UK Listing Authority's Listing Rules and Interpretations on corporate governance; and
- (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. For the avoidance of doubt, the licensee should prepare Regulatory Accounts for the consolidated transmission business for the Financial Year commencing on or after 1 April 2012 in accordance with the licence condition in force as at 31 March 2013.

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;

**Applicable Accounting Framework**

means:

- (a) in accordance with section 396 of the Companies Act 2006 ("Companies Act individual accounts"), or in accordance with international accounting standards ("IAS individual accounts"); or
- (b) in accordance with section 403 Companies Act group accounts, or IAS group accounts;

**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;

**Directors Report**

[to be defined]

**Quoted Company**

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



DRAFT

**Standard Special Condition A32. ~~Definition of Permitted Purpose~~  
Not Used [GTC/GDC 94]**

[Delete entire condition]

DRAFT

## Standard Special Condition A35. Prohibition of Cross-Subsidies [GTC/GDC 138]

1. The licensee shall procure that the transportation business shall not give any cross-subsidy to, or receive any cross-subsidy from, any other business of the licensee or of an affiliate or related undertaking of the licensee.
2. In the event that the holder of this licence also owns one or more relevant gas transporters, the licences for which are held in the same legal entity, such that the holder of this licence is:
  - (a) an NTS operator; and/or
  - (b) a DN operator,
3. the licensee acting as either an NTS operator or a DN operator, as the context requires, shall procure that:
  - (i) it shall neither give any cross-subsidy to, or receive any cross-subsidy from, directly or indirectly, a DN operator or any other business operated by the holder of this licence pursuant to any such other gas transporter licence held by the holder of this licence; and/or
  - (ii) it shall neither give any cross-subsidy to, or receive any cross-subsidy from, directly or indirectly, an NTS operator or any other business operated by the holder of this licence pursuant to any such other gas transporter licence held by the holder of this licence.
4. If applicable, where the licensee is a DN operator that operates more than one Distribution Network (as defined in Special Condition E1 (Revenue Restriction Definitions in respect of the Distribution Network)) no such Distribution Network shall be operated in a manner that gives any cross-subsidy to, or receives any cross-subsidy from, any other such Distribution Network.

~~4.a) Unless the Authority otherwise consents, the licensee must procure, for each formula year a report by an appropriate auditor that sets out the procedures, and the results of those procedures, carried out by the auditor for the purposes of demonstrating the extent to which the licensee has complied with paragraphs 1 and 2 of this condition.~~

- ~~b) The procedures to be carried out shall have been approved by the Authority.~~
- ~~c) The report shall be delivered to the Authority by 31 July following the end of the formula year to which it relates.~~
- ~~5. If the Authority is satisfied that the report referred to in paragraph 4 above demonstrates that the licensee has complied with the obligation to avoid discrimination and cross-subsidies specified in Article 31 of the Directive and imposed on the licensee by paragraph 1 of this condition, then the report shall be deemed as representing the results of an audit of this obligation, as required by the Article.~~

DRAFT

## Standard Special Condition A36. Restriction on Activity and Financial Ring Fencing [GTC 139]

1. Subject to paragraph 1A, and save as provided by paragraphs 3 and 4, the licensee shall not conduct any business or carry on any activity other than any business carried on by the licensee for a purpose within sub-paragraphs (a), (b), and (c) of the definition of "**permitted purpose**" in Standard Special Condition ~~A32 (Definition of Permitted Purpose)~~-A3 (Definitions and Interpretation)
- 1A. Nothing in this condition prevents the licensee from carrying out gas production if the licensee:
  - (a) conveys gas to less than 100,000 premises; and
  - (b) is not a transmission system operator.
2. The licensee shall not without the prior written consent of the Authority hold or acquire shares or other investments of any kind except:
  - (a) shares or other investments in a body corporate the sole activity of which is to carry on business for a permitted purpose;
  - (b) shares or other investments in a body corporate which is a subsidiary of the licensee and incorporated by it solely for the purpose of raising finance for any purpose falling within sub-paragraphs (a), (b) or (c) of the definition of permitted purpose contained in Standard Special Condition ~~A32 (Definition of Permitted Purpose)~~-A3 (Definitions and Interpretation) of this licence and any other licence held by the licensee in the same legal entity; or
  - (c) investments acquired in the usual and ordinary course of the licensee's treasury management operations, subject to the licensee maintaining in force, in relation to those operations, a system of internal controls which complies with best corporate governance practice as required (or, in the absence of any such requirement, recommended) by the UK listing authority (or a successor body) from time to time for listed companies in the United Kingdom.
3. Subject to the provisions of paragraph 2, nothing in this condition shall prevent:

- (a) any affiliate in which the licensee does not hold shares or other investments from conducting any business or carrying on any activity;
  - (b) the licensee from holding shares as, or performing the supervisory or management functions of, an investor in respect of any body corporate in which it holds an interest consistent with the provisions of this licence;
  - (c) the licensee from performing the supervisory or management functions of a holding company in respect of any subsidiary; or
  - (d) the licensee from carrying on any business or conducting any activity to which the Authority has given its consent in writing.
4. Nothing in this condition shall prevent the licensee or an affiliate or related undertaking of the licensee in which the licensee holds shares or other investments (a "**relevant associate**") from conducting de minimis business as defined in this paragraph so long as the limitations specified in this paragraph are complied with:
- (a) For the purpose of this paragraph, "**de minimis business**" means any business or activity carried on by the licensee or a relevant associate or relevant associates other than:
    - (i) the business or activities falling within sub-paragraph (a), (b), or (c) of the definition of "permitted purpose" contained in Standard Special Condition ~~A32 (Definition of Permitted Purpose)~~[A3 \(Definitions and Interpretation\)](#);
    - (ii) any other business activity to which the Authority has given its consent in writing in accordance with paragraph 3(d); and
    - (iii) gas production
  - (b) The licensee or a relevant associate may carry on de minimis business provided that neither of the following limitations is exceeded, namely:
    - (i) the aggregate turnover of all the de minimis business carried on by the licensee and the equity share of the aggregate turnover of all the de minimis business carried on by all its relevant associates does not in any period of twelve months commencing on 1 April of any year exceed 2.5 per cent of the aggregate turnover of the transportation business, the metering business and the meter reading business (excluding the turnover on transactions which

each of those businesses make with each other) as shown by the most recent audited regulatory accounts of the licensee ~~produced prepared~~ under ~~paragraph 3(b) of~~ Standard Special Condition A30 (Regulatory Accounts); and

- (ii) the aggregate amount (determined in accordance with sub-paragraph (d) below) of all investments made by the licensee in de minimis business, carried on by the licensee and all relevant associates, does not at any time after the date at which this condition takes effect in this licence exceed 2.5 per cent of the sum of the share capital in issue, the share premium and the consolidated reserves (including retained earnings) of the licensee as shown by the most recent audited regulatory accounts of the licensee ~~produced prepared~~ under ~~paragraph 3(b) of~~ Standard Special Condition A30 (Regulatory Accounts) then available.
- (c) For the purpose of sub-paragraph (b) above, "**investment**" means any form of financial support or assistance given by or on behalf of the licensee for the de minimis business whether on a temporary or permanent basis and including (without limiting the generality of the foregoing) any commitment to provide any such support or assistance in the future.
- (d) At any relevant time, the amount of an investment shall be the sum of:
  - (i) the value at which such investment was included in the audited historical cost balance sheet of the licensee as at its latest accounting reference date to have occurred prior to 13 December 1999 (or, where the investment was not so included, zero);
  - (ii) the aggregate gross amount of all expenditure (whether of a capital or revenue nature) howsoever incurred by the licensee in respect of such investment in all completed accounting reference periods since such accounting reference date; and
  - (iii) all commitments and liabilities (whether actual or contingent) of the licensee relating to such investment outstanding at the end of the most recently completed accounting reference period,

less the sum of the aggregate gross amount of all income (whether of a capital or revenue nature) howsoever received by the licensee in respect

of such investment in all completed accounting reference periods since the accounting reference date referred to in sub-paragraph (d)(i).

- 5 For the purposes of paragraph 4, "**equity share**", in relation to any shareholding, means the nominal value of the equity shares held by the licensee in a relevant associate, as a percentage of the nominal value of the entire issued equity share capital of that relevant associate.
  
- 5A. For the purposes of this condition, "**gas production**" means the production of gas for the purpose of its conveyance through pipes to premises, or through a pipeline system operated by a gas transporter or a transmission system operator, including where a licence is held under section 3 of the Petroleum Act 1998 for that purpose but not where such a licence is held for a different purpose.
  
6. Where the holder of this licence owns one or more relevant gas transporters, the licences for which are held in a single legal entity, references in this condition to "**licensee**" shall mean this legal entity.



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

### **Introduction**

1. 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.
2. 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 Special Conditions of this licence and, where not referenced in the licence, the Final Proposals.

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

3. 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:
  - (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.
4. To facilitate compliance with paragraph 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**

5. Subject to paragraphs 6 and 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 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 the Specified Information by the licensee;
  - (j) a statement on whether and to what extent each category of the Specified Information is required for the purposes of the RIGs; and
  - (k) provision about how the Authority intends to monitor, assess, and enforce compliance with the RIGs (as to which, see also Part E below).

6. 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.
7. No Specified Information may exceed what could be requested from the licensee by the Authority under paragraph 1 of standard special condition A26 (Provision of Information to the Authority) [excluding any reference to paragraph 8 of that condition].

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

8. 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.
9. Data collected in Formula Year 2012/2013 should be reported according to the relevant reporting requirements provided for in the licence as in force in 2012/2013.
10. A direction issued by the Authority under paragraph 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.

11. The requirements for the issuing of new RIGs or modification of existing RIGS set out in paragraph 10 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**

12. 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, which has not previously been collected by the licensee, whether under the provisions of the RIGs or otherwise.
13. 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.
14. The estimates that are mentioned in paragraph 13 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**

15. The licensee must at all times comply with the provisions of the RIGs for the time being in force pursuant to this condition.
16. Any licensee that is a DN Operator and operates one or more Distribution Networks (as defined in [GDC 19] Special Condition [x])( Definitions for the Charge Restriction Conditions) in a single legal entity must comply with the requirements of this condition separately in respect of each such network.
17. 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**

18. For the purposes of this condition:

<b>Examiner</b>	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.

**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.

DRAFT

**Standard Special Condition A43. ~~Provision of Metering and Meter Reading Services Not Used~~**

[Delete entire condition]

DRAFT

**Standard Special Condition A46. ~~Non-discrimination in the Provision of Metering Activities Not Used~~**

[Delete entire condition]

DRAFT

## **Standard Special Condition A55. Data Assurance requirements [GTC/GDC 76]**

### **Introduction**

1. This condition requires the licensee to undertake processes and activities for the purpose of reducing the risk, and subsequent impact and consequences, of any inaccurate or incomplete reporting, or any misreporting, of information to the Authority.
2. This condition comes into effect in this licence on the earlier of:
  - (a) the date on which a Data Assurance Direction in accordance with the provisions of Part B below has effect; and
  - (b) 1 April 2015.

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

3. The licensee must:
  - (a) comply with the provisions of the Data Assurance Guidance ("the DAG") as if it were a condition of this licence;
  - (b) subject to paragraph 76.4, where required to provide Data under the provisions of this licence, provide accurate and complete 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 its best endeavours to mitigate such risks as it has identified in that assessment;
  - (d) if directed by the authority, procure an independent review of its Data Assurance Activities 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 that the licensee intends to undertake during the coming year to mitigate the risks identified in that assessment;
  - (iii) a description of the Data Assurance Activities undertaken by the licensee during the preceding year; and
  - (iv) if required, the details and results of the independent review procured by the licensee of its Data Assurance Activities.
4. Data provided to the level of accuracy and reliability required under the relevant licence condition will be considered to be accurate and complete for the purposes of this condition.
  5. The licensee must have in place and maintain appropriate systems, processes, and procedures to enable it to perform its obligations under paragraph 76.3.
  6. 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**

7. 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:
    - (v) specifying the date on which it proposes that it should have effect;
    - (vi) setting out the text of the direction and the Authority's reasons for proposing to issue it; and
    - (vii) 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**

8. The Data Assurance Guidance ("the DAG") may from time to time revised by the Authority under Part D of this condition.
9. The purposes of the DAG are to establish a process under which the licensee must comply with its obligations as set out in paragraph 76.3.
10. 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 Activities to the Authority.
11. Reference in paragraph 76.10 to the format of an assessment, review, or reporting requirement includes references to its form, layout, scope and content.
12. 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.
13. 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 [condition SLC 24 of the gas [transmission/distribution] licence/ standard conditions B4 of the electricity transmission licence].

**Part D: Modification of Data Assurance Guidance**

14. The DAG may be modified by the Authority by direction.
15. 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:
  - (viii) specifying the date on which it proposes that the provisions of the document to be issued or modified should take effect;
  - (ix) 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
  - (x) 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**

16. The Authority may, after consulting with the licensee, issue a direction, in accordance with the provisions of paragraph 76.17, 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.

17. The requirements for the direction under paragraph 76.16 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**

18. 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**

19. For the purposes of this condition:

<b>Data</b>	means the relevant submissions to the Authority under this licence in respect of which the licensee must carry out a Risk Assessment, as specified in the DAG.
<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.
<b>Data Assurance Direction</b>	means a direction by the Authority to bring into effect this condition.
<b>Data Assurance Guidance</b>	shall be a document incorporated into this licence condition by way of licence modification.
<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**

DRAFT

**Standard Special Condition D9: ~~Distribution Network  
Transportation Activity Incentive Scheme and Performance  
Reporting Not Used [GDC 74]~~**

[Delete entire condition]

DRAFT

## Standard Special Condition D10. Quality of service standards [GDC89]

1. This condition applies to the following activities undertaken by the licensee:
  - (a) connections to the pipe-line system to which this licence relates, in respect of:
    - (i) the provision of quotations for obtaining a new or altering an existing gas connection;
    - (ii) responding to land enquiries;
    - (iii) providing a date for commencement of works; and
    - (iv) substantial completion of works within timescales agreed with the customer;
  - (b) the telephone service which the licensee operates or procures the operation of pursuant to Standard Special Condition A8 (Emergency Services and Enquiry Service Obligations) of the licence ("the emergency telephone service"), ~~the dedicated enquiry line~~ and meter point reference number helpline; and
  - (c) attendance at gas emergencies including gas escapes, emissions of carbon monoxide, fumes or other hazardous situations.
2. For each relevant period, the licensee shall procure that:
  - (a) 90 per cent of standard quotations for obtaining a new gas connection or altering an existing gas connection up to and including rates of flow of 275 kWh per hour are issued within six working days of receipt of the request unless the customer requests a deferral;
  - (b) 90 per cent of non-standard quotations for:
    - (i) obtaining a new gas connection or altering an existing gas connection up to and including rates of flow of 275kWh per hour are issued within eleven working days of receipt of the request unless the customer requests a deferral; and
    - (ii) obtaining a new gas connection or altering an existing gas connection where rates of flow exceed 275kWh per hour are issued

within twenty one working days of receipt of the request unless the customer requests a deferral;

- (c) 90 per cent of new or altered gas connections are substantially completed within the timescales agreed with the customer;
- (d) 90 per cent of replies to land enquiries are issued within five working days of receipt of the request unless the customer requests a deferral;
- (e) in 90 per cent of cases, provide within twenty working days dates for commencement and substantial completion of works from the receipt of acceptance of a quotation provided under paragraph 2 (a) or (b) unless the customer requests a deferral;
- (f) when responding to telephone calls:
  - (i) 90 per cent of calls to the :
    - (a) the emergency telephone service; and
    - ~~(b) the dedicated enquiry line; and~~
    - ~~(c)~~ (b) the meter point reference number helpline,which are made during the hours that the licensee operates or procures the operation of such lines, will, in aggregate, be answered within 30 seconds; and
  - (ii) in the case of the emergency telephone service, the calls must be answered by persons adequately trained to process such calls.
- (g) in 97 per cent of cases, where a report of a gas emergency including a gas escape, an emission of carbon monoxide, fumes or other hazardous situation is received through the emergency telephone service, or by any other means, the licensee shall attend or procure the attendance of an emergency service provider at the site of the incident promptly and in either event:
  - (i) in respect of an uncontrolled gas escape or other uncontrolled gas emergency, within 1 hour of the full emergency details being received by the telephone service, or by any other means; or
  - (ii) in respect of a controlled gas escape or other controlled gas emergency, within 2 hours of the full emergency details being received on the telephone service, or by any other means.



3. The licensee shall from time to time submit to the Authority for its agreement an accuracy review scheme through which customers can require the licensee to review the accuracy of quotations for obtaining a new gas connection or altering an existing gas connection and, in the event that the licensee provides an inaccurate quotation, the licensee shall adjust any charge made to the customer to the amount due under an accurate quotation.
4. In relation to requests received by the licensee relating to activities referred to in sub-paragraph 1(a), where a request is received after 5pm on any day it shall be deemed for the purposes of this condition as having been received on the next working day.
5. For the purpose of sub-paragraph 2(f) where the licensee operates or procures the operation of these telephone services in conjunction with other gas transporters, performance shall be measured by aggregating all calls relating to those services.
6. The licensee shall, once in each formula year, provide specified information to the Authority.
7. The licensee shall, once in each formula year:
  - (a) undertake an audit in respect of the provision by the licensee of services under paragraph 1(a);
  - (b) inform the Authority of the nature and scope of such audit; and
  - (c) when requested by the Authority in writing, review such audit and the manner in which it is being operated with a view to determining whether any modification should be made to such audit or to the manner of its operation.
8. This condition shall not apply to requests for gas connections:
  - (a) to new build domestic developments of at least 5 domestic premises where there is no existing gas connection to the pipe-line system to which this licence relates;

- (b) to new build non domestic developments of at least 5 non-domestic premises where there is no existing gas connection to the pipe-line system to which this licence relates;
  - (c) to premises to which gas will be conveyed at a pressure of more than 7 bar gauge;
  - (d) classed as complex gas connections in a statement issued from time to time by the licensee and agreed with the Authority after such consultation as the Authority directs;
  - (e) classed as excluded gas connections in a statement issued from time to time by the licensee and agreed with the Authority; or
  - (f) where the customer has failed to provide to the licensee such information as the licensee requires from the customer in order to provide a quotation.
9. The licensee shall prepare and from time to time revise a statement describing the performance standards required under paragraph 2(f) and 2(g) of this condition and the level of performance achieved in respect of those standards in a form and having a content which the licensee could reasonably expect would be within the understanding of customers to whom the statement relates and shall:
- (a) give a copy of the statement and of any revision of the statement to the Authority and to the Council, before he sends it to the gas suppliers referred to in sub-paragraph (b);
  - (b) at least once in any period of 12 months dispatch to each gas supplier which supplies gas to customers connected to the pipe-line system to which this licence relates for onward transmission to the gas supplier's customers a copy of the statement (in the form current at the time it is provided);
  - (c) make a copy of the statement (in its current form) available for inspection by any person at any offices fixed as appropriate by the licensee for the purposes of section 46(3) of the Act or, if none, at any premises of or occupied by the licensee open to the public in the normal course of the licensee's business during the normal opening hours of the premises;
  - (d) send a copy of the statement (in its current form) to any person who asks for one, and

(e) publish a copy of the statement on the licensee's website.

10. The statement prepared under paragraph 9 shall be published in the form of a single document that also includes the statement referred to in paragraph 2 of regulation 15 of the Gas (Standards of Performance) Regulations 2005 (as amended).

11. For the purposes of this condition only:

**"accurate quotation"** means a correct charge in accordance with the licensee's published gas connection charging statement;

**"gas connection"** means the gas connection of a service (or any part thereof) under sections 9(1)(b) and 10(2) of the Act for the establishment of a new gas connection or alteration of an existing gas connection to premises on the transportation system where a service means a pipe (if any) installed or to be installed between any main and any emergency control valve at the relevant premises;

**"controlled gas escape or other controlled gas emergency"** means a gas escape or other gas emergency where the person reporting the escape or other emergency, after carrying out (or causing to be carried out) the actions advised the telephone service, advises the operator that the escape of gas or other emergency appears to have ceased;

**"customer"** means domestic and non-domestic customers and prospective customers of licensed gas suppliers, gas shippers, gas suppliers, independent gas connection providers, licensed gas transporters or any other person requesting gas connection services specified under paragraph 1(a);

**"emergency service provider"** shall have the same meaning as in the Gas Safety (Management) Regulations 1996;

**"independent gas connection provider"** means any person that provides consultancy and/or engineering services in relation to gas connections on behalf of customers, gas shippers, gas suppliers and gas

transporters;

**“land enquiry”**

means an indication of the availability of gas, an estimate of pressure that is or may become available, an estimate of the cost of the relevant gas connection and, where appropriate, the approval of a design for the provision of a new or alteration of an existing gas connection;

**“non-standard quotation”**

means a quotation other than a standard quotation (but excluding a self-quote);

**“relevant period”**

means the period from 1 April 2008 until 31 March 2009 and thereafter each succeeding period of 12 months starting on 1 April;

**“self-quote”**

means a quotation produced by the customer for the provision of a new or alteration of an existing gas connection in accordance with any conditions published by the licensee to enable the customer to calculate the cost of the relevant works;

**“specified information”**

means as a minimum:

- (a) the number of requests which the licensee has received for each of the services referred to in paragraph 1(a);
- (b) the number of requests for each of the services referred to in paragraph 1(a) in respect of which the licensee has provided the requested service within the timescales set out in paragraph 2(a)-(e);
- (c) the number of requests for each of the services referred to in paragraph 1(a) in respect of which the licensee has not provided the requested service within the timescales set out in paragraph 2(a)-(e);
- (d) the amount (if any) paid for the purposes of refunding customers for failure to provide an accurate quotation;
- (e) the amount of compensation (if any) paid by the licensee for the purpose of compensating

customers entitled to compensation under regulations made under section 33AA of the Act;

- (f) the number of times any payment caps specified under regulations made under section 33AA of the Act have been reached;
- (g) the results of any audit carried out under paragraph 7 above;
- (h) the number of gas connection requests under paragraph 1(a) that the licensee has identified as falling within the categories set out in paragraph 8;
- (i) the number of calls received under paragraph 1(b) and the number of calls in respect of which the licensee has provided the requested service within the timescales set out in paragraph 2(f)(i) and 2(f)(ii);
- (j) the number of reports received under paragraph 1(c) that the licensee has identified as falling within the category set out in paragraph 2(g)(i) or 2(g)(ii) and the number of reports in respect of which the licensee has provided the requested service within the timescales set out in paragraph 2(g)(i) and 2(g)(ii) respectively;

**“standard quotation”**

means a standard quotation (excluding a self-quote) that does not require a site visit; and

**“substantial completion”**

means that the gas connection and the emergency control valve to the premises has been installed and commissioned.

12. Where the licensee is a DN operator that operates more than one Distribution Network (as defined in Special Condition [E1 (Revenue restriction definitions in respect of the Distribution Network)]), the obligations of this condition shall apply in respect of each Distribution Network.

## Standard Special Condition D11. Charging obligations [GDC 141]

### 1. Amendments to Standard Special Condition A4 (Charging - General)

Standard Special Condition A4 (Charging – General) shall be amended by:-

- (a) in paragraph 1, the insertion of “, for each Distribution Network (as defined in Special Condition E1 (Revenue Restriction Definitions in respect of the Distribution Network)), where applicable,” after the words “the licensee shall”;
- (b) in paragraph 2, the insertion of the following in sub-paragraphs (a) and (b) in substitution for the words “NOT USED”:

“(a) ~~except in so far as the Authority otherwise directs or consents, use its reasonable endeavours shall~~ not to make any changes to the charges or reserve prices mentioned in paragraph 1 more frequently than once in each formula year such that ~~before 31 March 2009 any changes shall take place on 1 October in each formula year and after 31 March 2009 any such change shall take place on 1 April in each formula year or in either case, at such other time as the Authority may by notice in writing direct;~~

- (b) subject to sub-paragraph (a) above, if the licensee ~~proposes to~~ makes changes to the charges or reserve prices mentioned in paragraph 1 on a date other than that specified in sub-paragraph (a), ~~it must~~ inform the Authority in writing ~~as soon as is reasonably practicable after the decision is made to make such a change to charges, and, in any event, not later than three months after the charge change has been implemented:~~

- (i) stating the reasons for this change; and
- (ii) clearly identifying whether any of the information is of a confidential nature.”

**2. Amendments to Standard Special Condition A5 (Obligations as Regards Charging Methodology)**

Standard Special Condition A5 (Obligations as Regard Charging Methodology) shall be amended by:

- (a) in paragraph 1, the insertion of “, for each Distribution Network (as defined in Special Condition E1 (Revenue Restriction Definitions in respect of the Distribution Network)), where applicable,” after the words “the licensee shall”;
- (b) in paragraph 2A, the insertion of the following in sub-paragraph (b) in substitution for the words “NOT USED”:

“(b) except in so far as the Authority otherwise directs or consents, use its reasonable endeavours shall not to make any changes to the charging methodology more frequently than once in each formula year such that ~~before 31 March 2009 any changes shall take place on 1 October in each formula year and after 31 March 2009 any such change shall take place on 1 April in each formula year or in either case at such other time as the Authority may by notice in writing direct~~”

**Standard Special Condition A10 D17. Provision and Return of Meters [GTC 32]**

[Same as current condition SSC A10]

DRAFT



**Standard Special Condition A43 D18. Provision of Metering and Meter Reading Services [GTC 32]**

[Same as current condition SSC A43]

DRAFT

**Standard Special Condition A46-D19. Non-discrimination in the Provision of Metering Activities [GTC 32]**

[Same as current condition SSC D19]

DRAFT

## **Standard Special Condition D20. Distributed Gas: Connections Guide and Information Strategy [GDC 83]**

### **Introduction**

1. The purpose of this condition is to ensure that the licensee:
  - (a) makes information 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**

2. Where the Authority gives the licensee a direction to do so, the licensee must work collectively with such other licensees as are also subject to a direction under this condition ("relevant licensees") 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; and
  - (b) contains such information as the licensee can reasonably provide that identifies or relates to the matters specified in paragraph 3.
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 licensees 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 of gas, and maintenance of such connections.

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

- 4. The licensee must, together with the relevant licensees:
  - (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 where appropriate 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**

- 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 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.
- 6. The scope and contents of the Distributed Gas Information Strategy must cover how the licensee will provide information to all such users, in a form and manner tailored to their particular needs.
- 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).
- 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**

- 9. The licensee must review its Distributed Gas Information Strategy at least once 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.

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 and the Authority must respond within a reasonable period.

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

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

**Part F: Availability of the Guide and the Strategy**

13. 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.
14. 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

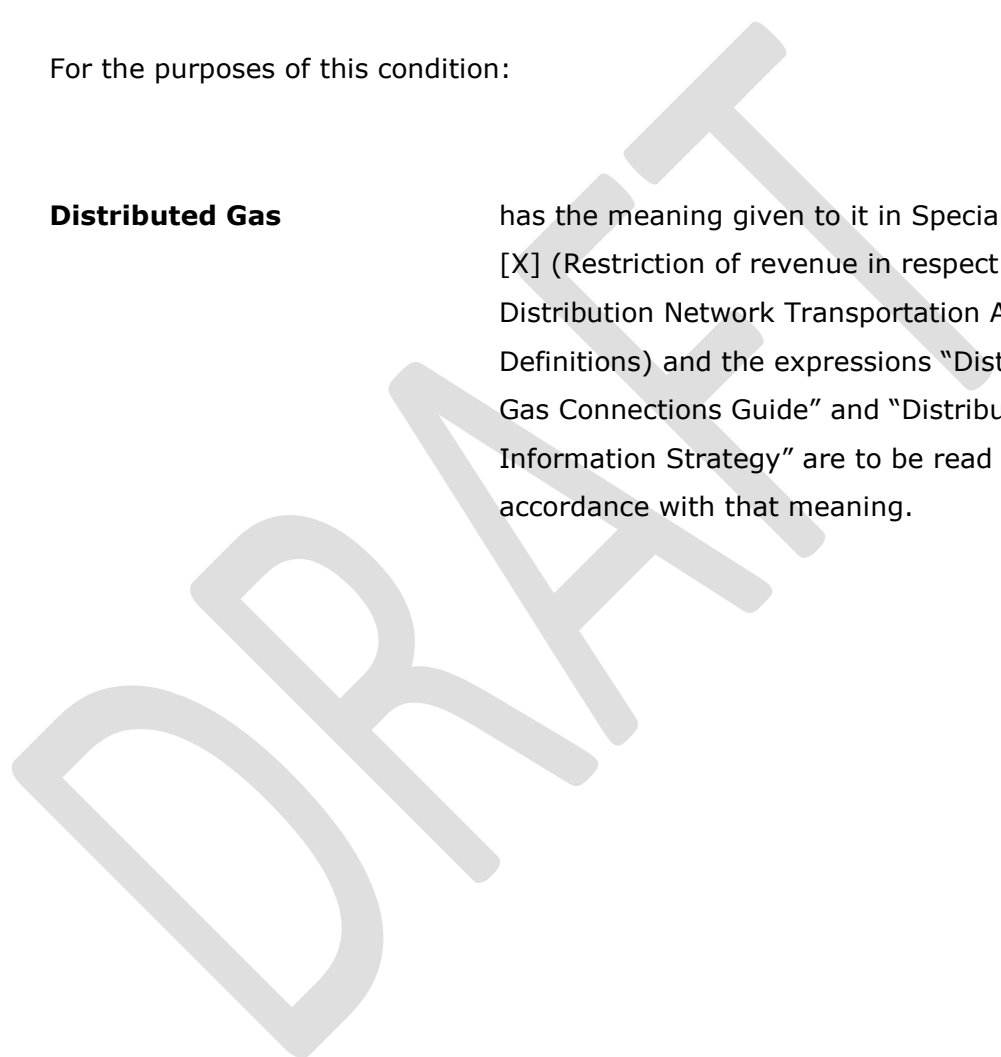
- (b) publish the Distributed Gas Connections Guide in such manner as the licensee believes will ensure adequate publicity for it (including by making it readily accessible from the licensee’s Website).

**Part G: Interpretation**

- 15. 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.
- 16. For the purposes of this condition:

**Distributed Gas**

has the meaning given to it in 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.



## **Standard Special Condition D21. Methodology for Network Output Measures [GDC 73]**

[Note that this draft is a mark-up of the latest condition for gas transmission, introducing relevant changes required for gas distribution.]

### **Introduction**

1. The purpose of this condition is to ensure that the licensee develops, implements and maintains a Methodology for Network Output Measures and information gathering plan that achieves the objectives set out in Part B of this Condition.

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

2. The licensee shall, together with all other DN Operators, before [31 May 2013] (or such later date to which the Authority may consent in writing) submit a Methodology for Network Output Measures common to all DN Operators ("the NOMs Methodology") for approval by the Authority in accordance with paragraphs [x]. The NOMs Methodology shall:

- (a) facilitate the achievement of the NOMs Methodology Objectives set out in Part B below;
- (b) enable the objective evaluation of the Network Output Measures set out in Part C below;
- (c) be implemented by the licensee in accordance with the provisions of Part D below; and
- (d) be capable of being modified from time to time in accordance with the provisions of Part E below.

3. The licensee, together with all other DN Operators, must at all times have in place and maintain the NOMs Methodology in accordance with paragraphs 2(a) to 2(d).

### **Part B: The NOMs Methodology Objectives**

4. The NOMs Methodology Objectives as referred to in paragraph 2(a) are as follows :
  - (a) the monitoring of the licensee's performance in relation to the development, maintenance, and operation of an efficient, co-ordinated and economical pipe-line system for the conveyance of gas;

- (b) the assessment of historical and forecast network expenditure on the pipe-line system to which this licence relates;
- (c) the comparative analysis of performance over time between:
  - (i) geographic areas of, and network assets within, the pipe-line system to which this licence relates;
  - (ii) pipe-line systems for the conveyance of gas within Great Britain; and
  - (iii) pipe-line systems for the conveyance of gas in Great Britain and in other countries.
- (d) the communication of relevant information regarding the pipe-line system to which this licence relates between the licensee, the Authority and other interested parties in a transparent manner; and
- (e) the assessment of customer satisfaction derived from the services provided by the licensee as part of its transportation business.

**Part C: The Network Output Measures methodology**

4. The NOMs Methodology must be designed to enable the evaluation of:
  - (a) the Network Assets Condition Measure, which relates to the current condition of the licensee's Network Assets, and the predicted rate of deterioration in the condition of the licensee's Network Assets, which is relevant to assessing the present and future ability of the Network Assets to perform their function and the probability of failure of the Network Assets;
  - (b) the Network Criticality Measure, which reflects the safety impact, environmental impact, network (or system) reliability impact or financial implications and other consequences that the licensee may reasonably deem to be relevant to asset, network (or system) failure.
  - (c) the Network Risk Measure, which relates to the overall level of risk to the reliability of the pipe-line system to which this licence relates that results from the condition of the Network Assets, the Network Criticality Measure and the interdependence between the Network Assets;
  - (d) the Network Performance Measure, which relates to those aspects of the technical performance of the pipe-line system to which this licence relates



that have a direct impact on the reliability and cost of services provided by the licensee as part of its transportation business; and

- (e) the Network Capability Measure, which relates to the level of the capability and utilisation of the pipe-line system to which this licence relates at entrypoints and utilisation factors;

Collectively the "Network Output Measures" to which paragraph 2(b) refers.

- 5. For the purposes of this condition, "Network Assets" means the assets that collectively form the pipe-line system to which this licence relates, and includes the principal components of those assets.
- 6. The licensee must, together with all other DN Operators, set out in their NOMs Methodology the categories of data that are to be used and the methodology that is to be applied to such data to derive each of the Network Output Measures.

**Part D: Submission of the NOMs Methodology for approval**

- 7. Save where the Authority otherwise consents in writing, when submitting its NOMs Methodology for approval in accordance with paragraph 2, the licensee shall also provide the Authority with:
  - (a) a plan setting out how it will gather and record information required for the application of their NOMs Methodology ("the information gathering plan), including the scope of data it will collect, the form of data it will collect and frequency of data it will collect, so that it will have sufficient information available in an appropriate form in sufficient time to be able to report accurately on its NOMs at two milestones;
    - (i) [x months] in advance of the mid-period of RIIO-GD1 (1 April 2015) (or such alternative date as the Authority may direct) to facilitate a mid-period review, and
    - (ii) [x months] in advance of the end of RIIO-GD1 (1 April 2019) (or such alternative date as the Authority may direct) to facilitate the subsequent price control review
  - (b) analysis and reports, including supporting data and models, explaining how the NOMs Methodology has and will continue to be developed in order to continue to facilitate the achievement of the NOMS Methodology Objectives;

- (c) a description of the data and treatment applied to that data in the NOMs Methodology.
  - (d) historical data which was used in the NOMs Methodology. Historical data should be provided for the maximum period available.
8. The Authority shall review the proposed NOMs Methodology and the information gathering plan submitted to it under paragraphs 2 and 7 and shall consult with the DN Operators to which this condition applies and, where it considers appropriate, other interested parties.
9. If the Authority is satisfied that the NOMs Methodology and/or the information gathering plan proposed by the licensee in accordance with paragraphs 2 and 7 would facilitate the achievement of the NOMs Methodology Objectives, the Authority shall approve such NOMs Methodology and/or the information plan.
10. If the Authority is not satisfied that the NOMs Methodology and/or the information gathering plan proposed by the licensee in accordance with paragraphs 2 and 7 facilitates the achievement of the the NOMs Methodology Objectives., the Authority shall issue a notice of disapproval of such proposed NOMs Methodology and/or the information gathering plan. The Authority shall, after consulting with the DN Operatorsto which this condition applies and other interested parties, direct the areas in which the licensee(s) shall make improvements to the NOMs Methodology and/.or the information gathering plan and the date by which the licensee(s) shall submit to the Authority for approval such a revised NOMs Methodology and/or revised information provision plan.

#### **Part E: Implementation of the NOMs Methodology**

11. Except where the Authority otherwise consents, the licensee shall:
- (a) from 1 April 2013, or such later date as the Authority may direct, record the data required for the application of the NOMs Methodology together with the NOMs derived pursuant to it, in accordance with the information gathering plan set out in paragraph s 7
  - (b) n respect of the relevant year commencing on 1 April 2013, or such later date as the Authority may direct, and each subsequent relevant year, submit a report on the NOMs to the Authority by 31 July (or such later date as the Authority may direct) in the year immediately following the end of the relevant year to which the NOMs relate. The Authority will

propose any corresponding specific reporting arrangements applicable to the NOMs in accordance with standard condition A40 (Price Control Review Information).

(c) such information (whether historical, current, or forward-looking) about the Network Output Measures; supported by

(d) such relevant other data and such examples of network modelling,

as may be specified for the purposes of this condition in any Regulatory Instructions and Guidance ("RIGs") that have been issued by the Authority in accordance with the provisions of standard condition [71] (Regulatory Instructions and Guidance).

12. The information and other matters mentioned in paragraph 11 must be provided in such manner, in respect of such periods, and within such timeframes as may be specified in the RIGs to which that paragraph refers.

13. Where the NOMs methodology has been approved by the Authority under paragraph 10 the licensee shall also provide the Authority as soon as is reasonably practicable with the relevant data specified in paragraph 7(d) reflecting the amendments to the proposed NOMs Methodology directed by the Authority

**Part F: Modification of the NOMs Methodology and/or the information provision plan**

14. The licensee must at all times keep the NOMs Methodology under review and monitor the progress of information capture against the approved information gathering plan to ensure that they facilitate the achievement of the NOMs Methodology Objectives.

15. The NOMs Methodology and information gathering plan may be modified from time to time for the purpose of enabling the methodology to better facilitate the achievement of the NOMs Methodology Objectives.

16. The licensee may make a modification to the NOMs Methodology, subject to paragraph 18, after:

(a) consulting with the distribution licensees to which this condition applies and other interested parties, allowing them a period of at least 28 days within which to make written representations with respect to the licensee's modification proposal; and

- (b) submitting to the Authority a report that contains all of the matters that are listed in paragraph 17.

17. The matters to which paragraph 16(b) refers are these:

- (a) a statement of the proposed modification to the NOMs Methodology and/or the information gathering plan;
- (b) a full and fair summary of any representations that were made to the licensee pursuant to paragraph 16(a) and were not withdrawn;
- (c) an explanation of any changes that the licensee has made to its modification proposal as a consequence of such representations;
- (d) an explanation of how, in the licensee's opinion, the proposed modification, if made, would better facilitate the achievement of the NOMs Methodology Objectives;
- (e) a presentation of the data and other relevant information (including historical data, which should be provided, where reasonably practicable, for a period of at least ten previous years) that the licensee has used for the purpose of developing the proposed modification; and
- (f) a timetable for the implementation of the proposed modification, including an implementation date (which must not be earlier than the date on which the period referred to in paragraph 13 would expire).

18. Where the licensee has complied with the requirements of paragraphs 16 and 17, the licensee may implement the proposed modification to the NOMs Methodology and/or information gathering plan unless the Authority, within 28 days after receiving the report submitted to it under paragraph 16(b), issues a direction to the licensee requiring it not to implement the proposed modification.

19. The Authority, after consulting with the licensee and any other interested parties, may direct the licensee to modify the NOMs Methodology and/or the information gathering plan in such manner, to such extent, and with effect from such time as may be specified in the direction.

20. The licensee must comply with the requirements of any direction given to it under paragraph 19.

## **Part F: Interpretation**

21. For the purposes of this condition only:

**Methodology for Network Output Measures** means the methodology that was in place under this licence under the name of "Network Output Measures methodology" in the form in which this licence was in force at 31 March 2013 or as subsequently amended as provided for in this condition.

**Network Assets** has the meaning given to that term in paragraph 5.

**Network Output Measures** means the Network Assets Condition Measure, the Network Risk Measure, the Network Performance Measure, and the Network Capability Measure, each as defined in paragraph 4.

**NOMs Methodology** means the Methodology for Network Output Measures.

**NOMs Methodology Objectives** means the objectives listed under part B of this condition.

**RIGs** has the meaning given to that term in paragraph 7.

DRAFT